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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)

(Stock Code: 8052)

RESULT ANNOUNCEMENT

FOR THE YEAR ENDED 31 DECEMBER 2004

Highlights

- Satisfactory growth in turnover and profit supported by positive consumer sentiment and increase in new stores in Hong Kong and Guangzhou.
- Turnover increased by 15.2% over the previous year to HK\$1.8 billion.
- Profit attributable to shareholders increased by 10.3% to HK\$67 million.
- Basic earnings per share increased by 9.9% to 10 HK cents.
- Number of stores in Hong Kong increased by 19 to 205, while those in Guangzhou increased by 13 to 20 as of 31 December 2004.
- Strong cash position with HK\$531.4 million cash on hand and free of bank borrowings as of 31 December 2004.
- Encouraged by the favourable market environment, the pace of store openings will be accelerated in Hong Kong and the Pearl River Delta markets in 2005.
- The Board of Directors has recommended a final dividend of 3.75 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 2004, together with the comparative audited figures for the corresponding year ended 31 December 2003 as follows:

	Note	2004 HK\$'000	2003 HK\$'000
Turnover	2	1,757,581	1,526,099
Cost of sales		(1,312,920)	(1,141,575)
Gross profit		444,661	384,524
Other revenues	2	146,084	120,111
Store expenses		(422,848)	(354,832)
Distribution costs		(29,092)	(24,548)
Administrative expenses		(63,204)	(56,409)
Profit before taxation	3	75,601	68,846
Taxation	4	(13,673)	(12,769)
Profit after taxation		61,928	56,077
Minority interests		5,031	4,630
Profit attributable to shareholders		66,959	60,707
Dividends	5	33,590	26,772
Basic earnings per share	6	10.0 cents	9.1 cents
Diluted earnings per share	6	9.9 cents	9.0 cents

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Total shareholders' equity HK\$'000
At 1 January 2003	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 attributable to shareholders	-	-	-	-	-	60,707	60,707
Dividend	-	-	-	-	-	(6,685)	(6,685)
At 31 December 2003	<u>66,921</u>	<u>115,076</u>	<u>177,087</u>	<u>13,433</u>	<u>43</u>	<u>28,688</u>	<u>401,248</u>
At 1 January 2004	66,921	115,076	177,087	13,433	43	28,688	401,248
Issuance of shares	281	2,484	-	-	-	-	2,765
Exchange differences	-	-	-	-	(43)	-	(43)
Profit attributable to shareholders	-	-	-	-	-	66,959	66,959
Dividends	-	-	-	-	-	(28,491)	(28,491)
At 31 December 2004	<u>67,202</u>	<u>117,560</u>	<u>177,087</u>	<u>13,433</u>	<u>-</u>	<u>67,156</u>	<u>442,438</u>

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 Institute of Certified Public Accountants (“HKICPA”). They have been prepared under the historical cost convention.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

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:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Merchandise sales revenue	1,757,581	1,526,099
	-----	-----
Other revenues		
Supplier rebate and promotion fees	118,189	100,147
Service items income	19,628	13,503
Interest income	8,267	6,461
	-----	-----
	146,084	120,111
	-----	-----
Total revenues	<u>1,903,665</u>	<u>1,646,210</u>

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 when the rights to receive payments are established 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 2004 HK\$'000	Chinese Mainland 2004 HK\$'000	Group 2004 HK\$'000
Turnover from external customers	1,728,715	28,866	1,757,581
Other revenues from external customers	135,193	2,624	137,817
	<u>1,863,908</u>	<u>31,490</u>	<u>1,895,398</u>
Segment results	<u>81,908</u>	<u>(14,574)</u>	67,334
Interest income			<u>8,267</u>
Profit before taxation			75,601
Taxation			<u>(13,673)</u>
Profit after taxation			61,928
Minority interests	-	5,031	<u>5,031</u>
Profit attributable to shareholders			<u>66,959</u>
Depreciation	34,614	4,029	38,643
Amortisation	78	-	78

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

Primary reporting format - geographical segments (continued)

	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
	<u>1,629,776</u>	<u>9,973</u>	<u>1,639,749</u>
Segment results	<u>75,601</u>	<u>(13,216)</u>	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	<u></u>	<u></u>	<u>60,707</u>
Depreciation	31,465	3,240	34,705
Amortisation	78	-	78

There are no sales between the geographical segments.

No business activity analysis is presented for the years ended 31 December 2004 and 2003 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:

	2004 HK\$'000	2003 HK\$'000
Amortisation of franchise licence (included in administrative expenses)	78	78
Cost of inventories sold	1,293,139	1,126,685
Depreciation of owned fixed assets	38,643	34,705
	<u> </u>	<u> </u>

4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year ended 31 December 2004. No provision for taxation outside Hong Kong has been made as the Group has no estimated assessable profit outside Hong Kong for the year ended 31 December 2004 (2003: Nil).

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

	2004 HK\$'000	2003 HK\$'000
Current taxation - Hong Kong profits tax	14,246	10,650
Deferred taxation relating to the origination and reversal of temporary differences	(573)	2,319
Deferred taxation resulting from an increase in tax rate	-	(200)
	<u> </u>	<u> </u>
Taxation	<u>13,673</u>	<u>12,769</u>

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 Company as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	75,601	68,846
	<u> </u>	<u> </u>
Calculated at a taxation rate of 17.5% (2003: 17.5%)	13,230	12,048
Effect of different taxation rates in other jurisdiction	(2,230)	(2,018)
Income not subject to taxation	(1,549)	(1,103)
Expenses not deductible for tax purposes	379	495
Tax losses not recognised	4,801	4,304
Utilisation of previously unrecognised tax losses	(469)	(187)
Effect of change in tax rates	-	(200)
Utilisation of previously unrecognised temporary differences	(489)	(570)
	<u> </u>	<u> </u>
Taxation	<u>13,673</u>	<u>12,769</u>

5. Dividends

	2004	2003
	HK\$'000	HK\$'000
Interim dividend, paid, of 1.25 HK cents (2003: 1 HK cent) per share	8,385	6,685
Final dividend, proposed, of 3.75 HK cents (2003: 3 HK cents) per share	25,205	20,087
	<u>33,590</u>	<u>26,772</u>

At a meeting held on 3 March 2005, the Directors proposed a final dividend of 3.75 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 2005.

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\$66,959,000 (2003: HK\$60,707,000).

The basic earnings per share is based on the weighted average of 670,534,683 (2003: 668,371,945) shares in issue during the year.

The diluted earnings per share is based on the weighted average number of 670,534,683 (2003: 668,371,945) shares in issue during the year plus the weighted average of 3,397,960 (2003: 3,605,436) shares deemed to be issued at no consideration if all outstanding options had been exercised.

CHAIRMAN'S STATEMENT

FINANCIAL OVERVIEW

Against the backdrop of economic recovery in Hong Kong, the Group was able to maintain a satisfactory sales growth of 15.2% and a net profit increase of 10.3% for the year compared to 2003. Basic earnings per share increased by 9.9% from 9.1 cents to 10 cents.

The slower net profit growth of 5.4% in the fourth quarter was attributed to the accelerated pace of expansion in the Chinese Mainland and the increases in advertising and promotional expenses in Hong Kong. The Group maintained a strong financial position with a net cash position of HK\$531.4 million without any bank borrowings.

REVIEW OF THE HONG KONG RETAIL MARKET

The notable rebound of Hong Kong's economy continued into 2004 at a steadily accelerating pace. This was reflected in the investors' increased confidence in the property market, the robust performance of the stock market and consumers' markedly higher propensity to spend.

Spurred by overall 40.4% increase in tourist arrivals and a 44.6% increase in arrivals from the Chinese Mainland in 2004, retail market sales grew by 10.8% in value for 2004 as a whole, compared to a year earlier. Overall consumer price inflation was modest even though the deflation cycle that started in November 1998 finally ended in July 2004 after a protracted 68-month period.

The unemployment rate continued on a downtrend, reaching its lowest level since 2002 at 6.5% as total employment surged to a historic high of over 3.3 million. Labour market sentiment remains buoyant. In the third quarter GDP growth attained a notable 7.2% in real terms.

All of these positive economic indicators represented a much more favourable market environment for the Group's business operations in Hong Kong compared with the past few years. The Group therefore promptly took advantage of the positive market trends with the diligent implementation of key initiatives.

COMPANY INITIATIVES FOR HONG KONG OPERATION

The key initiatives in 2004 focused on widening the gap of differentiation against the competition in order to build the Circle K brand as the most preferred convenience brand in the market. These included store network expansion to provide more location convenience, setting a new benchmark for quality customer service, and providing a highly efficient and satisfactory shopping experience.

Even with the steady increase in store density in Hong Kong, compared to the store densities of other developed markets, our conservative estimate is that the market will reach saturation at about 1,200 stores, with Capita Per Convenience Store at 6,000. Hence, there will still be room for growth above the current number of 800 convenience stores for a population of about 6.8 million.

Our commitment to excellence in customer service included intensive training of frontline staff, with service standards being regularly monitored by mystery shoppers. As a result, the Group was ranked as Category Leader in the Hong Kong Retailing Management Association's Mystery Shoppers Programme for the Supermarket and Convenience Store Category in the Report for March to May 2004.

In recognition of ^{*}“management practices which are employee oriented, law abiding as well as equal and fair” and for upholding the principle of “success through partnership”, the Group was awarded the Good People Management Award by the Labour Department in December 2004.

REVIEW OF THE RETAIL MARKET ON THE CHINESE MAINLAND

Following a strong rebound at the end of 2003, the economy in the Chinese Mainland continued to recover quickly in the first half of 2004 and consumer confidence continued to hold up extremely well.

According to the MasterIndex of Consumer Confidence for the Chinese Mainland, high index scores of over 80 was maintained throughout 2004 even after the Government's austerity measures to cool down economic growth and the spiking of world oil price to record highs in the second half of the year^{**}.

This was manifest in the 13.3% growth in retail sales value of consumer goods compared to a year before and a high GDP growth of 9.5% for the year, still exceeding expectations^{***}.

Retail sales growth in Guangzhou was in line with the national trend, registering 13.2% growth in retail sales of consumer goods for January to November 2004. During the same period, disposable income for the urban population also increased by 13.2%, while consumer spending increased by 12.9%.

REVIEW OF GUANGZHOU OPERATION

Even though the number of convenience store outlets in Guangzhou grew from about 250 to over 300 in 2004, the double-digit growth in the Group's comparable store sales indicated that the increased market competition did not pose any immediate threat to store sales.

This could be explained by the Group's unique store model and exclusive product offerings in food service, which provided a sustainable competitive edge. The Group is quite confident that Circle K stores in Guangzhou generally outperform the competition in terms of transaction count and transaction value per store day according to market feedback.

However, the key learning of the Guangzhou operations in 2004 was the urgent need to develop an alternative store model that will be flexible enough for a wide range of smaller store sizes, different layout formats and reduced capital investment. Such a store model will enable us to customise the product category mix and food service offerings according to the local demands of various neighbourhoods.

^{*} Objectives defined as judging criteria by the Workplace Consultation Promotion Unit of the Labour Department for the Good People Management Award.

^{**} Source: “MasterIndex of Consumer Confidence – 2003 to 2005” presented by MasterCard International on 6 January 2005.

^{***} 2004 data published by National Bureau of Statistics of China.

Having fine-tuned this alternative store model, the Group will be ready to press ahead with store network expansion initiatives in and outside Guangzhou, as the first step of a roll-out plan that will cover secondary cities in the Pearl River Delta such as Dongguan.

In addition to organic growth, the Group will also look at other strategic options including sub-franchising and acquisition. Once the feasibility studies are completed and details finalised, the Directors will be in a position to make announcements on the progress made.

FUTURE PROSPECTS

December 2004 marked the official opening of the Chinese retail sector to foreign players, realising the PRC Government's promise to the WTO and turning the retail market into a battlefield for all retailers. It is the Group's intention to be prepared for this new scenario with a comprehensive business plan.

At the last quarter of 2004, the Group set out to prepare and conclude the next three-year plan. In line with the Li & Fung Group tradition, the management team attempted to think beyond operational limitations to define the business goals and strategic objectives for next three years.

The main thrust of the Group's strategic focus in the three-year plan will be the Pearl River Delta region. The Group also proposes to accelerate the pace of store openings in Hong Kong to ride on the increasing number of visitors from the Chinese Mainland, the positive consumer sentiment and the resulting retail market boom.

But the basic strategy of quality growth will still be maintained to ensure consistent improvement in profitability. This will be achieved through improved economy of scale, vigilant cost controls and a refined margin mix of product offerings.

In the immediate term, the opening of Hong Kong Disneyland in September 2005 will provide extra momentum for the overall economic growth of the region by stimulating tourism and consumption.

The Group will invest considerable resources in brand building in Hong Kong in the next three years. This is to ensure that Circle K will continue to become the most preferred convenience store chain, to improve the top-of-mind awareness and, most importantly, to serve as a showcase for visitors from the Chinese Mainland.

With these aggressive expansion plans for both markets, the Group hopes to become one of the dominant convenience store chains in Southern China in terms of market presence through our sheer number of outlets.

In conclusion, I would like to take this opportunity to express my gratitude and appreciation to the management and staff of our operations in Hong Kong and the Chinese Mainland. Without their diligence and dedication, it would not be possible to sustain the consistently improving business performance of the Group since the listing of the Company in January 2001.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Board is pleased to report the financial results of the Group for the year ended 31 December 2004. The Group's sales for the year and the fourth quarter increased to HK\$1,757.6 million and HK\$449 million respectively, representing a growth of 15.2% and 14% when compared to corresponding periods in 2003.

Sales growth was attributed to the increase in new stores in both Hong Kong and Guangzhou and the increase in comparable store sales (stores that were in existence in 2003 and 2004). From 31 December 2003 to 31 December 2004, the number of stores in Hong Kong increased from 186 to 205. The number of stores in Guangzhou increased from seven to 20 over the corresponding period. The Group will continue its store expansion programme as the directors believe that opening new stores will be the driver for sales and profit growth. Sales in comparable stores showed an increase of 4.2% for the full year and 3.1% for the fourth quarter in Hong Kong and 19% for the full year and 23.3% for the fourth quarter in Guangzhou. The strong comparable store sales growth was driven by our aggressive marketing and promotional programmes, category management initiatives as well as the improvement of the economy in Hong Kong.

The slight increase in gross margin and other income (excluding interest) from 32.6% to 33.1% of sales for the year and from 34.2% to 34.8% of sales for the fourth quarter when compared to 2003 was mainly due to the increase in rebate income, promotional fees and the phenomenal increase in the sales of phone cards and online games.

The increase in store expenses from 23.3% to 24.1% of sales for the year and 24.1% to 25.1% of sales for the fourth quarter when compared to 2003 was mainly due to the increase in marketing and promotional expenses as well as the increase in store operation expenses in Guangzhou as a result of rapid store network expansion.

The increase in distribution expenses from 1.6% to 1.7% of sales for the year and 1.6% to 1.8% of sales for the fourth quarter when compared to 2003 was mainly due to the increase in delivery frequency for optimisation of store inventory and the increase in chilled delivery expenses as a result of expanding the chilled food product range and consolidating chilled deliveries from vendors.

Net margin decreased from 4% to 3.8% of sales for the year and 4.7% to 4.4% for the fourth quarter. The decrease was mainly due to the increase in store operation expenses and distribution expenses as explained above. Net profit attributable to shareholders increased by 10.3% to HK\$67 million for the year and by 5.4% to HK\$19.6 million for the fourth quarter. Basic earnings per share increased by 9.9% from 9.1 cents to 10 cents for the year.

The Group's strong financial position is supported by a net cash position of HK\$531.4 million, free of any bank borrowings. The Hong Kong business generated a free cash flow of approximately HK\$95 million in 2004. The Group's capital expenditure ("CAPEX") in the coming year will be financed by internal generated financial resources. The Group had a limited amount of foreign exchange exposure in RMB related to the joint venture operation on the Chinese Mainland.

OPERATION REVIEW – HONG KONG

In 2004, the Group opened 21 new stores and closed two stores. The Group finished the year with 205 stores and about 7 more new leases committed, although these stores are not yet ready for opening. It is the Group's intention to accelerate the pace of store openings in 2005, targeting the openings of about 40 new stores to hopefully end the year with 245 stores in Hong Kong.

A notable development in the market penetration of Circle K stores is the increased presence of mass transportation networks. Currently there are 12 Circle K stores in MTR stations and five in KCRC stations. These stores provide extra location convenience for Circle K shoppers as well as excellent exposure for the brand.

The opening of the Ocean Shore store at Tseung Kwan O, Circle K's 200th store in Hong Kong, was a milestone event. It was duly celebrated with a ribbon-cutting ceremony that was attended by all the major suppliers and leading media representatives. A consumer promotion riding on the celebration theme was organised, and it was well supported by our suppliers and well received by customers.

Direct Feedback from Circle K Customers

In order to get a direct customer feedback on our service standards, an opinion poll was conducted in November 2004 in all 200 Circle K stores for a period of seven days. Customers who had just made a purchase were asked to cast a vote on whether they were "more satisfied" with Circle K's service when compared with other convenience stores.

Out of a total of 714,705 votes, collected 96.6% or 690,630 votes were "more satisfied" with Circle K service, while only 3.4% voted "not satisfied". This overwhelming customer response was a most gratifying vote of confidence for Circle K service standards.

Employees

As of 31 December 2004, the Group had a total of 2,308 employees, 1,856 of whom were based in Hong Kong and 452 were based in Guangzhou. Regular part-time staff accounted for 49% of the total headcount.

During the year a well-defined "Career Ladder" training programme was launched, and a total of about 1,220 operation staff completed the programmes. A food service training programme was developed and launched to enhance the awareness of food hygiene among the frontline staff. Training hours per staff went up 72%, while the overall number of training programmes tripled.

The Group's commitment to community services as a responsible corporate citizen was duly acknowledged when Circle K Convenience Stores (HK) Limited was nominated by the Tung Wah Group of Hospital and Unicef to be a "Caring Company 2004/05", an award given by the Hong Kong Council of Social Services.

The Group also won the Good People Management Award, which recognises outstanding performance in people management. The Award is organised by the Labour Department to promote, encourage and commend employers in this important area.

Marketing and Promotion

The year 2004 was filled with non-stop advertising and promotion activities to maximize consumers' high propensity to spend and to build the image of Circle K as one of the leading convenience store chains, offering value, fun and innovation. Investments in advertising and promotion were more than justified by satisfactory sales growth overall and a healthy 4.2% increase in comparable store sales.

In addition to regular monthly thematic promotions, highlights of the marketing calendar included the all-time favourite among Circle K customers: "Weekend Wow! Specials", the successful launch of the fresh milk-based soft-serve ice-cream, and the "2-3-4 Weekend Offers" specially designed for promoting soft-serve ice-cream product range.

The free "Lucky Star" tissue pack with every media purchase promotion received an exciting new boost with the introduction of innovative "Bid Card" mechanics in the third quarter. For this promotion, internet auctions were conducted offering attractive free prizes to customers who bid with the highest number of "Lucky Star Bid Cards" collected.

The "OK 200" thematic promotion in celebration of the 200th store opening in November offered a considerable number of attractive free prizes. The high winning rate of the scratch card mechanics generated a lot of goodwill and proved to be an effective way to reward loyal customers.

Last but not the least, the joint promotion with the box office hit "Kung Fu Hustle" ended the year with a bang. The high-profile publicity campaign to launch the long-anticipated Steven Chow movie created excitement in the media and, at store level, further enhanced the appeal of Circle K as a progressive retailer sensitive to market trends.

Category Management Excellence

Our category management teams continued to ensure sales growth in all major categories. Good gains in market shares were reported in key categories such as cigarettes, packaged drinks, instant noodles and ice-cream. Circle K also outperformed other retail channels with good growth in most of the product categories audited by A.C. Nielsen.*

A major growth category was food service, which reported a sales increase of over 20% as a result of an improved product range and the introduction of popular new products such as a better quality hot-dog, a new line of Ding-a-Meal with "Dual-Delight" provincial recipes, and a significantly improved chilled dim-sum range.

Even though only 36 Circle K stores were equipped with in-store bakeries, sales of the oven-fresh bread range and other bakery products reported good growth as a result of product innovations and quality improvement. Encouraged by such positive feedback, the category management team will consider rolling out more in-store bakeries across the chain in 2005.

Newspapers and magazines continued to be some of the best performing categories, accounting for a significant portion of total store sales. Currently the projected market share of our newspaper sales is close to 10%, far exceeding our outlet share for newspapers.

* *Source: Circle K Business Review prepared by AC Nielsen, data up to December 2004.*

Other popular product categories such as online game cards, phone cards and the Octopus reloading service continued to report highly satisfactory sales growth with continuous improvement in category management.

Among the new initiatives for 2005, the introduction of new concept such as exclusive direct imports, Chinese food service and regionally customised category mix and product displays will be the key focus areas.

Service Excellence

The Group's initiatives to provide the highest quality service to customers were well sustained and comprehensively executed in 2004.

Our training programme "The Road to Service Perfection" was launched for the store operation team to further cultivate a customer-oriented service culture.

A new generation of "Service Stars" was appointed. These handpicked star performers from the frontline operation team were given new responsibilities of field coaching through store visits. They will also act as role models for their colleagues and serve as communication channels with the management.

Now in its second year, the Total Quality Culture Programme saw eight Work Improvement Teams formed to focus on eight areas of improvement opportunities. In an annual competition, presentations were made by the eight teams, and an overall winner was selected by a panel of judges led by an independent Total Quality Culture expert.

Supply Chain Management and Logistics

In order to deliver "Total Customer Satisfaction" to internal customers, the Supply Chain Management and Logistics team focused on continuous improvement through teamwork.

Evidence of the successful team effort came in the form of internal awards: the "Best Work Improvement Team" and the "Best Communication Award" in the Total Quality Culture Work Improvement Team Competition.

The Distribution Centre of Circle K Hong Kong was the proud winner of the Good Housekeeping Bronze Award, organised by the Occupational Safety and Health Council, for excellence in implementing workplace safety and hygiene. Active participation from the Distribution Centre staff, Steering Committee and Human Resources team were vital to the success of the programme.

In the fourth quarter, a self-printing price talker programme was launched to provide a quick and easy solution for the frontline. This innovation facilitated prompt and timely changes of promotion pricing by reducing the lead-time for printing.

OPERATION REVIEW – GUANGZHOU

In Guangzhou we opened 13 stores in 2004, ending the year with a total of 20 stores.

The Grand Opening of the flagship store in a company-owned premise at Fortune Plaza, 116-118 Ti Yu Dong Road, was duly celebrated with a chain-wide promotion and was well attended by trade and media. Located right next to a MTR station with prominent frontage at the sidewalk of a trunk road, the store is ideally situated to attract high-income office workers in the neighbourhood.

The first batch of stores opened during the initial phase of market entry has been maturing notably with a steady increase of repeat purchases and an expanding customer base contributing to a 19% increase in comparable store sales.

The successful experiment of a housing estate store site reported sales results exceeding original expectations. This was a positive indication that a potential market niche exists in the numerous residential estates with a sizable number of households in the middle to high disposable income brackets, opening up a whole new direction in the search for potential new store sites.

The speed of new store openings has been a major improvement opportunity, although keen competition in the real estate market posed by newcomers who are ready to pay unreasonably high rentals has presented some obstacles in rental negotiations.

An Update on Market Performance

The “Hot & In” food services category continued to be the star performer, contributing over 37% of total store sales and an even higher percentage of margin contribution. The other growth categories included packaged beverages, confectionery and snacks, cigarettes and dairy products.

Successful implementation of promotional activities such as the “Student’s Loyalty Program” and the “Bread of the Week Promotion” for Hot & In food service not only generated significant incremental sales but also helped to position Circle K as an innovative retailer willing to invest in promotional activities that are unmatched by any other convenience stores in the market.

Competition and New Entries

In 2004, the number of chain-operated convenience stores in Guangzhou grew from about 250 to over 300, with very much the same players as in 2003. Quik, Kedi and C’Store initially embarked on aggressive expansion phases during their market entries and then settled down to a relative hiatus periods of review and consolidation.

Most of the new stores recently opened by the competition featured a much more up-market store presentation with strong focus on food service offerings such as microwaveable chilled food and traditional Chinese snacks including fish balls and other dim sum items.

However, a new market development is the increasingly stringent Government regulation of food hygiene at retail outlets. The much more intense official surveillance will continue to put high pressure on the food service operations of our competition.

In the long run, this will work in favour of the Circle K stores in Guangzhou since our stores are designed to provide a cleaner store environment with better guarantee of food hygiene in the preparation process.

FUTURE PROSPECTS

Since economic indicators in Hong Kong and the Chinese Mainland are trending upward, consumer confidence will remain optimistic in the foreseeable future. The challenge for the Group is how to capitalise on the buoyancy of the economy in the next three years.

The Group intends to accelerate market entry plans in the secondary cities of the Pearl River Delta region and Dongguan will be the next target given the high disposable income of the local residents and its well-developed local economy.

Even though the stores in Guangzhou are close to the breakeven point at the operational level, overall profitability is likely to suffer a setback in the next two years as a result of the aggressive expansion plan. However, profitability growth will most likely return to normal in 2007 with the improved economy of scale and the peak of capital expenditure investment well behind us.

Key initiatives for the Circle K operation in Guangzhou are to experiment with alternative store models, develop new markets, refine the site selection process, reduce CAPEX per store, control operation expenses, and enhance food service offerings to cater to local customer tastes.

While sharing some of the key initiatives as the operation in Guangzhou, the Circle K operation in Hong Kong will play additional strategic roles in the next three years. Firstly, it will serve as a showcase to Free Individual Travellers from the Chinese Mainland who will have their first encounters with Circle K service in Hong Kong. Secondly, it will function as the “Power House” of best practices, supporting business expansion in the Pearl River Delta with training resources and knowledge sharing.

The only threat to the successful achievement of the Group’s business goals in the next three years will be any unforeseen down turn in the macro economy as a result of changes in Government regulations, major epidemic outbreaks or any other forms of natural disasters. Potential operation issues such as increased competition, high cost of operation and higher retail rental will be addressed by management initiatives including aggressive marketing, cost control and customized store models.

The Group believes that to become the most preferred convenience store chain, the key will be to offer the best in customer service, the best in supply chain management and the best in food service offerings. By cultivating these core competencies, we will be able to create the differentiation necessary to keep ahead of the competition at all times.

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

During the year, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for financial year ending 31 December 2005.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at 4:00 p.m. on Monday, 25 April 2005 at the Auditorium, 12/F., LiFung Centre, 2 On Ping Street, Siu Lek Yuen, 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 3.75 HK cents (2003: 3 HK cents) per share for the year ended 31 December 2004 absorbing a total of HK\$25,205,400 (2003: HK\$20,086,500) on 672,144,000 shares (2003: 669,550,000 shares) issued as at 3 March 2005. An interim dividend of 1.25 HK cents (2003: 1 HK cent) per share was paid by the Company on 30 August 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 19 April 2005 to 25 April 2005, 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 18 April 2005. Dividend warrants will be despatched on 26 April 2005, subject to shareholders' approval of payment of the final dividend at the Annual General Meeting on 25 April 2005.

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

Hong Kong, 3 March 2005

As at the date of this announcement, the executive Directors of the Company are Yeung Lap Bun, Richard and Li Kwok Ho, Bruno, the non-executive Directors are Dr. Fung Kwok King, Victor, Dr. Fung Kwok Lun, William, Jeremy Paul Egerton Hobbins and Wong Yuk Nor, Louisa, the independent non-executive Directors are Dr. Ch'ien Kuo Fung, Raymond, Au Man Chung, Malcolm and Godfrey Ernest Scotchbrook.

*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.*