



Convenience Retail Asia Limited

利亞零售有限公司

(incorporated in the Cayman Islands with limited liability)



A member of the Li & Fung Retailing Group



Annual Report 2004

OUR VISION :

Convenience Retail Asia Limited

is committed to be the

preferred and fastest-growing

convenience store chain in

Hong Kong and the Mainland of China.



The opening of the 200th Circle K store in Hong Kong at Ocean Shore, Tseung Kwan O – a milestone event that was duly celebrated.

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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 of the Stock Exchange 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.

This annual report (the “Report”), 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 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 Report 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 Report misleading; and (3) all opinions expressed in this Report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



Corporate Information

Executive Directors

Yeung Lap Bun, Richard (*Chief Executive Officer*)
Li Kwok Ho, Bruno (*Chief Financial Officer
and Compliance Officer*)

Non-executive Directors

Dr. Fung Kwok King, Victor⁺ (*Chairman*)
Dr. Fung Kwok Lun, William
Jeremy Paul Egerton Hobbins
Wong Yuk Nor, Louisa

Independent non-executive Directors

Dr. Ch'ien Kuo Fung, Raymond^{**}
Au Man Chung, Malcolm^{**}
Godfrey Ernest Scotchbrook^{*}

Group Chief Compliance Officer

Siu Kai Lau, James

Company secretary

Wong Wing Ha (FCIS)

Qualified accountant

Hui Chi Ho, Sam (HKICPA)

Registered office

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

Head office and principal place of business

12th Floor, LiFung Centre
2 On Ping Street
Siu Lek Yuen
Shatin
New Territories
Hong Kong

Company's website address

www.cr-asia.com

Legal adviser

Johnson Stokes & Master
(as to Hong Kong Law)

Conyers Dill & Pearman, Cayman
(as to Cayman Islands Law)

* *Audit committee members*

+ *Remuneration committee members*

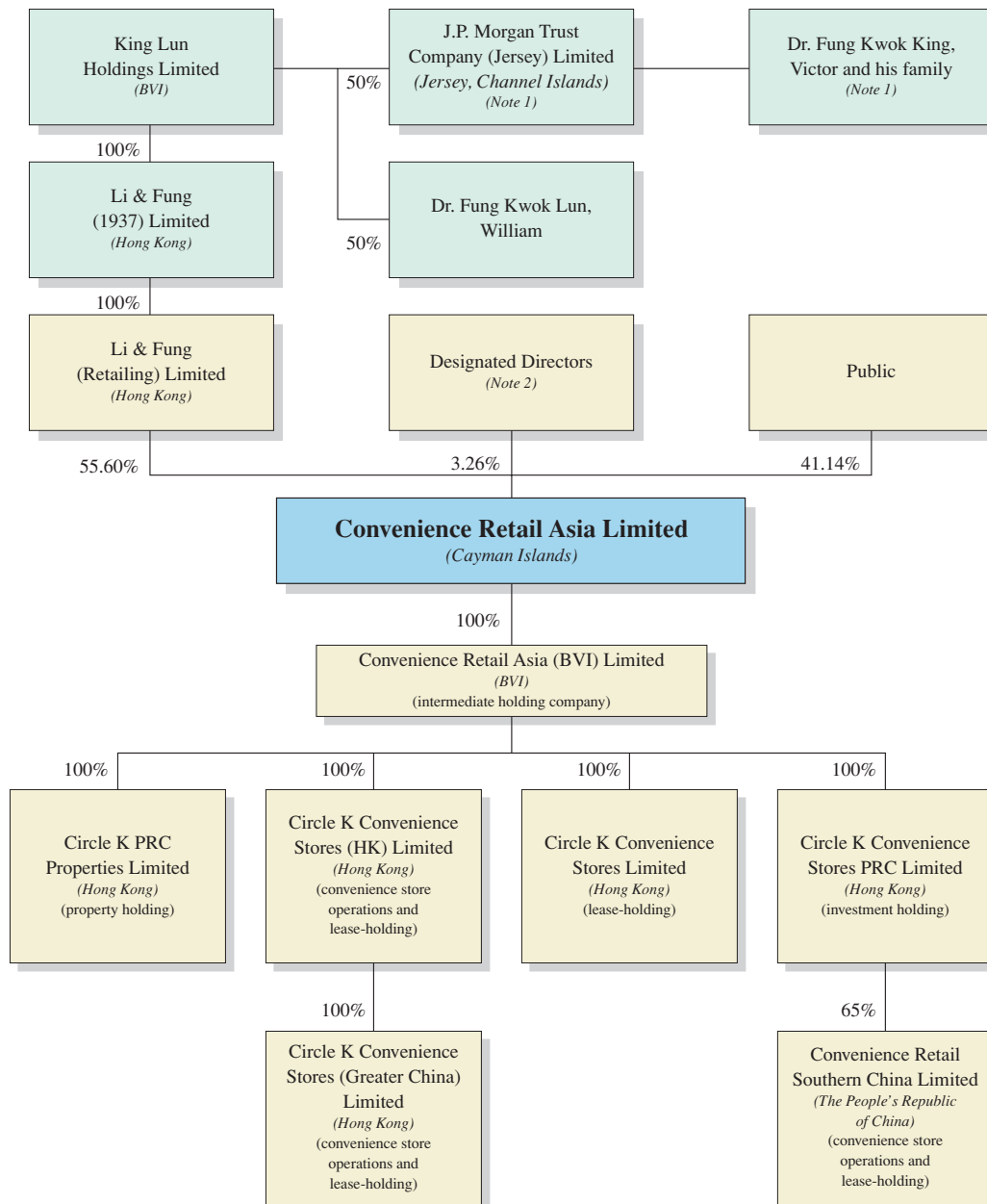
Corporate Information (continued)

Auditors	PricewaterhouseCoopers <i>Certified Public Accountants</i>
Principal share registrar and transfer office	Butterfield Bank (Cayman) Limited P.O. Box 705 Butterfield House Fort Street George Town Grand Cayman Cayman Islands
Hong Kong share registrar and transfer office	Abacus Share Registrars Limited G/F, Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai, Hong Kong
Principal bankers	The Hongkong & Shanghai Banking Corporation Limited
Stock code	8052



Group Business Structure

As at the date of this Report, the corporate structure of Convenience Retail Asia Limited (the “Company”) and its major subsidiaries is as follows:



Notes:

1. J.P. Morgan Trust Company (Jersey) Limited is the trustee of a discretionary trust established for the benefit of the family members of Dr. Fung Kwok King, Victor.
2. “Designated Directors” refer to Messrs. Yeung Lap Bun, Richard and Li Kwok Ho, Bruno and Ms. Wong Yuk Nor, Louisa.



Chairman's Statement



Dr. Fung Kwok King, Victor
Chairman

FINANCIAL OVERVIEW

Against the backdrop of economic recovery in Hong Kong, Convenience Retail Asia Limited together with its subsidiaries (the "Group") were 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.

REVIEW OF THE HONG KONG RETAIL MARKET (continued)

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 store 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.

COMPANY INITIATIVES FOR HONG KONG OPERATION (continued)

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 manifested 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.

* 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.

REVIEW OF GUANGZHOU OPERATION (continued)

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.

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.

FUTURE PROSPECTS (continued)

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.

Fung Kwok King, Victor

Chairman

Hong Kong, 3 March 2005





Management Discussion and Analysis

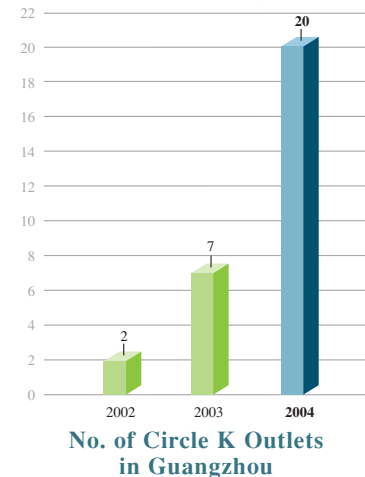
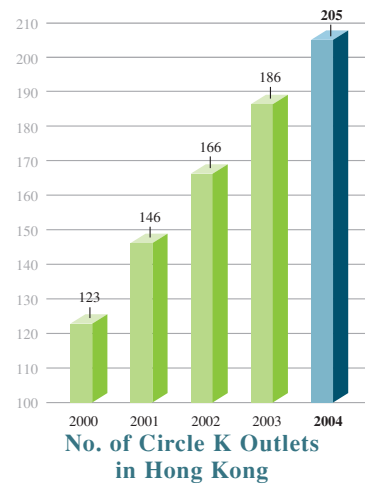


Mr. Yeung Lap Bun, Richard
Chief Executive Officer

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.

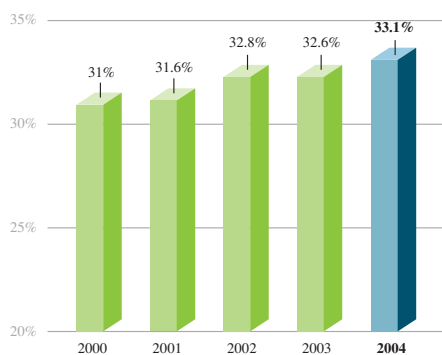
Sales growth was attributed to the increase in new stores in both Hong Kong and Guangzhou and the increase in comparable store sales (stores that were in existence in 2003 and 2004). From 31 December 2003 to 31 December 2004, the number of stores in Hong Kong increased from 186 to 205. The number of 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.



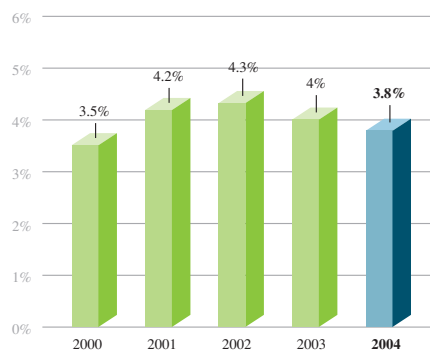
FINANCIAL REVIEW (continued)

The slight increase in gross margin and other income (excluding interest income) 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.

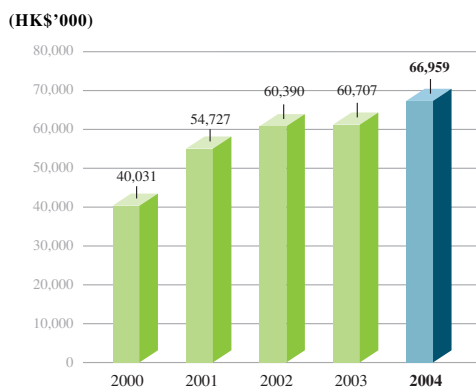
The increase in store expenses from 23.3% to 24.1% of sales for the year and 24.1% to 25.1% of sales for the fourth quarter when compared to 2003 was mainly due to the increase in marketing and promotional expenses as well as the increase in store operation expenses in Guangzhou as a result of rapid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



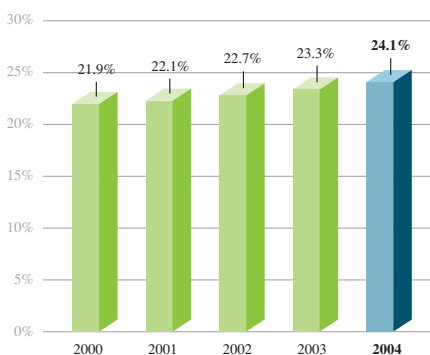
Gross Margin and Other Income
(excluding interest income)



Net Margin



Net Profit



Store Operating Expenses
as % of Sales

FINANCIAL REVIEW (continued)

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 internally 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.



The grand opening ceremony of the 200th store was officiated by Group Chairman Dr. Victor Fung (right), Chief Executive Officer Mr. Richard Yeung (left) and Store Manager Ms. Tsang Sau Mui (middle).

OPERATION REVIEW – HONG KONG (continued)

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.



In a customer opinion poll conducted in all Circle K stores during 1-7 November 2004, 690,630 transaction customers voted Circle K’s service as “more satisfactory”.

OPERATION REVIEW – HONG KONG (continued)

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.



Circle K’s fresh milk-based soft-serve ice-cream was successfully launched in 2004 and shows great potential to become a signature product.

OPERATION REVIEW – HONG KONG (continued)

Marketing and Promotion (continued)

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.



The “Kung Fu Hustle” scratch card promotion incorporated star appeal and movie glamour into the December thematic campaign.

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

OPERATION REVIEW – HONG KONG (continued)

Category Management Excellence (continued)

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.

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.



Mr. Richard Yeung, Chief Executive Officer of Convenience Retail Asia, received the Labour Department's "Good People Management Award 2004" from Financial Secretary Mr. Henry Tang at the award presentation ceremony.

OPERATION REVIEW – HONG KONG (continued)

Service Excellence (continued)

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 challenges in rental negotiations.



The flagship store at Fortune Plaza, Ti Yu Dong Road, Guangzhou, is a company-owned premise located in a prime commercial area.



A delegate of "Service Stars" from Hong Kong officiated at the ribbon-cutting ceremony during the grand opening of the flagship store in Guangzhou.



Chief Executive Officer, Mr. Richard Yeung (middle) was accompanied by Mr. Liu Yihong (right), Director of Convenience Retail Asia's JV partner Guangzhou Grain Group Limited, and Mr. Bruno Li (left), Chief Financial Officer of Convenience Retail Asia, at the store opening ceremony.

OPERATION REVIEW – GUANGZHOU (continued)

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.



Large hanging mobiles atop bread shelves helped communicate the Hot & In bread concept.

Successful implementation of promotional activities such as the “Student 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.



Circle K successfully promoted the exclusive “Hot & In” baked rice range with a free dessert offer.



The “Student Loyalty Programme” which offered attractive free prizes, proved to be extremely popular with students and generated considerable repeat purchases.

OPERATION REVIEW – GUANGZHOU (continued)

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.

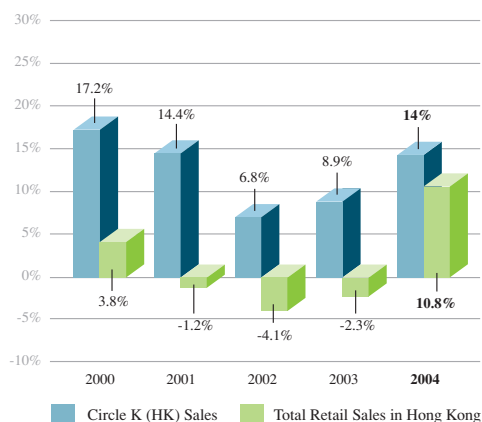
Most of the new stores recently opened by the competition featured a much more up-market store presentation with strong focus on food service offerings such as microwaveable chilled food and traditional Chinese snacks including fish balls and other dim sum items.

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.



**A Comparison of Sales % Change:
Circle K (HK) vs Total Retail Sales**

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.

FUTURE PROSPECTS (continued)

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 downturn 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 high 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.



Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Yeung Lap Bun, Richard – *Chief Executive Officer*

Mr. Yeung, aged 48, has over 20 years of experience in general management, food distribution and supply chain management. He is responsible for overseeing the Group's operations, marketing, logistics and supply chain management and he is actively involved in new business development in the Chinese Mainland. Prior to joining the Group in October 1998, he spent about 10 years in senior positions at HAVI Food Services Group, managing the supply chain of McDonald's Restaurants in various countries in Asia. Mr. Yeung graduated from the University of Hawaii with a Bachelor of Business Administration degree. Mr. Yeung also holds a Master degree in Business Administration from the California State University of Los Angeles and is a Certified Public Accountant. Mr. Yeung is an Executive Committee member of the Hong Kong Retail Management Association.

Li Kwok Ho, Bruno – *Chief Financial Officer*

Mr. Li, aged 55, joined Li & Fung Group in January 1991 as the Chief Financial Officer. Since February 1993, he has been appointed as the Retail Services Director and takes charge of all the centralised supporting services of Li & Fung Retailing Group, which comprises the businesses of Circle K and Toys "R" Us. His areas of responsibilities include Finance and Accounting, Human Resource and Administration, Business Systems Development and Real Estate. Mr. Li graduated from the Chinese University of Hong Kong with a Bachelor of Science degree and is a member of the Institute of Chartered Accountants of Scotland. He has more than 20 years of professional experience in finance and accounting.

NON-EXECUTIVE DIRECTORS

Dr. Fung Kwok King, Victor – *Chairman*

Dr. Fung, aged 59, brother of Dr. Fung Kwok Lun, William, is the Group Chairman of the Li & Fung Group of companies including publicly listed Li & Fung Limited, Integrated Distribution Services Group Limited and the Company. Dr. Fung holds Bachelor and Master Degrees in Electrical Engineering from the Massachusetts Institute of Technology, and a Doctorate in Business Economics from Harvard University. Dr. Fung is an independent non-executive director of Bank of China (Hong Kong) Limited, PCCW Limited, Sun Hung Kai Properties Limited and Orient Overseas (International) Limited. He is currently Chairman of the Hong Kong Airport Authority, the Hong Kong University Council, the Greater Pearl River Delta Business Council and the Hong Kong - Japan Business Co-operation Committee. He is also a member of Chinese People's Political Consultative Conference and the Hong Kong Government Judicial Officers Recommendation Committee. From 1991 to 2000, Dr. Fung was Chairman of the Hong Kong Trade Development Council and from 1996 to 2003, he was the Hong Kong representative on the APEC Business Advisory Council. In 2003, the Government awarded Dr. Fung the Gold Bauhinia Star for distinguished service to the community.

NON-EXECUTIVE DIRECTORS (continued)

Dr. Fung Kwok Lun, William

Dr. Fung, OBE, JP, aged 56, brother of Dr. Fung Kwok King, Victor, is the Managing Director of Li & Fung Limited. He is also a director of various companies within the Li & Fung Group including Integrated Distribution Services Group Limited. Dr. Fung graduated from Princeton University with a Bachelor of Science degree in engineering and holds a Master degree in Business Administration from the Harvard Graduate School of Business. He was awarded the degree of Doctor of Business Administration, *honoris causa* by the Hong Kong University of Science & Technology. Dr. Fung is a non-executive director of HSBC Holdings plc, CLP Holdings Limited, chinadotcom corporation and VTech Holdings Limited. He is past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and the Hong Kong Committee for the Pacific Economic Cooperation Council. In January 2004, Dr. Fung was appointed by the Government of the Hong Kong Special Administrative Region to serve as member on the Economic and Employment Council.

Jeremy Paul Egerton Hobbins

Mr. Hobbins, aged 57, is the Group Managing Director of Li & Fung (Retailing) Limited (controlling shareholder of the Company) and its subsidiaries. He is also a director of various companies within the Li & Fung Group including Integrated Distribution Services Group Limited and Li & Fung (Gemini) Limited. Mr. Hobbins joined the Li & Fung Group in 1999 and was Deputy Chairman of Li & Fung (Distribution) Limited. Mr. Hobbins was the Chief Executive of Inchcape Marketing Services-Asia Pacific and was also the Chief Executive Officer of Inchcape Marketing Services Limited which was listed in Singapore, from 1997 to 1998. In addition, he served as a member of the Group Management Board of Inchcape plc and a director of Inchcape NRG, a business machines joint-venture with Ricoh. Previously, he was the Chief Executive Officer of Inchcape Berhad, prior to which he was the Chief Executive Officer of Inchcape Buying Services from 1993 to 1996. Before joining the Inchcape group, he was the President and Chief Executive Officer of the Campbell Soup Company, UK & Ireland, and previously was President of the Dairy Division of Ault Foods, Canada. He has also held senior positions at Procter & Gamble, Hutchison Whampoa and Cadbury Schweppes. He has completed Advanced Management Programmes at the London Business School, Imedea and Insead.

Wong Yuk Nor, Louisa

Ms. Wong, aged 55, joined Li & Fung (Retailing) Limited in April 1998 as a director responsible for strategic planning, marketing and communication for the Li & Fung Retailing Group. Ms. Wong graduated from the University of Hong Kong with a Bachelor of Arts degree and has more than 20 years of professional experience in Marketing and Advertising. Prior to joining Li & Fung (Retailing) Limited, Ms. Wong was the Managing Director of a leading 4A advertising agency Foote, Cone and Belding Limited for many years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Ch'ien Kuo Fung, Raymond

Dr. Ch'ien, aged 53, is Executive Chairman and Chief Executive Officer of chinadotcom corporation, Chairman of its subsidiary, hongkong.com Corporation and Chairman of MTR Corporation Limited. Dr. Ch'ien serves on the boards of HSBC Holdings plc, the Hongkong and Shanghai Banking Corporation Limited, Inchcape plc, VTech Holdings Limited and The Wharf (Holdings) Limited. In public service, Dr. Ch'ien is Chairman of the Advisory Committee on Corruption of the Independent Commission Against Corruption, Chairman of the Hong Kong/European Union Business Cooperation Committee and is a Hong Kong member of the APEC Business Advisory Council. Dr. Ch'ien is an honorary President and past Chairman of the Federation of Hong Kong Industries. He is also President of Hong Chi Association, Hong Kong's leading non-government organization helping mentally handicapped persons. From 1992 to 1997, Dr. Ch'ien was a member of the Executive Council of Hong Kong, then under British Administration. He was appointed a member of the Executive Council of the Hong Kong Special Administrative Region on 1 July 1997 and served until June 2002. He also served as Chairman of the Industry and Technology Development Council from 1993 to 1999. Dr. Ch'ien received a doctoral degree in Economics from the University of Pennsylvania in 1978. He was appointed a Justice of the Peace in 1993 and a Commander in the Most Excellent Order of the British Empire in 1994. In 1999, he was awarded the Gold Bauhinia Star Medal.

Au Man Chung, Malcolm

Mr. Au, aged 55, holds a Bachelor of Science degree in Chemical Engineering and a Master of Science degree in Food Science both from the University of Wisconsin, USA and a Master of Business Administration degree from the University of Toronto, Canada. Mr. Au is also a non-executive director of China-Hongkong Photo Products Holdings Ltd.

Godfrey Ernest Scotchbrook

Mr. Scotchbrook, aged 59, presently serves as an independent director of Del Monte Pacific Limited (a company engaged in the production, marketing and distribution of premium branded food and beverage products) and a non-executive director of Boustead Singapore Limited (a company engaged in engineering, information technology and investments) in Singapore. Mr. Scotchbrook was a founder of Scotchbrook Communications Ltd., a firm specializing in investor relations, issues management, corporate positioning and public affairs; and is a veteran in corporate governance.

GROUP CHIEF COMPLIANCE OFFICER

Siu Kai Lau, James

Mr. Siu, aged 60, joined the publicly listed Li & Fung Limited Group in 1993 as Chief Financial Officer until 1996 when he assumed the role as the Chief Compliance Officer. He is an Executive Director of Li & Fung (1937) Limited, the controlling shareholder of the Li & Fung Group of companies including the publicly listed Integrated Distribution Services Group Limited and the Company of which he is also their Chief Compliance Officer. Prior to joining Li & Fung Limited Group, Mr. Siu was the partner-in-charge (1981-1989) of the Hong Kong audit practice of Coopers & Lybrand (currently PricewaterhouseCoopers) specializing in advising corporate clients on mergers, acquisitions, finance and on public listings. His current community work includes serving as member of the Supervisory Board of the Hong Kong Housing Society and Chairman of its Audit Committee (2001 to present). Mr. Siu is a member of the Securities and Futures Commission Dual Filing Advisory Group. He is also a member of the Corporate Governance Committee and Professional Accountants in Business Committee of the Hong Kong Institute of Certified Public Accountants. He is a Fellow of both the Institute of Chartered Accountants in Australia and the Hong Kong Institute of Certified Public Accountants. He is also a Fellow member of the Hong Kong Institute of Directors. Mr. Siu holds a Bachelor of Economics degree from Australia.

SENIOR MANAGEMENT

Kan Wing Chuen, Raphael – *General Manager – Southern China*

Mr. Kan, aged 53, has over 20 years of experience in manufacturing and logistics management with multinationals and local companies in Hong Kong and Southern China. Prior to joining the Group in February 2000, he was the General Manager of HAVI Food Services Group and IDS Logistics (HK) Limited, and was responsible for providing supply chain management services to multinational clients of the companies. After joining the Group he was appointed as General Manager for Southern China and responsible for the Group's expansion into the PRC market. He graduated from the McGill University of Canada with a Bachelor degree in Mechanical Engineering. He also holds a Master degree in Business Administration from the University of East Asia, Macau.

Pak Chi Kin – *General Manager – Operations*

Mr. Pak, aged 46, has over 10 years of experience in the food distribution industry. With an excellent performance as Divisional Manager of Supply Chain Management and Logistics, Mr. Pak was promoted to the new position of General Manager – Operations of Circle K, Hong Kong in January 2003. The position was created to head up Store Operations, Store Development, Supply Chain Management and Logistics functions while taking the lead in coordinating the centralized support services and Total Quality Culture initiatives. Prior to joining the Group in May 1999, Mr. Pak spent 7 years in senior position at HAVI Food Services Group and was in charge of the distribution of food products and logistics services to McDonald's Restaurants. Graduated from the University of Hong Kong with a Bachelor degree of Science in Engineering, he also holds a Master degree of Science in Engineering from the University of Hong Kong. Mr. Pak is a member of the ECR Hong Kong (previously known as the Hong Kong Supply Chain Management Advisory Board) facilitated by the Hong Kong Article Numbering Association.

SENIOR MANAGEMENT (continued)

Tse Yiu Hon, Wallace – *Divisional Manager – Buying and Marketing*

Mr. Tse, aged 44, is responsible for overseeing the buying, merchandising and marketing strategies of the Group in Hong Kong. He has over 20 years of experience in the retailing industry gained from his experience in PARKnSHOP, Uncle A and 7-Eleven. He holds a diploma in Management Studies from The Hong Kong Polytechnic University as well as a Master degree in Marketing Management from the Macquarie University of Australia.

Hui Chi Ho, Sam – *Senior Department Manager – Finance & Accounting*

Mr. Hui, aged 30, has extensive experience in finance and accounting in the retailing industry. Prior to joining the Group, he was the manager of PricewaterhouseCoopers, and was responsible for providing assurance and business advisory services to various clients in retailing and wholesaling of luxury apparel and leather products, wide range of brand names of cosmetic products, and provision of beauty, health club services as well as convenience stores business. He is a member of the Hong Kong Institute of Certified Public Accountants.



Directors' Report

The directors submit their report together with the audited accounts for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the operation of a chain of convenience stores under the tradename of Circle K in Hong Kong and the Chinese Mainland. The Circle K tradename is licenced from The Circle K Store Inc. of the United States of America.

An analysis of the Group's performance for the year by geographical segments is set out in note 2 to the accounts. No business activity analysis is presented 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 the Chinese Mainland.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 45.

The directors have declared an interim dividend of 1.25 HK cents per share, totalling HK\$8,385,000, which was paid on 30 August 2004.

The directors recommended the payment of a final dividend of 3.75 HK cents per share, totalling HK\$25,205,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 17 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$171,000.

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in note 11 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 16 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2004 calculated under the Companies Law (2000 Revision) of the Cayman Islands, amounted to HK\$151,221,000 (2003: HK\$141,432,000).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's by-laws and there was no restriction against such rights under the laws of the Cayman Islands.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2004 are set out in note 12 to the accounts.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 78.

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.

SHARE OPTIONS

(a) Pre-IPO Share Option Plan

On 27 December 2000, a Pre-IPO Share Option Plan (the "Pre-IPO Share Option Plan") was approved by a written resolution of the shareholders of the Company under which the board of Directors may, at its discretion, grant options to full time or part time employees of the Group entitling them to subscribe for shares of HK\$0.10 each (the "Shares") representing up to a maximum of 19,930,000 Shares. On 30 December 2000, options to subscribe 19,930,000 Shares were granted to 228 employees.

Details of the share options granted under the Pre-IPO Share Option Plan and remain outstanding as at 31 December 2004 were as follows:

	Options held at 1 January 2004	Options exercised during the year (Note 1)	Options lapsed during the year	Options held at 31 December 2004	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
Continuous contract employees	2,700,000	(1,640,000)	–	1,060,000	0.92	30 December 2000	10 January 2002	9 January 2006
	2,650,000	(940,000)	–	1,710,000	0.92	30 December 2000	10 January 2003	9 January 2006

Note:

- 2,580,000 share options were exercised at an exercise price of HK\$0.92 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK\$2.617.

(b) Share Option Scheme

On 6 January 2001, a Share Option Scheme (the "Scheme") was approved by a written resolution of the shareholders of the Company. On 24 April 2002, the Scheme was amended to comply with the changes to Chapter 23 of the GEM Listing Rules which came into effect on 1 October 2001 in relation to the share option schemes of listed issuers on the Stock Exchange. Details of the Scheme are as follows:

(i) Purpose of the Scheme

The purpose of the Scheme is to attract and retain the best quality employees for the development of the Company's businesses and to provide additional incentives or rewards to selected qualifying participants of the Scheme for their contribution to the creation of the Company's shareholders value.

SHARE OPTIONS (continued)

(b) Share Option Scheme (continued)

(ii) *Qualifying participants*

Any employee (whether full time or part time employee including any executive or non-executive Directors of the Company or any Affiliate (the "Affiliate") as defined in the Scheme) or any consultant, agent, advisor, business alliance, joint venture partner of or supplier of goods or services to the Group or any Affiliate or any employee of the business alliance, joint venture partner of or supplier of goods or services to the Group or any Affiliate.

(iii) *Maximum number of shares*

The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes (including the Pre-IPO Share Option Plan in (a) above) must not in aggregate exceed 10% of the Shares in issue as at 6 January 2001 being 65,560,000 Shares, which represent approximately 9.75% of the issued share capital of the Company as at the date of this Report.

The total number of Shares issued and to be issued upon exercise of the options (whether exercised or outstanding) in any 12-month period granted to each qualifying participant must not exceed 1% of the Shares in issue, unless specially approved by the independent shareholders of the Company.

(iv) *Option period*

In respect of any particular option, such period as the Board may in its absolute discretion determine, save that such period shall not expire less than three years nor more than 10 years from the commencement date (the "Commencement Date"). The Commencement Date is deemed to have taken effect from the date on which that option was offered to the qualifying participants.

(v) *Amount payable on application or acceptance*

An offer of the grant of an option shall remain open for acceptance for a period of 28 days from the Commencement Date. An offer of the grant of the option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the relevant option duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration of the grant thereof is received by the Company.

SHARE OPTIONS (continued)

(b) Share Option Scheme (continued)

(vi) Subscription price

The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option but it shall not be less than whichever is the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Commencement Date (ii) the average closing price of the Shares for the five business days immediately preceding the Commencement Date on which there were dealings in Shares on the Stock Exchange and (iii) the nominal value of a Share.

(vii) The remaining life of the Scheme

The Board shall be entitled at any time within 10 years commencing on 6 January 2001 to offer the grant of an option to any qualifying participants.

SHARE OPTIONS (continued)

(b) Share Option Scheme (continued)

Details of the share options granted and remain outstanding as at 31 December 2004 were as follows:

	Options held at 1 January 2004	Options granted during the year (Note 2)	Options exercised during the year (Note 3)	Options lapsed during the year (Note 4)	Options held at 31 December 2004	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
(A) Continuous contract employees									
	242,000	-	-	(16,000)	226,000	2.42	21 September 2001	21 September 2002	20 September 2006
	472,000	-	-	(124,000)	348,000	2.42	21 September 2001	21 September 2003	20 September 2006
	2,436,000	-	-	(60,000)	2,376,000	2.785	24 May 2002	24 May 2003	23 May 2007
	578,000	-	-	(48,000)	530,000	2.785	24 May 2002	24 May 2004	23 May 2007
	94,000	-	-	-	94,000	2.15	23 September 2002	23 September 2003	22 September 2007
	48,000	-	-	-	48,000	2.15	23 September 2002	23 September 2004	22 September 2007
	1,378,000	-	(216,000)	-	1,162,000	1.69	20 May 2003	20 May 2004	19 May 2008
	736,000	-	-	(96,000)	640,000	1.69	20 May 2003	20 May 2005	19 May 2008

Directors' Report (continued)

SHARE OPTIONS (continued)

(b) Share Option Scheme (continued)

	Options held at 1 January 2004	Options granted during the year (Note 2)	Options exercised during the year (Note 3)	Options lapsed during the year (Note 4)	Options held at 31 December 2004	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
(A) Continuous contract employees (continued)									
	152,000	–	(12,000)	(10,000)	130,000	2.225	30 September 2003	30 September 2004	29 September 2008
	180,000	–	–	(18,000)	162,000	2.225	30 September 2003	30 September 2005	29 September 2008
	–	832,000	–	(28,000)	804,000	2.535	29 March 2004	29 March 2005	28 March 2009
	–	202,000	–	(52,000)	150,000	2.535	29 March 2004	29 March 2006	28 March 2009
	–	108,000	–	–	108,000	2.40	6 August 2004	6 August 2005	5 August 2009
	–	386,000	–	–	386,000	2.40	6 August 2004	6 August 2006	5 August 2009
(B) Directors									
	1,800,000 (Note 1)	–	–	–	1,800,000	2.785	24 May 2002	24 May 2003	23 May 2007

SHARE OPTIONS (continued)**(b) Share Option Scheme** (continued)*Notes:*

- (1) 1,300,000, 250,000 and 250,000 options were respectively granted to the Directors, Messrs. Yeung Lap Bun, Richard and Li Kwok Ho, Bruno and Ms. Wong Yuk Nor, Louisa. Please refer to the section headed "Interests and Short Positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations" for details.
- (2) During the year, options were respectively granted on 29 March 2004 and 6 August 2004. The closing price of the Shares immediately before the date on which the options were granted was HK\$2.525 on 26 March 2004 and HK\$2.40 on 5 August 2004 respectively.
- (3) 216,000 options were exercised at an exercise price of HK\$1.69 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK\$2.511.
12,000 options were exercised at an exercise price of HK\$2.225 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK\$2.70.
- (4) 452,000 options were lapsed following the cessation of employment of certain grantees.
- (5) Hong Kong Financial Reporting Standard ("HKFRS") 2 "Share-based Payment" issued by the Hong Kong Institute of Certified Public Accountants will take effect for accounting periods beginning on or after 1 January 2005. Management is now evaluating the most appropriate assumptions and the valuation method that will be used in valuing the fair value of the Company's options. Thus, the Directors consider that it would be inappropriate at this time to state the estimated value of the options.

Save as disclosed above, as at 31 December 2004, none of the Directors, chief executives, management shareholders or substantial shareholders of the Company or their respective associates have been granted options under the Pre-IPO Share Option Plan and the Scheme.

DIRECTORS

The Directors during the year and up to the date of this Report were:

Dr. FUNG Kwok King, Victor⁺
 Dr. FUNG Kwok Lun, William⁺
 Mr. YEUNG Lap Bun, Richard
 Mr. LAU Butt Farn⁺ (resigned on 29 October 2004)
 Mr. Jeremy Paul Egerton HOBBS⁺ (appointed on 29 October 2004)
 Mr. LI Kwok Ho, Bruno
 Ms. WONG Yuk Nor, Louisa⁺
 Dr. CH' IEN Kuo Fung, Raymond*
 Mr. AU Man Chung, Malcolm*
 Mr. Godfrey Ernest SCOTCHBROOK*

⁺ *Non-executive directors*

^{*} *Independent non-executive directors*

Directors' Report (continued)

DIRECTORS (continued)

In accordance with Article 86 of the Company's Articles of Association, Mr. Jeremy Paul Egerton Hobbins retires and being eligible, offers himself for re-election.

In accordance with Article 87 of the Company's Articles of Association and the Code on Corporate Governance Practices, Dr. Fung Kwok King, Victor, Mr. Yeung Lap Bun, Richard and Ms. Wong Yuk Nor, Louisa retire and being eligible, offer themselves for re-election.

The non-executive Directors have no set term of office but are subject to retirement by rotation at annual general meeting of the Company in accordance with the Company's Articles of Association.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing on 1 January 2001 and will continue thereafter subject at all times (including the initial three years period) to termination by not less than three months' prior notice in writing by either party on the other.

Save as disclosed, none of the Directors has entered into any service contracts with any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

INTERESTS AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND CERTAIN MAJOR ASSOCIATED CORPORATIONS

As at 31 December 2004, the interests and short positions of each of the Directors, chief executives and their associates in the shares, underlying shares and debentures of the Company and certain of its major associated corporations* (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as required to be recorded in the register maintained by the Company pursuant to section 352 of SFO or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealing by the Directors under the GEM Listing Rules and/or the Code of Conduct for dealings in securities adopted by the Company, were as follows:

The Company

Long positions in Shares and the underlying Shares of equity derivatives

Name of Directors	Number of		Nature of interests/ Holding capacity	Approximate percentage of interests
	(i) Shares	(ii) underlying Shares		
Dr. Fung Kwok King, Victor	373,692,000	–	Corporate (<i>Note 1</i>)	55.61%
Dr. Fung Kwok Lun, William	373,692,000	–	Corporate (<i>Note 1</i>)	55.61%
Mr. Yeung Lap Bun, Richard	17,896,000	1,300,000 (<i>Note 2</i>)	Personal/beneficiary	2.86%
Mr. Li Kwok Ho, Bruno	2,676,000	250,000 (<i>Note 3</i>)	Personal/beneficiary	0.44%
Ms. Wong Yuk Nor, Louisa	1,338,000	250,000 (<i>Note 4</i>)	Personal/beneficiary	0.24%
Dr. Ch'ien Kuo Fung, Raymond	1,000,000	–	Personal/beneficiary	0.15%

INTERESTS AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND CERTAIN MAJOR ASSOCIATED CORPORATIONS (continued)

Major associated corporations

Long positions in shares and the underlying shares of equity derivatives

Name of Directors	Name of associated corporations	Class of shares	Number of		Nature of interests/ Holding capacity	Approximate percentage of interests
			(i) shares	(ii) underlying shares		
Dr. Fung Kwok King, Victor	Li & Fung (Gemini) Limited	Ordinary shares	5,222,807	–	Corporate (Note 5)	
			602,631	–	Corporate (Notes 1 & 6)	84.80%
	Li & Fung (Distribution) Limited	Full voting ordinary shares	9,600,000	–	Corporate (Note 7)	
			–	4,200,000	Corporate (Note 8)	100%
Dr. Fung Kwok Lun, William	Li & Fung (Gemini) Limited	Ordinary shares	5,222,807	–	Corporate (Note 5)	76.02%
			9,600,000	–	Corporate (Note 7)	
	Li & Fung (Distribution) Limited	Full voting ordinary shares	–	4,200,000	Corporate (Note 8)	100%
Mr. Jeremy Paul Egerton Hobbins	Li & Fung (Gemini) Limited	Ordinary shares	462,018	–	Corporate (Note 9)	6.73%
Mr. Li Kwok Ho, Bruno	Integrated Distribution Services Group Limited	Ordinary shares	4,000	–	Other (Note 10)	0.00%

INTERESTS AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND CERTAIN MAJOR ASSOCIATED CORPORATIONS (continued)

- * Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William, by virtue of their interests in King Lun Holdings Limited ("King Lun") and the Company are deemed to be interested in the shares and underlying shares of certain associated corporations of the Company under SFO. A waiver from full compliance from Rule 18.15 of the GEM Listing Rules for the disclosure of Directors' interests in the shares and underlying shares of the associated corporations has been granted by the Stock Exchange on 21 February 2005. Accordingly, the companies under the section headed "Interests and Short Positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations" are only the major associated corporations of the Company and are not intended to be exhaustive.

Notes:

- King Lun through its indirect wholly owned subsidiary, Li & Fung (Retailing) Limited ("LFR") (a wholly owned subsidiary of Li & Fung (1937) Limited ("LF (1937)")) held 373,692,000 Shares in the Company. 1,332,840 shares in King Lun, representing 50% of its issued share capital, are owned by J.P. Morgan Trust Company (Jersey) Limited, the trustee of a trust established for the benefit of the family members of Dr. Fung Kwok King, Victor. The remaining 50% of King Lun is owned by Dr. Fung Kwok Lun, William.
- On 24 May 2002, Mr. Yeung Lap Bun, Richard was granted share options to subscribe for 1,300,000 Shares pursuant to the Share Option Scheme of the Company. The options are exercisable at a subscription price of HK\$2.785 per Share during the period from 24 May 2003 to 23 May 2007. No relevant share options have been exercised.
- On 24 May 2002, Mr. Li Kwok Ho, Bruno was granted share options to subscribe for 250,000 Shares pursuant to the Share Option Scheme of the Company. The options are exercisable at a subscription price of HK\$2.785 per Share during the period from 24 May 2003 to 23 May 2007. No relevant share options have been exercised.
- On 24 May 2002, Ms. Wong Yuk Nor, Louisa was granted share options to subscribe for 250,000 Shares pursuant to the Share Option Scheme of the Company. The options are exercisable at a subscription price of HK\$2.785 per Share during the period from 24 May 2003 to 23 May 2007. No relevant share options have been exercised.
- King Lun through its wholly owned subsidiary, LF (1937) held 5,222,807 shares in Li & Fung (Gemini) Limited ("LFG"). Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun and LF (1937) as set out in note (1) above.
- 602,631 shares in LFG are owned by a company which is held by J.P. Morgan Trust Company (Jersey) Limited.
- Out of the total 9,600,000 shares, LFG holds 6,800,000 shares and LF (1937) holds 2,800,000 shares. Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun and LF (1937) and indirect interests in LFG as set out in notes (1) and (5) above.
- Under SFO, LF (1937) is deemed to have interest in 4,200,000 underlying shares under several put and call option agreements, pursuant to which LF (1937) has the call options to require the counterparties to the agreements to sell to it, and the said counterparties have the put options to require LF (1937) to buy from them, an aggregate of 4,200,000 shares at cash consideration.
- 462,018 shares in LFG are held by Martinville Holdings Limited which is owned by Mr. Jeremy Paul Egerton Hobbins.
- 4,000 shares in Integrated Distribution Services Group Limited are jointly held by Mr. Li Kwok Ho, Bruno and his wife, Sandra Maria Li Ng.

Save as disclosed above, as at 31 December 2004, none of the Directors, chief executives and their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2004, the interests and short positions of the substantial shareholders in the Shares and underlying Shares of the Company as recorded in the register required to be kept under section 336 of SFO were as follows:

Long positions in Shares

Name	Number of Shares	Nature of interests/ Holding capacity	Approximate percentage of interests
King Lun Holdings Limited	373,692,000	Corporate (Note 1)	55.61%
Commonwealth Bank of Australia	60,336,000	Corporate (Note 2)	8.98%
Overlook Investments (BVI) Limited	34,272,000	Other (Note 3)	5.10%

Notes:

1. These shares are held by Li & Fung (Retailing) Limited ("LFR"). King Lun Holdings Limited ("King Lun") indirectly owns 100% interests in LFR through its wholly owned subsidiary, Li & Fung (1937) Limited ("LF (1937)"). All of King Lun, LFR and LF (1937) are taken to be interested in the shares. Please refer to Note (1) in the above section headed "Interests and Short Positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations".
2. These shares are indirectly held by Commonwealth Bank of Australia through a chain of 100% owned companies, namely Colonial Ltd, Colonial Holding Company Limited (formerly known as Colonial Holding Company Pty Ltd), Colonial Holding Company (No. 2) Pty Limited, The Colonial Mutual Life Assurance Society Ltd, Colonial First State Group Ltd, First State Investment (UK Holdings) Limited, SI Holdings Limited, First State Investment Management (UK) Limited, First State Investment Managers (Asia) Ltd, First State Investments (Bermuda) Ltd, First State (Hong Kong) LLC and First State Investments (Hong Kong) Limited.
3. These shares are held by Overlook Investments (BVI) Limited, as general partner for Overlook Investments L.P., the general partner of The Overlook Partners Fund L.P. Overlook Investments (BVI) Limited is jointly owned by Richard Hurd Lawrence, Jr. and Dee Macleod Lawrence, all of whom are taken to be interested in such shares under SFO.

Save as disclosed above, as at 31 December 2004, the Company had not been notified of any substantial shareholders' interests or short positions which are required to be kept under section 336 of SFO.

DIRECTORS' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Options" above, at no time during the year was the Company, its holding companies or its subsidiaries a party to any arrangements to enable the Directors of the Company (including their spouses and children under 18 years of age), to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases for the year attributable to the Group's major suppliers is as follows:

Purchases

– the largest supplier	17%
– five largest suppliers combined	49%

None of the Directors, their associates or any shareholders of the Company which to the knowledge of the Directors own more than 5% of the issued share capital of the Company had an interest in the five largest suppliers noted above.

During the year, the Group sold less than 30% of its goods and services to its five largest customers.

CONNECTED TRANSACTIONS

During the year, the Group had various transactions with related parties (details are set out in note 23 to the accounts on pages 76 and 77). Some of these transactions, as set out below, are expected to continue on an on-going basis and will constitute "continuing connected transactions (exempt from reporting, announcement and/or independent shareholders' approval requirements)" of the Company:

	HK\$'000
1. Provision of services by LFR (<i>Note 1</i>)	12,880
2. Net purchases of products from IDS (Hong Kong) Limited ("IDS (HK)") (<i>Note 2</i>)	9,318
3. The Circle K Convenience Stores (HK) Limited ("Circle K (HK)") leases (<i>Note 3</i>)	1,422
4. The Web-Logistic (HK) Limited ("Web-Logistic (HK)") leases (<i>Note 4</i>)	869

CONNECTED TRANSACTIONS (continued)

Notes:

1. This refers to the provision by LFR to Circle K (HK) for services relating to finance and accounting, management information systems, human resources, real estate and other administrative support pursuant to the agreement dated 20 March 2002, and renewed on 1 January 2005 (the "New Services Agreement"). Apart from the payment of the service fee, Circle K (HK) has also reimbursed LFR for utility expenses, insurance premiums and other office or administrative expenses which were paid by LFR on behalf of Circle K (HK). The New Services Agreement is exempted from any reporting, announcement and shareholders' approval requirements.
2. This refers to the net purchases of various products (being food and non-food products) by Circle K (HK) from IDS (HK) (formerly known as JDH (Hong Kong) Limited), an indirect subsidiary of LF (1937), on its standard terms of business pursuant to the agreement dated 10 December 2004 (the "New Purchase Agreement"), which replaced the Purchase Agreement dated 20 March 2002 (details of which were disclosed in the announcement dated 10 December 2004).
3. These refer to the lease payments from Circle K (HK) to IDS (HK) under a lease agreement dated 12 May 2004 (the "Circle K Lease") (details of which were disclosed in the announcement dated 12 May 2004), which replaced the lease agreement dated 20 March 2003 and the licence agreement dated 26 March 2004 for a portion of 5th Floor, LiFung Centre, 2 On Ping Street, Siu Lek Yuen, Shatin, New Territories, Hong Kong with a gross floor area of 20,723 sq.ft.. Such premises are used as an office-cum-workshop.
4. These refer to the lease payments from Web-Logistic (HK) to IDS (HK) under a lease agreement dated 12 May 2004 (the "Web-Logistic Lease") (details of which were disclosed in the announcement dated 12 May 2004), which replaced the lease agreement dated 20 March 2003 and the licence agreement dated 26 March 2004 for a portion of 5th Floor, LiFung Centre, 2 On Ping Street, Siu Lek Yuen, Shatin, New Territories, Hong Kong with a gross floor area of 12,667 sq.ft.. Such premises are used as an office-cum-workshop.

The independent non-executive Directors confirmed that the purchase of products from IDS (HK) pursuant to the New Purchase Agreement has been entered into on terms no less favourable to the Group than terms available from independent third parties, and the transactions under the Circle K Lease and the Web-Logistic Lease have been entered into on normal commercial terms, and each of these three transactions has been entered into in the ordinary course of business of the Group, and is fair and reasonable to the Company and in the interests of the shareholders of the Company as a whole.

MANAGEMENT CONTRACTS

Save as disclosed above, no contracts of significance for the provision of services to the Group by a controlling shareholder or its subsidiaries were entered into or existed 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.

AUDIT COMMITTEE

The Company established an audit committee on 6 January 2001 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to provide advice and recommendations to the Board. The members of the audit committee are Dr. Ch'ien Kuo Fung, Raymond, Mr. Au Man Chung, Malcolm and Mr. Godfrey Ernest Scotchbrook (being independent non-executive Directors). Mr. Lau Butt Farn resigned as non-executive Director and ceased to be audit committee member on 29 October 2004. The chairman of the audit committee is Dr. Ch'ien Kuo Fung, Raymond.

During the year, the audit committee met four times to review with senior management and the Company's external auditors the audit findings, the accounting principles and practices adopted by the Group, listing rules and statutory compliance, and to discuss auditing, internal control, risk management and financial reporting matters (including the quarterly, half-year and full year financial reports of the Group prior to recommending them to the Board for approval).

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed or might compete with the business of the Group.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Fung Kwok King, Victor
Chairman

Hong Kong, 3 March 2005

Auditors' Report



羅兵咸永道會計師事務所

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Central Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888

AUDITORS' REPORT TO THE SHAREHOLDERS OF CONVENIENCE RETAIL ASIA LIMITED

(incorporated in Cayman Islands with limited liability)

We have audited the accounts set out on pages 45 to 77 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purposes. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 3 March 2005



Consolidated Profit and Loss Account

For the year ended 31 December 2004

	<i>Note</i>	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	5 & 17	66,959	60,707
Dividends	6	33,590	26,772
Basic earnings per share	7	10.0 cents	9.1 cents
Diluted earnings per share	7	9.9 cents	9.0 cents

Consolidated Balance Sheet

As at 31 December 2004

	<i>Note</i>	2004 HK\$'000	2003 HK\$'000
Intangible assets	10	19	97
Fixed assets	11	97,144	97,197
Deferred tax assets	13	1,651	2,389
Current assets			
Inventories		67,361	61,607
Rental deposits		31,085	26,737
Trade receivables	14	19,828	12,896
Other receivables, deposits and prepayments		30,605	27,374
Bank balances and cash		531,360	460,022
		<u>680,239</u>	<u>588,636</u>
Current liabilities			
Amount due to immediate holding company		676	1,005
Trade payables	15	270,730	238,508
Other payables and accruals		58,647	38,455
Taxation payable		4,389	766
		<u>334,442</u>	<u>278,734</u>
Net current assets		<u>345,797</u>	<u>309,902</u>
Total assets less current liabilities		<u>444,611</u>	<u>409,585</u>
Financed by:			
Share capital	16	67,202	66,921
Reserves	17	350,031	314,240
Proposed final dividend	17	25,205	20,087
Shareholders' funds		442,438	401,248
Minority interests	12	(6,613)	(1,560)
Long service payment liabilities	19	7,721	7,521
Deferred tax liabilities	13	1,065	2,376
		<u>444,611</u>	<u>409,585</u>

On behalf of the Board

Fung Kwok King, Victor
Director

Yeung Lap Bun, Richard
Director

Balance Sheet

As at 31 December 2004

	<i>Note</i>	2004 HK\$'000	2003 HK\$'000
Investment in subsidiaries	12	79,405	74,165
Current assets			
Other receivables, deposits and prepayments		4,764	2,943
Bank balances and cash		486,014	416,523
		<u>490,778</u>	<u>419,466</u>
Current liabilities			
Other payables and accruals		<u>1,350</u>	<u>1,368</u>
Net current assets		<u>489,428</u>	<u>418,098</u>
Total assets less current liabilities		<u>568,833</u>	<u>492,263</u>
Financed by:			
Share capital	16	67,202	66,921
Reserves	17	126,016	121,345
Proposed final dividend	17	25,205	20,087
		<u>218,423</u>	<u>208,353</u>
Loans from a subsidiary	18	350,410	283,910
		<u>568,833</u>	<u>492,263</u>

On behalf of the Board

Fung Kwok King, Victor
Director

Yeung Lap Bun, Richard
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	<i>Note</i>	2004 HK\$'000	2003 HK\$'000
Net cash inflow from operations	20(a)	138,291	113,115
Hong Kong profits tax paid		(10,623)	(9,884)
Net cash inflow from operating activities		127,668	103,231
Investing activities			
Purchase of fixed assets		(38,875)	(52,095)
Proceeds from disposal of fixed assets		–	34
Increase interest in a subsidiary		–	(1,206)
Interest received		8,267	6,461
Net cash used in investing activities		(30,608)	(46,806)
Net cash inflow before financing		97,060	56,425
Financing activities	20(b)		
Proceeds from issuance of shares		2,765	1,831
Capital contribution from a minority shareholder		–	845
Dividends paid		(28,491)	(6,685)
Net cash used in financing activities		(25,726)	(4,009)
Increase in cash and cash equivalents		71,334	52,416
Cash and cash equivalents at 1 January		460,022	407,489
Effect of foreign exchange rate changes		4	117
Cash and cash equivalents at 31 December		531,360	460,022
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		531,360	460,022

Note:

As at 31 December 2004, the Group's bank balances and cash of HK\$4,364,000 (2003: HK\$16,787,000) were kept in The People's Republic of China ("PRC"). The remittance of funds out of PRC is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

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 to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) 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.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than one half of the voting power, or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company’s balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Revenue recognition

- (i) 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.
- (ii) 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.
- (iii) Revenue from provisions of services is recognised when the services are rendered.
- (iv) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(d) Intangible assets

Intangible assets representing the franchise licence to operate convenience stores are stated at cost less accumulated amortisation. Amortisation is charged on a straight-line basis over the licence period of 20 years.

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Properties and leasehold improvements are depreciated on a straight-line basis over the periods of the leases or their expected useful lives to the Group whichever is shorter. Other fixed assets are depreciated at rates sufficient to write off their costs over their expected useful lives on a straight-line basis. The principal annual rates are as follows:

Equipment, furniture and fixtures	10% to 33 $\frac{1}{3}$ %
Motor vehicles	16 $\frac{2}{3}$ % to 25%

Major costs incurred in restoring fixed assets to their normal working conditions are charged to the profit and loss account.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceed and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(g) Inventories

Inventories comprising merchandises are stated at the lower of cost and net realisable value. The cost of inventories is calculated on the weighted average basis including all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Trade receivables

Provision is made against trade receivables to the extent which they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(i) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(I) 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.

(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.

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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)**(m) 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.

(n) 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 area 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:

	Group	
	2004	2003
	HK\$'000	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	1,903,665	1,646,210

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	Chinese Mainland	Group
	2004	2004	2004
	HK\$'000	HK\$'000	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>
Segment assets	247,128	44,894	292,022
Unallocated assets			<u>487,031</u>
Total assets			<u>779,053</u>
Segment liabilities	327,983	9,791	337,774
Unallocated liabilities			<u>5,454</u>
Total liabilities			<u>343,228</u>
Capital expenditure	28,596	10,279	38,875
Depreciation	34,614	4,029	38,643
Amortisation	78	–	<u>78</u>

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			<u>6,461</u>
Profit before taxation			68,846
Taxation			<u>(12,769)</u>
Profit after taxation			56,077
Minority interests	<u>72</u>	<u>4,558</u>	<u>4,630</u>
Profit attributable to shareholders			<u>60,707</u>
Segment assets	222,116	35,445	257,561
Unallocated assets			<u>430,758</u>
Total assets			<u>688,319</u>
Segment liabilities	271,587	13,902	285,489
Unallocated liabilities			<u>3,142</u>
Total liabilities			<u>288,631</u>
Capital expenditure	34,173	20,997	55,170
Depreciation	31,465	3,240	34,705
Amortisation	<u>78</u>	<u>—</u>	<u>78</u>

There are no sales between the geographical segments.

2. TURNOVER, OTHER REVENUES AND SEGMENT INFORMATION (continued)

Primary reporting format – geographical segments (continued)

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:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Amortisation of franchise licence (included in administrative expenses)	78	78
Auditors' remuneration		
Charge for the current year	667	616
Over provision in prior year	(10)	(76)
Cost of inventories sold	1,293,139	1,126,685
Depreciation of owned fixed assets	38,643	34,705
Loss on disposal of fixed assets	294	472
Operating leases rental for land and buildings	122,652	103,507
	<u>122,652</u>	<u>103,507</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	2003
	HK\$'000	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>13,673</u>	<u>12,769</u>
Taxation	<u>13,673</u>	<u>12,769</u>

4. TAXATION (continued)

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	<u>75,601</u>	<u>68,846</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	<u>(489)</u>	<u>(570)</u>
Taxation	<u>13,673</u>	<u>12,769</u>

5. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$35,796,000 (2003: HK\$12,167,000).

6. DIVIDENDS

	2004 HK\$'000	2003 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	<u>25,205</u>	<u>20,087</u>
	<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.

7. 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.

8. STAFF COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Wages and salaries	203,299	177,011
Unutilised annual leave	702	572
Pension costs – defined contribution scheme	9,272	8,421
Long service payment costs (<i>Note 19</i>)	295	388
	213,568	186,392

Note:

The staff costs include directors' emoluments.

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Fees	390	270
Basic salaries, housing allowances, other allowances and benefits in kind	2,990	2,785
Discretionary bonuses	3,360	3,060
Pension costs – defined contribution scheme	24	24
	<u>6,764</u>	<u>6,139</u>

In addition to the directors' emoluments disclosed above, certain directors of the Company had emoluments receivable from the immediate holding company, which totals HK\$4,136,000 (2003: HK\$4,695,000), part of which is in respect of their services to the Company and its subsidiaries. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services to the Group and their services to the Company's immediate holding company.

Directors' fees disclosed above include HK\$180,000 (2003: HK\$90,000) payable to independent non-executive directors.

The emoluments of the directors fell within the following bands:

	Number of directors	
	2004	2003
HK\$ Nil – HK\$1,000,000	9	8
HK\$4,500,001 – HK\$6,000,000	1	1
	<u>10</u>	<u>9</u>

The individual emoluments of the executive directors for the year ended 31 December 2004 were approximately HK\$5,722,000 (2003: HK\$5,262,000) and HK\$722,000 (2003: HK\$667,000) respectively.

No director waived or agreed to waive any of their emoluments in respect of the years ended 31 December 2004 and 2003.

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2003: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2003: four) individuals during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	4,597	4,511
Discretionary bonuses	1,084	1,089
Pension costs – defined contribution scheme	36	36
	<u>5,717</u>	<u>5,636</u>

The emoluments of the employees fell within the following bands:

	Number of individuals	
	2004	2003
HK\$1,000,001 – HK\$2,000,000	4	3
HK\$2,000,001 – HK\$2,500,000	–	1
	<u>4</u>	<u>4</u>

- (c) During the year, no emoluments have been paid by the Group to directors or the five highest paid individuals as an inducement to join the Group, or as a compensation for loss of office.

10. INTANGIBLE ASSETS

	Group	
	2004 HK\$'000	2003 HK\$'000
Franchise licence, at cost	1,559	1,559
<i>Less: accumulated amortisation</i>	<i>(1,540)</i>	<i>(1,462)</i>
	<u>19</u>	<u>97</u>

Franchise licence represents the exclusive territorial rights owned by the Group to operate convenience stores utilising the tradename, trademarks and Circle K System of The Circle K Stores Inc. of the United States of America.

11. FIXED ASSETS

	Group				
	Properties	Leasehold improvements	Equipment, furniture and fixtures	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Costs					
At 1 January 2004	16,402	49,078	172,587	4,437	242,504
Exchange adjustment	6	(4)	2	1	5
Additions	869	10,452	27,158	396	38,875
Disposals	–	(4,898)	(9,703)	–	(14,601)
	<u>17,277</u>	<u>54,628</u>	<u>190,044</u>	<u>4,834</u>	<u>266,783</u>
Accumulated depreciation					
At 1 January 2004	187	34,132	108,413	2,575	145,307
Exchange adjustment	–	(1)	(3)	–	(4)
Charge for the year	586	9,311	28,142	604	38,643
Disposals	–	(4,898)	(9,409)	–	(14,307)
	<u>773</u>	<u>38,544</u>	<u>127,143</u>	<u>3,179</u>	<u>169,639</u>
Net book value					
At 31 December 2004	<u>16,504</u>	<u>16,084</u>	<u>62,901</u>	<u>1,655</u>	<u>97,144</u>
At 31 December 2003	<u>16,215</u>	<u>14,946</u>	<u>64,174</u>	<u>1,862</u>	<u>97,197</u>

The Group's interest in properties at their net book value are analysed as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Outside Hong Kong, held on:		
Leases of over 50 years	869	–
Leases of 10 to 50 years	15,635	16,215
	<u>16,504</u>	<u>16,215</u>

12. INVESTMENT IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Investment at cost:		
Unlisted shares	6,769	6,769
Loans to subsidiaries	61,849	55,166
Amounts due from subsidiaries	10,787	12,230
	79,405	74,165

Loans to and amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for a loan of HK\$6,000,000 (2003: Nil) which is interest bearing at 2% per annum and repayable on 17 October 2007.

The following is a list of the subsidiaries of the Company as at 31 December 2004:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Interest held
<i>Directly held:</i>				
Convenience Retail Asia (BVI) Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	10,000 ordinary shares of US\$1 each	100%
<i>Indirectly held:</i>				
Circle K Convenience Stores (Greater China) Limited	Hong Kong, limited liability company	Convenience stores operator and lease-holder in Hong Kong	10,000 ordinary shares of HK\$100 each	100%
Circle K Convenience Stores (HK) Limited	Hong Kong, limited liability company	Convenience stores operator and lease-holder in Hong Kong	183,756 ordinary shares of HK\$1,000 each	100%
Circle K Convenience Stores Limited	Hong Kong, limited liability company	Inactive	10,000 ordinary shares of HK\$10 each	100%

12. INVESTMENT IN SUBSIDIARIES (continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Interest held
<i>Indirectly held: (continued)</i>				
Circle K Convenience Stores PRC (BVI) Limited	British Virgin Islands, limited liability company	Inactive	1 ordinary share of US\$1 each	100%
Circle K Convenience Stores PRC Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	2 ordinary shares of HK\$1 each	100%
Circle K PRC Properties Limited	Hong Kong, limited liability company	Property holding in PRC	2 ordinary shares of HK\$1 each	100%
Convenience Retail Southern China Limited	Hong Kong, limited liability company	Dormant	2 ordinary shares of HK\$1 each	100%
Convenience Retail Southern China Limited 利亞華南便利店有限公司*	PRC, limited liability company	Convenience stores operator and lease-holder in PRC	Registered capital of RMB60,000,000 (Note)	65%
Web-Logistic (HK) Limited	Hong Kong, limited liability company	Logistic service provider in Hong Kong	15,600,000 ordinary shares of HK\$1 each	100%

* The legal name of the Company is in Chinese.

Note:

At 31 December 2004, the paid-up capital of Convenience Retail Southern China Limited ("CRSC") amounted to RMB44,722,000 (2003: RMB44,722,000). In accordance with the Co-operative Agreement dated 20 December 2001, the minority shareholders have binding obligation to inject additional capital of RMB15,278,000 into CRSC before 14 October 2005.



13. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

The movement on the deferred tax (assets)/liabilities account are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
At 1 January	(13)	(2,132)
Deferred taxation (credited)/charged to profit and loss account (Note 4)	(573)	2,119
At 31 December	<u>(586)</u>	<u>(13)</u>

Deferred tax assets are recognised for tax losses carried forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

	Group					
Deferred tax liabilities	Accelerated tax depreciation		Others		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	2,816	2,193	4	248	2,820	2,441
(Credited)/charged to profit and loss account	(1,648)	623	(4)	(244)	(1,652)	379
At 31 December	<u>1,168</u>	<u>2,816</u>	<u>-</u>	<u>4</u>	<u>1,168</u>	<u>2,820</u>

Notes to the Accounts (continued)

13. DEFERRED TAXATION (continued)

Deferred tax assets	Group					
	Tax losses		Others		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At 1 January	(2,425)	(4,116)	(408)	(457)	(2,833)	(4,573)
Charged to profit and loss account	770	1,691	309	49	1,079	1,740
At 31 December	<u>(1,655)</u>	<u>(2,425)</u>	<u>(99)</u>	<u>(408)</u>	<u>(1,754)</u>	<u>(2,833)</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	Group	
	2004 HK\$'000	2003 HK\$'000
Deferred tax assets	(1,651)	(2,389)
Deferred tax liabilities	<u>1,065</u>	<u>2,376</u>

14. TRADE RECEIVABLES

Majority of the Group's turnover are cash sales. The Group's credit terms on trade receivables from other revenues mainly range from 30 days to 60 days. At 31 December 2004, the ageing analysis of trade receivables was as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
0-30 days	17,510	11,038
31-60 days	1,615	1,613
61-90 days	473	68
Over 90 days	230	177
	<u>19,828</u>	<u>12,896</u>

15. TRADE PAYABLES

At 31 December 2004, the ageing analysis of the trade payables was as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
0-30 days	127,753	116,256
31-60 days	78,966	67,397
61-90 days	41,545	37,002
Over 90 days	22,466	17,853
	<u>270,730</u>	<u>238,508</u>

16. SHARE CAPITAL

	2004		2003	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Authorised:				
At 31 December	<u>2,000,000,000</u>	<u>200,000</u>	<u>2,000,000,000</u>	<u>200,000</u>
Issued and fully paid:				
At 1 January	669,210,000	66,921	667,220,000	66,722
Issuance of shares (<i>Note a</i>)	<u>2,808,000</u>	<u>281</u>	<u>1,990,000</u>	<u>199</u>
At 31 December	<u>672,018,000</u>	<u>67,202</u>	<u>669,210,000</u>	<u>66,921</u>

Note:

- (a) During the year, 2,580,000 (2003: 1,990,000) and 228,000 (2003: Nil) Shares were allotted and issued pursuant to the exercise of share options by the employees of the Company in accordance with terms of the Pre-IPO Share Option Plan and Share Option Scheme respectively.

16. SHARE CAPITAL (continued)

Share options

(i) Pre-IPO Share Option Plan

On 27 December 2000, a Pre-IPO Share Option Plan (the “Pre-IPO Share Option Plan”) was approved by a written resolution of the shareholders of the Company under which the board of Directors may, at its discretion, grant options to full time or part time employees of the Group entitling them to subscribe for shares of HK\$0.10 each representing up to a maximum of 19,930,000 Shares. On 30 December 2000, options to subscribe 19,930,000 Shares were granted to 228 employees.

Details of the share options outstanding as at 31 December 2004 which have been granted under the Pre-IPO Share Option Plan were as follows:

Grant date	Options held at 1 January 2004	Options exercised during the year	Options lapsed during the year	Options held at 31 December 2004	Exercise price HK\$	Exercisable from	Exercisable until
30 December 2000	2,700,000	(1,640,000)	–	1,060,000	0.92	10 January 2002	9 January 2006
30 December 2000	2,650,000	(940,000)	–	1,710,000	0.92	10 January 2003	9 January 2006

(ii) Share Option Scheme

Pursuant to the Share Option Scheme (the “Scheme”) adopted by the Company on 6 January 2001, and as amended on 24 April 2002, the board of Directors may, at its discretion, grant options to any qualifying participants (including but not limited to any employee, whether full time or part time employees including any executive or non-executive Directors, of the Company or any affiliate as defined in the Scheme) entitling to subscribe for Shares representing up to a maximum of 10% of the Shares in issue as at 6 January 2001 being 65,560,000 Shares.

16. SHARE CAPITAL (continued)

Share options (continued)

(ii) Share Option Scheme (continued)

Details of the share options granted and outstanding as at 31 December 2004 were as follows:

Grant date	Options held at 1 January 2004	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options held at 31 December 2004	Exercise price HK\$	Exercisable from	Exercisable until
21 September 2001	242,000	–	–	(16,000)	226,000	2.42	21 September 2002	20 September 2006
21 September 2001	472,000	–	–	(124,000)	348,000	2.42	21 September 2003	20 September 2006
24 May 2002	4,236,000	–	–	(60,000)	4,176,000	2.785	24 May 2003	23 May 2007
24 May 2002	578,000	–	–	(48,000)	530,000	2.785	24 May 2004	23 May 2007
23 September 2002	94,000	–	–	–	94,000	2.15	23 September 2003	22 September 2007
23 September 2002	48,000	–	–	–	48,000	2.15	23 September 2004	22 September 2007
20 May 2003	1,378,000	–	(216,000)	–	1,162,000	1.69	20 May 2004	19 May 2008
20 May 2003	736,000	–	–	(96,000)	640,000	1.69	20 May 2005	19 May 2008
30 September 2003	152,000	–	(12,000)	(10,000)	130,000	2.225	30 September 2004	29 September 2008
30 September 2003	180,000	–	–	(18,000)	162,000	2.225	30 September 2005	29 September 2008

16. SHARE CAPITAL (continued)

Share options (continued)

(ii) Share Option Scheme (continued)

Grant date	Options held at 1 January 2004	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options held at 31 December 2004	Exercise price HK\$	Exercisable from	Exercisable until
29 March 2004	–	832,000	–	(28,000)	804,000	2.535	29 March 2005	28 March 2009
29 March 2004	–	202,000	–	(52,000)	150,000	2.535	29 March 2006	28 March 2009
6 August 2004	–	108,000	–	–	108,000	2.40	6 August 2005	5 August 2009
6 August 2004	–	386,000	–	–	386,000	2.40	6 August 2006	5 August 2009



17. RESERVES

(a) Group

	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2003	113,444	177,087	13,433	–	(25,334)	278,630
Premium arising from issuance of shares	1,632	–	–	–	–	1,632
Exchange differences	–	–	–	43	–	43
Profit attributable to shareholders	–	–	–	–	60,707	60,707
Dividend	–	–	–	–	(6,685)	(6,685)
At 31 December 2003	<u>115,076</u>	<u>177,087</u>	<u>13,433</u>	<u>43</u>	<u>28,688</u>	<u>334,327</u>
Representing:						
Reserves						314,240
2003 final dividend proposed						<u>20,087</u>
						<u>334,327</u>
At 1 January 2004	115,076	177,087	13,433	43	28,688	334,327
Premium arising from issuance of shares	2,484	–	–	–	–	2,484
Exchange differences	–	–	–	(43)	–	(43)
Profit attributable to shareholders	–	–	–	–	66,959	66,959
Dividends	–	–	–	–	(28,491)	(28,491)
At 31 December 2004	<u>117,560</u>	<u>177,087</u>	<u>13,433</u>	<u>–</u>	<u>67,156</u>	<u>375,236</u>
Representing:						
Reserves						350,031
2004 final dividend proposed						<u>25,205</u>
						<u>375,236</u>

Notes to the Accounts (continued)

17. RESERVES (continued)

(b) Company

	Share premium HK\$'000	Capital reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2003	113,444	12,792	8,082	134,318
Premium arising from issuance of shares	1,632	–	–	1,632
Profit attributable to shareholders	–	–	12,167	12,167
Dividend	–	–	(6,685)	(6,685)
	<u>115,076</u>	<u>12,792</u>	<u>13,564</u>	<u>141,432</u>
At 31 December 2003	<u>115,076</u>	<u>12,792</u>	<u>13,564</u>	<u>141,432</u>
Representing:				
Reserves				121,345
2003 final dividend proposed				<u>20,087</u>
				<u>141,432</u>
At 1 January 2004	115,076	12,792	13,564	141,432
Premium arising from issuance of shares	2,484	–	–	2,484
Profit attributable to shareholders	–	–	35,796	35,796
Dividends	–	–	(28,491)	(28,491)
	<u>117,560</u>	<u>12,792</u>	<u>20,869</u>	<u>151,221</u>
At 31 December 2004	<u>117,560</u>	<u>12,792</u>	<u>20,869</u>	<u>151,221</u>
Representing:				
Reserves				126,016
2004 final dividend proposed				<u>25,205</u>
				<u>151,221</u>

18. LOANS FROM A SUBSIDIARY

Loans from a subsidiary are unsecured, interest-free and not repayable within the next twelve months.

19. LONG SERVICE PAYMENT LIABILITIES

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employee's final salary and years of service, and is reduced by entitlements accrued under the Group's defined contribution retirement scheme that is attributable to contributions made by the Group. The Group does not set aside any assets to fund any remaining obligations.

The amounts recognised in the consolidated balance sheet are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Present value of unfunded obligations	7,102	6,901
Net unrecognised actuarial gains	619	620
	<u>7,721</u>	<u>7,521</u>
Liability in the consolidated balance sheet	<u>7,721</u>	<u>7,521</u>

Movements in the liability recognised in the consolidated balance sheet:

	Group	
	2004	2003
	HK\$'000	HK\$'000
At 1 January	7,521	7,200
Expenses recognised in the consolidated profit and loss account – as shown below	295	388
Benefits paid	(95)	(67)
	<u>7,721</u>	<u>7,521</u>
At 31 December	<u>7,721</u>	<u>7,521</u>

The amounts recognised in the consolidated profit and loss account are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current service cost	10	10
Interest cost	286	378
Net actuarial gains recognised	(1)	–
	<u>295</u>	<u>388</u>
Total, included in staff costs (Note 8)	<u>295</u>	<u>388</u>

19. LONG SERVICE PAYMENT LIABILITIES (continued)

Of the total charge, HK\$217,000 (2003: HK\$299,000), HK\$20,000 (2003: HK\$24,000) and HK\$58,000 (2003: HK\$65,000) were included, respectively, in store expenses, distribution costs and administrative expenses.

The principal actuarial assumptions used as at 31 December are as follows:

	2004	2003
Discount rate	4%	4%
Long term rate of salary increases	2%	2%
Long term rate of increases to mandatory provident fund relevant income and long service payments maximum amount/wages	2%	2%

20. CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of profit before taxation to net cash inflow from operations**

	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	75,601	68,846
Interest income	(8,267)	(6,461)
Depreciation of owned fixed assets	38,643	34,705
Loss on disposal of fixed assets	294	472
Amortisation of franchise licence	78	78
Profit before taxation before working capital changes	106,349	97,640
Increase in inventories	(5,754)	(11,051)
(Increase)/decrease in trade receivables, rental deposits, other receivables, deposits and prepayments	(14,511)	2,279
Decrease in amount due to immediate holding company	(329)	(9)
Increase in trade payables, other payables and accruals	52,414	23,806
Increase in long service payment liabilities	200	321
Effect of foreign exchange movement	(78)	129
Net cash inflow from operations	138,291	113,115

20. CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital including share premium		Minority interests	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At 1 January	181,997	180,166	(1,560)	297
Exchange differences	–	–	(22)	59
Net proceeds from issuance of shares	2,765	1,831	–	–
Capital contribution from a minority shareholder	–	–	–	845
Increase interest in a subsidiary	–	–	–	(1,206)
Non-cash movements				
Capital contribution from a minority shareholder (<i>Note</i>)	–	–	–	3,075
Minority interests' share of loss	–	–	(5,031)	(4,630)
At 31 December	<u>184,762</u>	<u>181,997</u>	<u>(6,613)</u>	<u>(1,560)</u>

Note:

Capital contribution from a minority shareholder represents injection of properties into a subsidiary in PRC pursuant to a Co-operative Agreement dated 20 December 2001.

21. COMMITMENTS

(a) Capital commitments

The Group had commitments to make payments in respect of the acquisition of fixed assets.

	Group	
	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for	3,059	2,660
Authorised but not contracted for	3,288	2,055
	<u>6,347</u>	<u>4,715</u>

21. COMMITMENTS (continued)**(b) Commitments under operating leases**

At 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Not later than one year	111,301	95,386
Later than one year and not later than five years	102,342	77,264
Later than five years	620	–
	<u>214,263</u>	<u>172,650</u>

Payment obligations in respect of operating lease on properties with rentals vary with gross revenues apart from base rental are not included as future minimum lease payments.

22. CONTINGENT LIABILITIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Guarantees for credit facilities given to a subsidiary	<u>50,888</u>	<u>50,888</u>

23. RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions carried out in the normal course of the Group's business during the year:

		Group	
	<i>Note</i>	2004	2003
		HK\$'000	HK\$'000
Net purchases from related companies	<i>(a)</i>	9,369	7,686
Management fee and reimbursement of office and administrative expenses to LFR	<i>(b)</i>	12,915	10,478
Rental payable to group companies	<i>(c)</i>	4,148	3,642
		<u>26,432</u>	<u>21,806</u>



23. RELATED PARTY TRANSACTIONS (continued)

Note:

- (a) Purchases from fellow subsidiaries are carried out in ordinary course of business and on terms mutually agreed between the Group and the related companies.
- (b) Management fee and reimbursements payable to the immediate holding company in respect of office and administrative expenses incurred are charged on an actual cost recovery basis.
- (c) Rentals are payable to the immediate holding company and fellow subsidiaries in accordance with the terms of agreements.

24. ULTIMATE HOLDING COMPANY

The Directors regard King Lun Holdings Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

25. APPROVAL OF ACCOUNTS

The accounts were approved by the board of Directors on 3 March 2005.

Five Year Financial Summary

The following table summarises the results, assets and liabilities of the Group for the five years ended 31 December 2004.

	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>1,757,581</u>	<u>1,526,099</u>	<u>1,393,542</u>	<u>1,305,124</u>	<u>1,140,671</u>
Profit attributable to shareholders	<u>66,959</u>	<u>60,707</u>	<u>60,390</u>	<u>54,727</u>	<u>40,031</u>
Total assets	779,053	688,319	607,667	525,851	286,026
Total liabilities	(343,228)	(288,631)	(262,018)	(250,022)	(227,232)
Minority interests	6,613	1,560	(297)	(1,558)	(1,956)
Surplus on shareholders' funds	<u>442,438</u>	<u>401,248</u>	<u>345,352</u>	<u>274,271</u>	<u>56,838</u>

Note:

The results, total assets and total liabilities of the Group for the year ended 31 December 2000 have been prepared on a combined basis as if the Company had been the holding company of the Group throughout the year.