Convenience Retail Asia Limited

利亞零售有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8052)

A member of the Li & Fung Retailing Group

Annual Report 2005

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 new Circle K store in Zhongxing Sunny Aoyuan, Dongcheng District, Dongguan is one of the five Circle K stores already in operation in Dongguan.

Contents

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)*
Non-executive Directors	Dr. Fung Kwok King, Victor+ *(Chairman)* Dr. Fung Kwok Lun, William Godfrey Ernest Scotchbrook* Jeremy Paul Egerton Hobbins* Wong Yuk Nor, Louisa
Independent non-executive Directors	Dr. Ch'ien Kuo Fung, Raymond*+ Au Man Chung, Malcolm*+ Lo Kai Yiu, Anthony*
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*

Auditors	PricewaterhouseCoopers *Certified Public Accountants*
Principal share registrar and transfer office	Butterfield Fund Services (Cayman) Limited (formerly known as 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 26/F., Tesbury Centre 28 Queen's Road East Hong Kong
Principal bankers	The Hongkong & Shanghai Banking Corporation Limited
Stock code	8052

Chairman's Statement

Dr. Fung Kwok King, Victor
Chairman

FINANCIAL OVERVIEW

I am pleased to report that Convenience Retail Asia Limited together with its subsidiaries (the "Group") were able to achieve continued sales growth of 14.9% and a net profit increase of 11% compared to 2004. This was due primarily to the Group's ability to capitalise on the solid economic growth of Hong Kong and the Chinese Mainland. Basic earnings per share increased by 10.1% from 9.9 HK cents to 10.9 HK cents.

The slower net profit growth of 8% in the fourth quarter can be attributed to a one-time write off of certain fixed assets resulting from the changeover to a new electronic point-of-sale (EPOS) system. The Group maintains a strong financial position with a net cash position of HK$597.3 million free of any bank borrowings.

REVIEW OF THE HONG KONG RETAIL MARKET

The overall economic environment in Hong Kong continued to improve in 2005. The optimistic outlook for employment, gradual increase in labour income, and strong property and stock markets all contributed to positive consumer sentiment.

REVIEW OF THE HONG KONG RETAIL MARKET (continued)

This favourable economic performance was reflected in the GDP's strong growth, which registered a year-on-year increase of 8.2%* in the third quarter of 2005 with a mild inflation rate of 1.2% for the same quarter.

The retail market experienced a 6.8%** increase in retail sales value and 5.9% increase in volume for the whole year of 2005, which was mainly driven by a strong recovery in local consumption. Even though cumulative visitor arrivals registered an increase of 7.1%*** over the previous year, growth of tourist arrivals from the Chinese Mainland for the same period was only 2.4%. Spending per head is considerably lower as new arrivals from second tier cities tend to have lower income levels, while others are making their second or subsequent visits to Hong Kong.

The major challenge faced by retailers in Hong Kong in 2005 was escalating retail rental, which put considerable pressure on operating costs as well as profit margins. In order to minimise the impact of high rent as a major store expense component, we made the decision to relinquish three store sites upon lease renewal and to pass up some potentially interesting new store sites in order to avoid rental commitments that might incur long term pressure on operational costs and store contribution.

However, our observations indicate that retail rental has already peaked as of the fourth quarter of 2005. The Group intends to resume a more aggressive pace for store openings when an adjustment in the retail rental market takes place.

COMPANY INITIATIVES FOR HONG KONG OPERATION

One of the key initiatives for the Group in 2005 was to employ chain wide premium promotions to promote customer loyalty and to increase shopping frequency per customer. This was in response to growing consumer expectation of value-adding promotions, which became the decisive factor in retail outlet selection.

Using the simple mechanism of giving one free premium for every $20 purchase, the Group launched two major promotions in 2005, both of which resulted in significant incremental sales and transactions. The Mcmug promotion in the second quarter and the miffy promotion in the last quarter proved to be extremely successful, not only in generating traffic but also in building sales in core product categories.

* *Published by Census and Statistics Department on 29 December 2005.*

** *Provisional Statistics published by the Census and Statistics Department on 2 February 2006.*

*** *Released by the Hong Kong Tourism Board on 20 January 2006.*

COMPANY INITIATIVES FOR HONG KONG OPERATION (continued)

Other major initiatives in 2005 included the launch of a brand new store design code-named "3G" ("third generation") as well as a revamp of the EPOS computer system to better support frontline operations and supply chain logistics. The Group also strove to maintain customer service excellence with continuous training and monitoring programmes.

The primary objective in implementing these initiatives was to enhance the competitiveness of the Group in what is expected to be an increasingly challenging retail market environment over the next few years.

REVIEW OF THE RETAIL MARKET ON THE CHINESE MAINLAND

On the Chinese Mainland, income and savings per capita continued to increase in 2005. Inflation was mainly driven by the rising cost of raw materials, fuel, energy and logistics. The rental level was relatively stable but labour and utility costs were subjected to upward pressure.

A continuous increase in disposable income, the affordable pricing by chain stores plus the improved shopping experience offered by modern retail outlets ensured that there were attractive incentives for consumer spending. In Guangzhou, the 34% increase in minimum wage also provided a big boost for general consumer sentiment.

The inherent price sensitive nature of the Chinese consumer and the extended operating hours of mega stores are the two primary obstacles to mass-market patronage of convenience stores. However, lifestyle changes resulting from urbanisation and an increasingly hectic pace of living still offer great opportunity for retail outlets offering location convenience, efficient transactions and guaranteed product quality. The campaign launched by the Guangzhou municipal government to promote "breakfast with ease of mind" clearly communicated the market demand for an upgrade in the hygiene standard of food services and the enormous business opportunity for convenience store chains with superior hygiene and quality food services.

Market acceptance of the Group's Hot & In offering, since the inception of the Circle K business, illustrates that this unique store model is successfully creating a market niche in the convenience store segment, and it is our intention to further build on that strength.

In 2005, the convenience store market in Guangzhou went through a process of rationalisation, and only the most competitive survived. The year closed with a total of 440 outlets operated by major chains, compared to over 300 outlets at the end of 2004. Leading chains closed down unprofitable stores, while new stores replaced them just as quickly. Attempts to upgrade store presentations and shopping environments became the industry practice.

REVIEW OF GUANGZHOU OPERATION

The Group doubled its number of stores in Guangzhou in 2005 and operated a total of 40 stores as of the end of the year. However, with the committed efforts of the operation team, store expenses were significantly reduced with double digit savings in all major expense categories.

Comparable stores are profitable, with a single-digit net margin in 2005. According to an industry source, the Group's operations in Guangzhou reported the fastest growing convenience store sales in Southern China. Despite 10% to 15% increase in raw material cost in the food commissary, the Group was able to maintain a consistent gross margin.

Another notable strategic development was the granting of a wholesale licence by MOFCOM to Convenience Retail Southern China, which qualified the company to engage in wholesale activities for all retailing and manufactured products to third parties.

The Group opened five new stores in Dongguan in the fourth quarter of 2005 under the Circle K brand; all of them 100% company-owned-and-managed. While the first two stores were designed to duplicate the Guangzhou store model, a new "twin-store" concept was introduced in the last quarter of 2005. The "twin-store" concept involved partnering with a local bakery brand that offers a broad range of value-for-money bakery products. Given that the general income level in Dongguan is actually lower than in Guangzhou, the new model was well received by local consumers.

OUTLOOK FOR 2006

In accordance with the strategic focus of the three-year plan, the Group proceeded to roll out its new store-opening programme in the Pearl River Delta.

In addition to Guangzhou and Dongguan, a new office was opened in Shenzhen, in preparation for the opening of that city's first Circle K store which is scheduled to open in the first quarter of 2006.

In Macau and Zhuhai, a total of 15 Circle K stores are currently being operated by our franchisee with satisfactory sales performance and business results.

Even though the acquisition of a 60% equity stake in DG Sun-High, a franchised convenience store chain in Dongguan, has not been completed due to delays in local government approval, it is still the Group's intention to develop franchising as one of its core competencies.

OUTLOOK FOR 2006 (continued)

Other key initiatives for the future include the continuous improvement of the Group's food product range and cost control measures in order to adapt to local tastes and income levels. The Group has identified category management as another major improvement opportunity, which it will pursue as soon as it recruits the right talent to achieve progressive mass customisation.

Demand still exceeds supply in the Pearl River Delta employment market, and this poses a challenge to the Group's network expansion plan. Qualified candidates with solid retail experience are difficult to recruit especially in category management and functional positions. It is the long-term goal of the Group to become the most preferred employer in order to facilitate overall recruitment programmes.

In Hong Kong, high global oil prices and rising interest rates will have a negative impact on further retail sales growth, while the threat of pandemics, continues to overhang both markets.

In a mature retail market like Hong Kong, it is inevitable for the Group to encounter increased competition in every market segment, such as the emergence of free newspaper titles in the second quarter of 2005 and the cigarette price war experienced in the third quarter of 2005. The Group was able to minimise the unfavourable impact of these market volatilities with constant vigilance and quick responses. The Group has also included tactical plans in the annual marketing calendar for 2006 to deal with such issues and to continue to grow top-line sales.

The Group will further pursue and execute its long term strategy of consistent brand building, continual nurturing of core competencies in quality customer service, category management, store operation excellence and supply chain management, with the ultimate goal of increasing our competitiveness in the convenience store market.

The strategic priority for 2006 will be the further expansion of the Group's multi-city store network in the Pearl River Delta. Encouraged by the performance of the established stores, the Group looks forward to a period of accelerated expansion. While the Group's profitability growth will be impacted by our continuous investment on the Chinese Mainland, the Group is confident of the potential and future opportunities presented by this fast developing market. The Group will be aggressively looking for non-organic growth opportunities on the Chinese Mainland and other markets as well.

The celebration of the Li & Fung Centenary in 2006 will provide a once in a century opportunity to inspire loyalty and commitment to the Group as every member of the Li & Fung family shares in the thoughtfully planned and forward-looking celebration activities.

OUTLOOK FOR 2006 (continued)

I would like to take this opportunity to pay tribute to the management and staff of the Group's operations. The growth and development of the Circle K business in Hong Kong and the Pearl River Delta is only possible with their hard work and dedication.

Fung Kwok King, Victor
Chairman

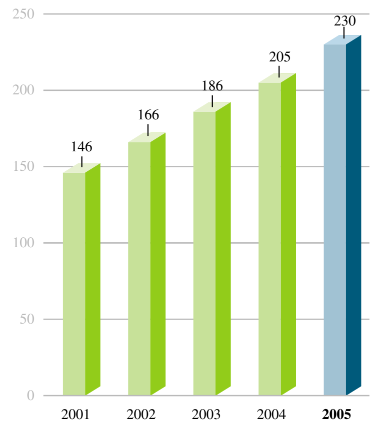
Hong Kong, 9 March 2006

Mr. Yeung Lap Bun, Richard
Chief Executive Officer

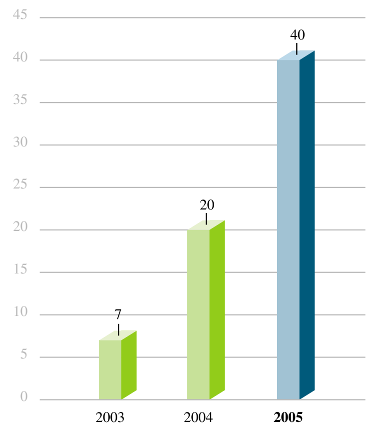
FINANCIAL REVIEW

The Board is pleased to report the financial results of the Group for the year ended 31 December 2005. The Group's sales for the year and the fourth quarter increased to HK$1,995.2 million and HK$524.2 million respectively, representing a growth of 14.9% and 18.4% when compared to the corresponding periods in 2004.

Sales growth was attributed to the increase of new stores in both Hong Kong and Southern China as well as the increase of comparable store sales (sales for stores that were in existence in 2004 and 2005). From 31 December 2004 to 31 December 2005, the number of stores in Hong Kong increased from 205 to 230, while the number of stores in Guangzhou increased from 20 to 40. Five stores were also opened in Dongguan during the fourth quarter of 2005. Two stores were opened in Macau during the same period. The year closed with 11 stores in Macau and 4 stores in Zhuhai. The Group will accelerate its store expansion programme as the Directors believe that opening new stores will be the driver for sales and profit growth in Hong Kong and will build up the critical mass on the Chinese Mainland to achieve economy of scale. Sales in comparable stores showed an increase of 3.7% for the full year in Hong Kong and 10% for the full year in Guangzhou. The strong comparable stores sales growth was driven by our aggressive marketing and promotional programmes, category management initiatives, and the strength of the economy in Hong Kong and on the Chinese Mainland.



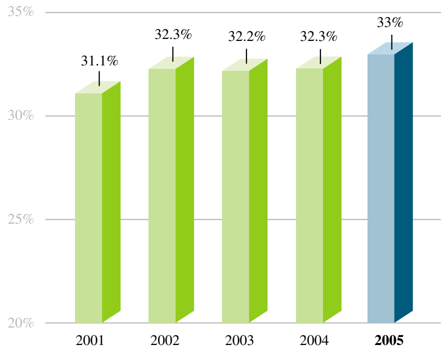
No. of Circle K Outlets in Hong Kong



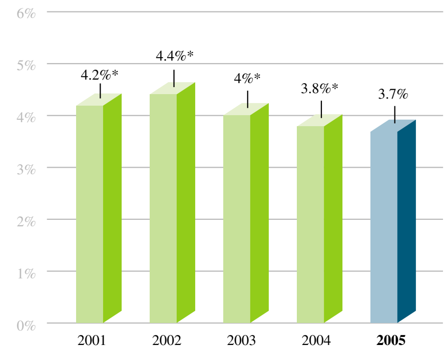
No. of Circle K Outlets in Guangzhou

FINANCIAL REVIEW (continued)

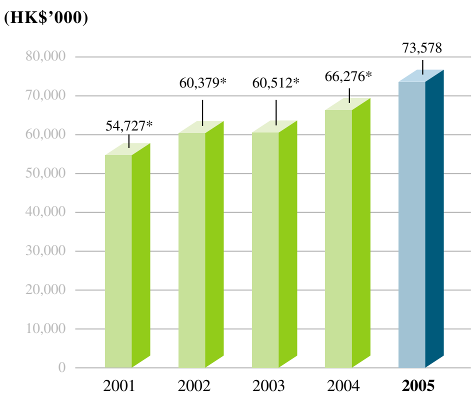
The increase in gross margin and other income (excluding interest income) from 32.3% to 33% of sales for the year and from 33.8% to 34.7% of sales for the fourth quarter when compared to 2004 was mainly due to the increase in rebate income and a substantial increase in the sales of phone cards and online games.



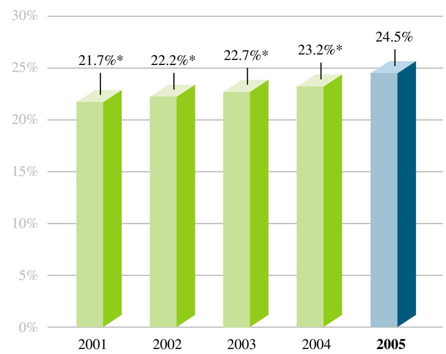
Gross Margin and Other Income
(excluding interest income)



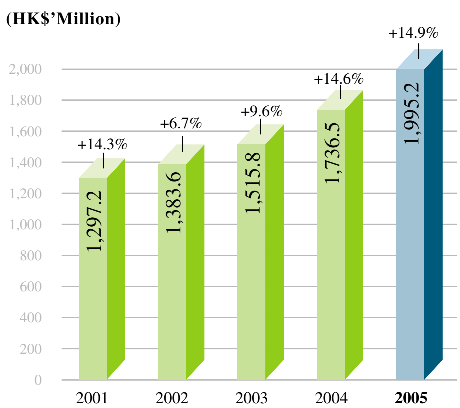
Net Margin



Net Profit



Store Operating Expenses
as % of Sales



Turnover

* *Restated on the adoption of new/revised accounting standards*

FINANCIAL REVIEW (continued)

The increase in store expenses from 23.2% to 24.5% of sales for the year and 24.1% to 25.6% for the fourth quarter when compared to 2004 was mainly due to the increase in store rental, marketing and promotional expenses. The Group also incurred a one-time write off of certain fixed assets resulting from the changeover of the electronic point-of-sale system. Rapid store expansion in Guangzhou and Dongguan was also a contributing factor.

The first Circle K store in Dongguan was opened in Xingtiandi with Hot & In food services as an integral part of the store model.

Both distribution and administration expenses were kept under control and almost in line with the percentages of sales for the full year and the fourth quarter when compared to 2004.

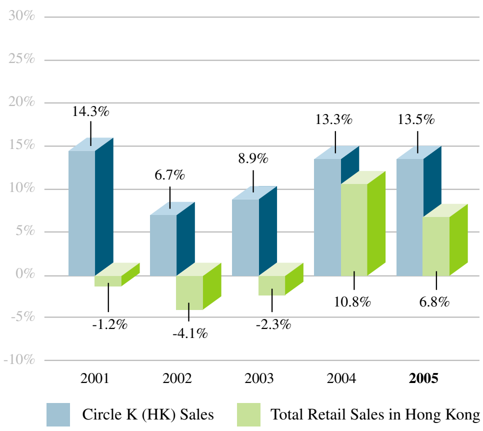
Net margin decreased from 3.8% to 3.7% of sales for the year and 4.4% to 4% for the fourth quarter when compared to 2004. This was mainly due to an increase in store expenses. Net profit attributable to shareholders increased by 11% to HK$73.6 million for the year and by 8% to HK$20.9 million for the fourth quarter when compared to 2004. Basic earnings per share increased by 10.1% from 9.9 HK cents to 10.9 HK cents for the year.

The Group continued to maintain a strong financial position with a net cash of HK$597.3 million without any bank borrowings. The Hong Kong business generated a free cash flow of approximately HK$86.6 million in 2005. The Group's capital expenditure 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 business operations in the Chinese Mainland.

OPERATION REVIEW – HONG KONG

In line with the robust growth of the overall economy, 2005 saw consistent improvement in local consumer spending. This provided a positive backdrop for healthy comparable store growth for the Group's operations in Hong Kong.

OPERATION REVIEW – HONG KONG (continued)



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

Throughout the year, keen market competition posed serious challenges to the Group's operations in Hong Kong. Competitive pressure was felt in the form of direct confrontation with our major competitor, free newspaper titles being distributed at high-traffic points and the price war of leading cigarette brands that started in the middle of the year. An exceptionally wet summer also affected customer traffic during the peak season and negatively impacted the sales of packaged drinks and other summer products. The Group nevertheless achieved incremental sales through aggressive marketing and promotional programmes.

The biggest threat faced by the retail industry in 2005 was the irrational surge in retail rental, which became a serious menace to all retailers in Hong Kong and directly affected the progress of the Group's store opening programme.

Despite the less-than-favourable retail rental market condition, the Group persevered and added another 25 stores to the Circle K chain in Hong Kong during the year by selecting affordable sites in secondary retail locations and in MTR stations. This was 15 stores short of the target number of 245 by the end of 2005.

The Group executed key strategies to build its competitive edge and store network throughout the year by consistently improving the efficiency and effectiveness of the Hong Kong operations and by supporting the network expansion plans on the Chinese Mainland. To further build brand preference among our target customers, the Group further enhanced the Circle K shopping experience through free premium promotions (offering fun and novelty as incentives), continual improvements in the shopping environment and the upgrading of service quality and supply chain efficiency.

Employees

As of 31 December 2005, the Group had a total of 2,905 employees, 2,083 of whom were based in Hong Kong and 822 were based in Guangzhou, Dongguan and Shenzhen. Regular part-time staff accounted for 45% of the total headcount.

During the year, considerable resources were devoted to the recruitment, retention and development of frontline staff in order to cope with the staffing needs of the expanding store network in Hong Kong and to maintain a high standard of customer service.

OPERATION REVIEW – HONG KONG (continued)

Employees (continued)

Since its inception three years ago, the Total Quality Culture has been implemented in the form of Work Improvement Teams. These teams demonstrate maturity and understanding of the Total Quality Culture concept through their approach toward and insight into problem-solving exercises.

In order to promote a culture of continuous learning, the Group launched a Skill Set Allowance Scheme to encourage self-improvement by staff on work-related skills. Altogether, five skills sets were included in the Scheme, namely Use of English and Mandarin, Phonecard, Online Game and Media product knowledge. Staff who have passed examinations designed to test their skill sets are entitled to certain monthly allowances each year following the confirmation of their examination results.

Marketing and Promotion

The highlights of the 2005 marketing calendar were the Mcmug and miffy premium promotions. These two chain-wide thematic promotions were immediate hits as soon as they were launched. In addition to stimulating an instant increase in transaction value with its HK$20 minimum purchase redemption mechanic, which generated incremental top-line sales, the promotions also proved to be very worthwhile investments based upon detailed financial analysis. The popularity of these promotions also made them effective means to promote category sales. Consequently the category management team was able to line up promotion partners in leading categories and organise joint promotions, with satisfactory sales results.

The launch poster of the Mcmug alphabet-badge promotion featuring the very stylish denim showpiece illustrates the desirability of the premiums as collectable items.

In view of the great demand for the Mcmug alphabet-badges a follow-up campaign was created using the characters from the Mcmug storybooks as badge design.

OPERATION REVIEW – HONG KONG (continued)

Marketing and Promotion (continued)

In a retail market environment where shopping behaviour and retail outlet selection have become more and more promotion-driven, it is the intention of the Group to allocate more resources in the planning and implementation of non-stop marketing and promotional activities in 2006 to promote customer loyalty, generate higher frequency of purchase and increase average transactional value.

Category Management Excellence

According to A. C. Nielsen's retail sales audit report*, which covered selected categories of fast-moving packaged goods, the Group enjoyed solid growth in overall market share as well as market shares of key categories such as cigarettes, packaged ice cream, dairy milk, confectionery and food services.

The Group's consistent effort to build the in-store bakery and food service categories delivered encouraging results. Sales of Hot & In bakery products and food services are among the fastest-growing categories.

The "miffy" promotion was another instant marketing success since the miffy figures offered great perceived value as mobile phone accessories.

The booster campaign of the miffy promotion introduced "friends of miffy" which could be stored in the secret compartment of the showcase.

Classical watches became star premium products during Christmas positioned as collector's item as well as Christmas gift.

* *Source: Circle K Business Review prepared by AC Nielsen, data up to December 2005.*

OPERATION REVIEW – HONG KONG (continued)

Category Management Excellence (continued)

The range of fast-food products, which currently includes chilled meal boxes under the house brands of "一叮飯" and "飯飯店", sandwiches, fresh fruit juice, hot dogs and hot drinks, reported one of the highest levels of sales growth among all categories. Judging from the sales momentum and customer feedback, which indicate strong market potential for the future growth of this product category, it also signals the beginning of a lifestyle trend to use convenience stores as fast-food stops.

The growing appeal of the in-store bakery and the food service offerings not only enables us to offer exclusive products for destination shopping, but also provides us with a competitive edge that cannot be easily duplicated by our competition.

Even though newspaper sales were affected by the distribution of free newspapers, magazine sales enjoyed a double-digit increase in the media department. Sales of online games and phone cards registered strong year-on-year growth. By offering attractive value pricing during promotions, sales in the grocery category enjoyed significant increases during the year.

Service Excellence

After years of training and practice, quality customer service has become an integral part of the company culture for the Group's operations.

Service benchmarks such as "speed, tidiness and friendliness" are deeply entrenched in the daily service attitude of frontline staff. Comprehensive training programmes are designed to cover every aspect of job requirements, including English and Mandarin, product knowledge of phone cards, online game cards and other media products.

In order to retain frontline staff and minimise staff turnover, a "Mentor" System was introduced in 2005. This was designed to ensure that personal care and attention is provided to every new recruit. A "Master" Programme was also created to reinforce and monitor product knowledge and selling skills with corresponding skill-set certification.

Leadership training was another ongoing human resource management initiative targeting potential store managers and managers in the support functions. Leadership attributes were cultivated during the training process and cascaded throughout the organisation.

OPERATION REVIEW – HONG KONG (continued)

Supply Chain Management and Logistics

To ensure that every Circle K store is adequately stocked with products on promotion, a Product Allocation System (PAS) was devised and launched in the last quarter of 2005. Implementation of the PAS effectively minimised any potential out-of-stock situation with a streamlined and automated ordering process that is simple, precise and efficient.

Since the introduction of pocket computers to help frontline staff with stock taking and ordering, a Computer Aided Ordering system has been in development. Phase 1 and Phase 2 were completed in 2005. The system is now able to provide sales information for the last eight days together with the last received order quantity, average daily sales and estimated stock balance. Once the whole system is completed, daily order time will be minimised. The overall result will be a higher quality of product orders from stores, based on the most updated sales information.

In the last quarter of 2005, user acceptance testing was rolled out among users in order to prepare for the launch of the new retail management system that will be used in all Circle K stores in the first quarter of 2006.

OPERATION REVIEW – GUANGZHOU

For the year of 2005, growth of the total retail sales value of consumer products in Guangzhou hit a record high of 14.9%, a record increase for the past 10 years.**

Compared with the same period in the previous year, consumer prices for the year of 2005 increased by 1.5% while raw materials, fuel and energy prices increased by 8.3%. Meanwhile, average income per capita grew by 9.6% and disposable income of urban residents grew by 8.2% for the year. Personal bank account savings increased by about 5%. All economic indicators reflected a steadily growing consumer market and a favourable operating environment.***

** *Source: as released on www.gzstats.gov.cn.*

*** *Source: as released on www.stats.gov.cn.*

The "Student Loyalty Programme" has become the signature promotion of Circle K in Guangzhou

OPERATION REVIEW – GUANGZHOU (continued)

Four key categories contributed to almost 80% of total store sales: Hot & In food services, packaged drinks, confectionery and cigarettes. In order to provide adequate support for the growing demand of the Hot & In services, a new food factory was commissioned and completed in the last quarter of 2005. The factory has a total floor space of 5,500 square metres and is licenced for export manufacturing.

The Hot & In food service remains the most popular product category and differentiating factor compared with the competition. The introduction of Chinese hot snacks such as fish balls broadened the service's appeal by attracting customers with more traditional taste preferences. However, in lower-income neighborhoods, the pricing of some of the premium products in the Hot & In range were found to be slightly above what local residents can afford. A review of product costing and pricing levels will be conducted shortly to address the issue. An immediate solution is to introduce a range of traditional Chinese meal boxes during lunchtime that will offer great value at very competitive price levels.

With a total of 40 stores, the Group is now in a stronger position to negotiate with vendors. The Group will also build on its core strength of category management by adding new recruits and buyers who are experienced in this area on the Chinese Mainland.

To meet the growing demand for operational staff to manage the new stores, the Group expanded the training centre to serve as an academy for new recruits.

An Update of the Dongguan Market Entry

In Dongguan, the acquisition of a 60% equity stake in DG Sun-High, the operator of a franchised convenience store chain in Dongguan with about 200 stores, was delayed pending final Government approval.

Regardless of the unforeseen delay, the Group proceeded to open five Circle K stores in Dongguan in the second half of 2005. In order to experiment with a "twin-store" concept, the Group identified a local bakery chain (采蝶軒) that offers a comprehensive range of bakery products from chilled cakes to baked buns, including traditional Chinese pastries and Japanese desserts at very attractive value pricing. The strategic partnership enabled new stores in Dongguan to offer the dual benefits of a convenience store cum local bakery shopping experience.

The "twin-store" concept was introduced in Dongguan with a local bakery partner 采蝶軒 offering an extensive range of traditional and western bakery products.

OPERATION REVIEW – GUANGZHOU (continued)

An Update of the Dongguan Market Entry (continued)

Consumer feedback for the last three stores that were opened with the "twin-store" concept has been quite positive, and the value pricing perception of the bakery products also reflected favourably on the convenience store products. The CDX bakery store model, though faithfully following the original store model, is 100% operated by the Circle K store management team.

Competition and New Entries

In 2005, no new entry was reported in the chain convenience store market in Guangzhou. The keys players remain 7-Eleven with about 140 stores, Quik with 120 stores, C-store with close to 90 stores, and Kedi with about 50 stores.

The major challenge for all these chain operators is to achieve store profitability. Unprofitable stores usually have a very short lifespan regardless of brand image or market perception. It is indeed a case of survival of the fittest when it comes to individual store sites.

The good news about the competitive market in Guangzhou is that there has been no attempt to compete on pricing. However, efforts to improve food service offerings have been observed in every major convenience store chain.

FUTURE PROSPECTS

Looking ahead to 2006 in Hong Kong, we expect to see sustained improvement in the employment market with increased job opportunities and slightly higher salary levels. Price inflation will be minimal.

Good news such as this will provide a healthy backdrop for boosting consumer confidence and providing the motivation to spend. This is assuming that any pandemic outbreak or fuel supply crisis remains a threat only. Positive local consumer sentiment is important for overall retail sales performance if spending per head from Mainland Chinese visitors continues to decrease, as is indicated in the latest reports.

We expect that retail rental for new stores has already peaked as of the fourth quarter of 2005, but individual store lease renewal will still be under pressure. Another factor that could have a negative impact on store expenses is staff salary, which appears to be on the rise as a result of a more buoyant market environment.

FUTURE PROSPECTS (continued)

A market reality is the increasingly head-on confrontations with our competition both in close proximity of geographical store sites and co-incidental timing of promotional activities. The strategy of the Group is to compete smartly and effectively, and to close the gap in store numbers with an aggressive store-opening programme. Ultimately, the battleground will be in terms of consumer preference and how to meet consumer demands effectively.

To achieve this objective, the Group will continue to improve its core competencies, upgrade all aspects of the Circle K shopping experience and steadily increase the number of Circle K stores.

On the Chinese Mainland, overall economic growth will be sustained even though there may be a deceleration as well as healthy adjustments. A much more aggressive strategy will be adopted for store openings, and the Group will continue to explore opportunities for business acquisition and strategic partnership.

With the first store in Shenzhen already scheduled to open in the first quarter of 2006, the Group is well on track to launch the Circle K brand in the market according to the strategic plan. In 2006, the Circle K store network in the Pearl River Delta will span Guangzhou, Dongguan and Shenzhen with 100% company-owned-and-managed stores, while Macau and Zhuhai will be covered by franchised stores.

In 2006, the Group plans to add not less than 100 Circle K stores in Hong Kong and the Pearl River Delta and should finish the year with about 380 stores. The Group will continue to explore acquisition opportunities to further expedite the growth in Mainland China.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Yeung Lap Bun, Richard – *Chief Executive Officer*

Mr. Yeung, aged 49, 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 56, joined Li & Fung Group in January 1991 as the Chief Financial Officer. In February 1993, he was appointed as the Retail Services Director of Li & Fung Retailing Group and took charge of all the centralised supporting services which comprised the areas of 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 obtained a postgraduate diploma in Accountancy from the University of Strathclyde in Scotland. He is a member of the Institute of Chartered Accountants of Scotland with more than 25 years of professional experience in finance and accounting.

NON-EXECUTIVE DIRECTORS

Dr. Fung Kwok King, Victor – *Chairman*

Dr. Fung, aged 60, 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, Orient Overseas (International) Limited, CapitaLand Limited in Singapore and Baosteel Group Corporation in the People's Republic of China. Dr. Fung 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 a member of Chinese People's Political Consultative Conference. He is also a member of the Executive Committee of the Commission on Strategic Development and Judicial Officers Recommendation Committee of the Hong Kong Government. 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 57, brother of Dr. Fung Kwok King, Victor, is the Group Managing Director of Li & Fung Limited and is also a director of various companies within the Li & Fung Group including Integrated Distribution Services Group Limited. Dr. Fung is a non-executive Director of the Company since 2001. Dr. Fung has held key positions at major trade organisations. 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. 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 also non-executive director of HSBC Holdings plc, CLP Holdings Limited, Bank of Communications Co., Ltd. and VTech Holdings Limited. From June 2001 to September 2005, he was an independent non-executive director of CDC Corporation.

Godfrey Ernest Scotchbrook

Mr. Scotchbrook, aged 60, prior to re-designation as non-executive Director in August 2005, had been an independent non-executive Director of the Company since November 2002. Mr. Godfrey 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 services and geo-spatial technology) in Singapore. Mr. Scotchbrook was a founder of Scotchbrook Communications Ltd., a firm specialising in investor relations, issues management, corporate positioning and public affairs; and is a veteran in corporate governance. He is a Fellow of the Hong Kong Management Association and also of the British Chartered Institute of Public Relations.

Jeremy Paul Egerton Hobbins

Mr. Hobbins, aged 58, 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, Imede and Insead.

NON-EXECUTIVE DIRECTORS (continued)

Wong Yuk Nor, Louisa

Ms. Wong, aged 56, 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 54, is an independent non-executive Director of the Company since January 2001. Dr. Ch'ien is Chairman of CDC Corporation and its subsidiary, China.com Inc. and Chairman of MTR Corporation Limited. Dr. Ch'ien serves on the boards of HSBC holdings plc, the Hongkong and Shanghai Banking Corporation Limited, Inchape 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 (with effect from 1 February 2005) 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. 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. 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 56, is an independent non-executive Director of the Company since January 2001. Mr. Au 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 and Eu Yan Sang International, a listed company in Singapore.

INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

Lo Kai Yiu, Anthony

Mr. Lo, aged 57, is an independent non-executive Director of the Company since August 2005. Mr. Lo is a director of Advantage Limited, the holding company of consumer finance companies under the Prime Credit brandname. He has over 25 years of experience in banking, finance and investments. Mr. Lo serves as independent non-executive director of Playmates Holdings Limited, Tristate Holdings Limited and IDT International Limited. He is also a director of the Taiwan Fund, Inc., a company listed on the New York Stock Exchange. Since 1998, Mr. Lo has been a member of the listing committee of The Stock Exchange of Hong Kong Limited. From 1994 to 2001, he was a member of the Takeovers and Mergers Panel and Appeals Committee of the Securities and Futures Commission of Hong Kong. Mr. Lo is qualified as a chartered accountant with the Canadian Institute of Chartered Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

GROUP CHIEF COMPLIANCE OFFICER

Siu Kai Lau, James

Mr. Siu, aged 61, joined the Group in 2005. He first joined the Li & Fung Group in 1993 as Chief Financial Officer of the Li & Fung Limited Group until 1996. He is an Executive Director of Li & Fung (1937) Limited, the controlling shareholder of the Li & Fung Group of companies including publicly listed Li & Fung Limited and Integrated Distribution Services Group Limited of which he is also their Group Chief Compliance Officer. Prior to joining Li & Fung Group, Mr. Siu was the partner-in-charge (1981-1989) of the Hong Kong audit practice of Coopers & Lybrand (currently PricewaterhouseCoopers) specialising 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 – *Director and General Manager – Southern China*

Mr. Kan, aged 54, 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 – *Director and General Manager – Hong Kong*

Mr. Pak, aged 47, has over 10 years of experience in the food distribution Industry. He is responsible for overseeing the operations, marketing, supply chain management and business development of Hong Kong operation. He is also actively involved in the regional business development in the Chinese Mainland. 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 ERC Hong Kong facilitated by the Hong Kong GS1 Association.

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

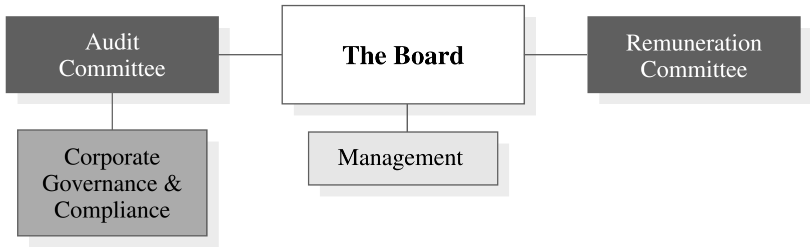
Mr. Tse, aged 45, joined the Group in June 1995. He is responsible for overseeing the buying, merchandising and marketing strategies of the Group in Hong Kong. He has over 20 years of experience in the retailing industry gained from his experience in PARKnSHOP, Uncle A and 7-Eleven. He holds a diploma 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 – *Group Division Manager – Finance & Accounting*

Mr. Hui, aged 31, has extensive experience in finance and accounting in the retailing industry. Prior to joining the Group in July 2004, he was the manager of PricewaterhouseCoopers, and was responsible for providing assurance and business advisory services to a wide range of well established wholesaling and retailing clients. Mr. Hui graduated from the Hong Kong University of Science and Technology with a Bachelor degree in Business Administration majoring in Accounting. He is a member of the Hong Kong Institute of Certified Public Accountants. He is also a member of CFA Institute.

Corporate Governance Report

The Board of the Company is committed to principles of good corporate governance consistent with prudent enhancement and management of shareholder value. These principles cover transparency, accountability and independence.



THE BOARD

The Board is composed of the Group non-executive Chairman, two executive Directors including the Chief Executive Officer, and seven non-executive Directors (of whom three are independent) whose biographical details are set out in the Directors and Senior Management Profile on pages 22 to 26.

In order to reinforce independence, accountability and responsibility, the role of the Group Chairman is separate from that of the Chief Executive Officer with their respective responsibilities endorsed by the Board in writing. The Group Chairman is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures, whilst the Chief Executive Officer, supported by the executive Director, is responsible for managing the Group's business, including the implementation of major strategies and initiatives adopted by the Board.

The non-executive Directors with diversified industry expertise do not involve in the day-to-day management of the Group and serve the important function of advising the management on strategy development and ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole. The Board has received from each independent non-executive Director an annual written confirmation of their independence that satisfied their independence in accordance with Rule 5.09 of the GEM Listing Rules.

The Board meets regularly throughout the year to discuss the overall corporate strategic direction and objectives, operational and financial performance (including annual budget, annual, interim and quarterly results, recommendations on Directors' appointment or reappointment, approval of major capital transactions and other significant matters) of the Group as well as major investment opportunities. Board meetings are scheduled one year in advance to facilitate maximum attendance of Directors. The meeting agenda is set by the Group non-executive Chairman in consultation with members of the Board. All members of the Board have access to relevant information, including major changes that may affect the Group's businesses and all relevant rules and regulations. Written procedures for Directors to seek independent professional advice in performing their Directors' duties at the Company's expense are also in place. No request was made by any Director for such independent professional advice in 2005.

The Board has established two committees (all chaired by non-executive Directors) with written terms of reference. The Board makes decisions on major operational and financial matters as well as investments. The general management and day-to-day decisions and matters (including preparation of annual, interim and quarterly accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the Board, monitoring of annual operating budget, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory and regulatory requirements and rules and regulations) are delegated to the management team.

THE BOARD (continued)

Our Group Chief Compliance Officer also attends all Board and Committee meetings to give recommendations on corporate governance, risk management, statutory compliance and accounting matters.

All non-executive Directors (including the Group Chairman) were appointed for a set term of three years and will continue thereafter subject at all times to termination by not less than three months' prior notice in writing by either party to the other party. All non-executive Directors are subject to re-election by shareholders at the annual general meeting following their appointment.

The Company has arranged for appropriate liability insurance to indemnify its Directors for their liability arising out of corporate activities. The insurance coverage is reviewed regularly.

The attendance rates of individual members at Board and Committee meetings in 2005 are detailed as follows:

	No. of meetings attended/held in 2005		
Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Non-executive Directors:			
Dr. Fung Kwok King, Victor *(Group Chairman and Chairman of Remuneration Committee)*	3/5	–	*
Dr. Fung Kwok Lun, William	5/5	–	–
Mr. Godfrey Ernest Scotchbrook	4/5	3/4	–
Mr. Jeremy Paul Egerton Hobbins	5/5	3/3	–
Ms. Wong Yuk Nor, Louisa	5/5	–	–
Independent non-executive Directors:			
Dr. Ch'ien Kuo Fung, Raymond *(Chairman of Audit Committee)*	4/5	3/4	*
Mr. Au Man Chung, Malcolm	4/5	3/4	*
Mr. Lo Kai Yiu, Anthony *(Appointed as independent non-executive Director and Audit Committee member on 3 August 2005)*	2/2	1/1	–
Executive Directors:			
Mr. Yeung Lap Bun, Richard *(Chief Executive Officer)*	5/5	–	–
Mr. Li Kwok Ho, Bruno *(Chief Financial Officer)*	5/5	–	–

* *No meeting was held in 2005. The remuneration of executive Directors for 2005 was approved by a written resolution signed by all members of the Remuneration Committee.*

BOARD COMMITTEES

The Board has established the Audit Committee and Remuneration Committee (all chaired by non-executive Directors) with defined written terms of reference (available to shareholders' upon request), which are of no less exacting terms than those set out in the Code on Corporate Governance Practices of the GEM Listing Rules. To further reinforce independence, both committees include a majority of independent non-executive Directors.

Audit Committee

The Audit Committee was established in January 2001 to review the Group's financial reporting, internal controls, and corporate governance and risk management matters and to make relevant recommendations to the Board. The Audit Committee comprises three independent non-executive Directors, namely Dr. Ch'ien Kuo Fung, Raymond (being the Chairman of the Committee), Mr. Au Man Chung, Malcolm and Mr. Lo Kai Yiu, Anthony, and two non-executive Directors, namely Mr. Godfrey Ernest Scotchbrook and Mr. Jeremy Paul Egerton Hobbins. All committee members possess appropriate industry and financial experience to advise on the above matters.

The Audit Committee met four times in 2005 (with an average attendance rate of 81%) to review with senior management and the Company's auditors the significant internal and external audit findings, the accounting principles and practices adopted by the Group, GEM Listing Rules and statutory compliance, and to discuss internal controls, risk management and financial reporting matters (including the annual, interim and quarterly accounts for 2005 before recommending to the Board for approval).

External Auditors' independence

The Audit Committee also reviews annually the nature, fees and independence of the external auditors. A policy of the provision of non-audit services performed by the external auditors was established in 2005 and includes prohibition of specified non-audit services to be performed by the external auditors. Other non-audit services, with a fee above a threshold endorsed by the Audit Committee, that are considered not to affect the independence of the external auditors require prior approval by the Audit Committee. The nature and ratio of annual fees to the external auditors for audit and non-audit services (including review of interim report and tax services) for 2005 amounted to HK$675,000 and HK$239,000 respectively have been scrutinised by the Audit Committee. A policy that restricts the hiring of employees or former employees of the external auditors as senior executives, head of financial and internal audit position was also established in 2005. To enhance independent reporting by the external auditors, part of the Audit Committee meetings was attended only by the independent non-executive Directors and the external auditors. The Audit Committee has received written confirmation from the external auditors on their independence and objectivity as required under the Professional Ethics Statement 1.203A "Independence for Assurance Engagements" issued by the Hong Kong Institute of Certified Public Accountants prior to the commencement of the audit of the Company's accounts for the year ended 31 December 2005.

The Audit Committee is satisfied with the review of the audit fees and scope, effectiveness of the audit process, independence and objectivity of the external auditors, PricewaterhouseCoopers, and has recommended to the Board on their reappointment as the Company's external auditors for the year ending 31 December 2006 at the forthcoming annual general meeting.

BOARD COMMITTEES (continued)

Remuneration Committee

The Remuneration Committee, established on 1 January 2005, comprises the Group non-executive Chairman, Dr. Fung Kwok King, Victor (being the Chairman of the Committee), Dr. Ch'ien Kuo Fung, Raymond and Mr. Au Man Chung, Malcolm (being independent non-executive Directors). The written terms of reference of the Remuneration Committee cover the review of the Group's remuneration and human resources policy and the approving of the remuneration policy for all executive Directors and senior management, including the allocation of share options to employees under the Company's Share Option Scheme.

The remuneration of executive Directors for 2005 was approved by a written resolution signed by all members of the Remuneration Committee.

Remuneration policy for Executive Directors

Remuneration for executive Directors include basic salary, other allowances, bonus based on performance and share options which are designed to align Directors' interest to maximising the Company's long-term shareholders' value. No executive Director is allowed to approve his own remuneration.

Remuneration policy for Non-Executive Directors

Remuneration for non-executive Directors comprises Directors' fees which are subject to assessment and recommendation by the Remuneration Committee for shareholders' approval at the Annual General Meeting. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at Company's meetings.

CODE OF CONDUCT AND BUSINESS ETHICS

Guidelines of the Group's business ethical practices are set out in the Company's Staff Handbook applicable to all Directors and staff.

DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted procedures governing Directors' securities transactions in compliance with Rules 5.48 to 5.67 of the GEM Listing Rules. Specific confirmation has been obtained from all Directors to confirm compliance with the Rules. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines on no less exacting terms than those set out in the Rules. No incident of non-compliance was noted by the Company in 2005.

DIRECTORS' INTERESTS

Details of Directors' interests in the shares of the Company and major associated corporations are set out in the Directors' Report on pages 42 to 45.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on pages 48 and 50 respectively.

INTERNAL CONTROL

The Board is responsible for maintaining an adequate system of internal controls in the Company and reviewing its effectiveness through the Audit Committee. It has delegated to executive management the implementation of such system of internal controls and reviewing of relevant financial, operational and compliance controls and risk management procedures.

A tailored governance framework with defined lines of responsibility and appropriate delegation of authority is structured so as to increase the risk awareness across the Group's business operations. An Operation Support Group was also established, under the supervision of the Chief Financial Officer, to centralise the function and control exercised over the treasury activities, financial and management reporting, and human resources functions and computer systems.

The Group's Corporate Governance Division ("CGD"), under the supervision of the Group Chief Compliance Officer, independently reviews these controls, and evaluates their adequacy, effectiveness and compliance, and reports regularly to the Audit Committee. A Three-Year Strategic Audit Plan for the internal control review, prepared based on risk assessment methodology, was approved by the Audit Committee at the commencement of the three-year cycle. The scope of the work performed includes financial and operational reviews and productivity efficiency reviews. Internal Control Review Reports are sent to the Chief Executive Officer, Chief Financial Officer, and the relevant management. A summary of major findings is reported at the quarterly Audit Committee Meeting. Follow up on all recommendations is also performed on a periodic basis to ensure all agreed recommendations have been satisfactorily and timely implemented.

Based on the assessments made by senior management, the CGD (internal auditors) and the external auditors in 2005 and up to the date of approval of this report, the Audit Committee is satisfied that:

- The internal controls and accounting systems of the Group are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorisation and the accounts are reliable for publication.

- There is an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE GEM LISTING RULES

The Hong Kong Stock Exchange has promulgated a new Code on Corporate Governance Practices (the "Code") which came into effect in January 2005, and replaced the "Board Practices and Procedures" as set out in Rules 5.34 to 5.45 of the GEM Listing Rules. The Company has put in place corporate governance practices to meet the provisions as set out in the Code.

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the Code as set out in Appendix 15 of the GEM Listing Rules for the year ended 31 December 2005.

INVESTOR RELATIONS AND COMMUNICATION

The Company continues to pursue a policy of promoting investor relations and communication by conducting analysts' briefings after the interim and final results announcement, road show after each quarterly results announcement, regular participation in investors conferences and making corporate presentations during the conferences, arranging company visits to the Company and maintaining regular meetings with institutional shareholders and analysts.

All shareholders have proper notice of the Annual General Meeting at which Directors and Committees Chairman or members are available to answer questions on the business. In order to further promote effective communication, the Company maintains a website (www.cr-asia.com) to disseminate shareholder information electronically on a timely basis. The details of the Annual General Meeting, including the time, venue and agenda items are also published on the Company's website.

SHAREHOLDERS' RIGHTS

Under the Company's by-laws, in addition to regular Board meetings, Directors of the Company, on the requisition of shareholders of the Company holding not less than 10% of the paid-up capital of the Company, can convene a special general meeting to address specific issues of the Company upon the passing of a special resolution by at least 21 days' written notice deposited to the registered office of the Company. The same procedure also applies to any proposal to be tabled at shareholder's meetings for adoption.

Specific enquiries by shareholders requiring the Board's attention can be sent in writing to our Group Company Secretary at the Company's business address in Hong Kong. Other general enquiries can be directed to the Company through the Company's website address.

CORPORATE COMMUNICATIONS

The Company holds monthly Policy Committee Meetings for senior executives to formulate company-wide policies and practices, and to report and discuss significant issues affecting the Group.

As part of the Company's entrepreneurial corporate culture and business policy, annual Business Planning Conference and quarterly Store Manager Meetings, with active participation of the Chief Executive Officer and all senior managers are held to review strategic objectives and business performance, and to foster effective communications across the Group.

The Group also publishes a regular newsletter to provide staff with reports on the Group's latest development, directives and initiatives, the Group's functions, staff movement and staff recreational activities.

The Directors submit their report together with the audited accounts for the year ended 31 December 2005.

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 5 to the accounts. No business activity analysis is presented as substantially all of 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 51.

The Directors had declared an interim dividend of 1.5 HK cents per share, totalling HK$10,091,000, which was paid on 26 August 2005.

The Directors recommended the payment of a final dividend of 4.5 HK cents per share, totalling HK$30,392,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 21 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$17,000.

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in note 14 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 20 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2005 calculated under the Companies Law (2004 Revision) of the Cayman Islands, amounted to HK$158,309,000 (2004 (Restated): HK$151,221,000).

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 2005 are set out in note 16 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 100.

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 2005 were as follows:

Continuous contract employees

Options held at 1 January 2005	Options exercised during the year *(Note 1)*	Options lapsed during the year	Options held at 31 December 2005	Exercise price HK$	Grant date	Exercisable from	Exercisable until
1,060,000	(960,000)	–	100,000	0.92	30 December 2000	10 January 2002	9 January 2006
1,710,000	(210,000)	–	1,500,000	0.92	30 December 2000	10 January 2003	9 January 2006

Note:

1. 1,170,000 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 was HK$2.584.

SHARE OPTIONS (continued)

(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.

(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 9.71% 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.

SHARE OPTIONS (continued)

(b) Share Option Scheme (continued)

(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.

(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 2005 were as follows:

(A) Continuous contract employees

Options held at 1 January 2005	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 2005	Exercise price HK$	Grant date	Exercisable from	Exercisable until
226,000	–	(32,000)	–	194,000	2.42	21 September 2001	21 September 2002	20 September 2006
348,000	–	–	–	348,000	2.42	21 September 2001	21 September 2003	20 September 2006
2,376,000	–	–	(58,000)	2,318,000	2.785	24 May 2002	24 May 2003	23 May 2007
530,000	–	–	–	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	–	(10,000)	–	38,000	2.15	23 September 2002	23 September 2004	22 September 2007
1,162,000	–	(186,000)	–	976,000	1.69	20 May 2003	20 May 2004	19 May 2008
640,000	–	(106,000)	(12,000)	522,000	1.69	20 May 2003	20 May 2005	19 May 2008
130,000	–	(50,000)	–	80,000	2.225	30 September 2003	30 September 2004	29 September 2008

SHARE OPTIONS (continued)

(b) Share Option Scheme (continued)

(A) Continuous contract employees (continued)

Options held at 1 January 2005	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 2005	Exercise price HK$	Grant date	Exercisable from	Exercisable until
162,000	–	(18,000)	–	144,000	2.225	30 September 2003	30 September 2005	29 September 2008
804,000	–	(48,000)	(40,000)	716,000	2.535	29 March 2004	29 March 2005	28 March 2009
150,000	–	–	(32,000)	118,000	2.535	29 March 2004	29 March 2006	28 March 2009
108,000	–	–	(8,000)	100,000	2.40	6 August 2004	6 August 2005	5 August 2009
386,000	–	–	(70,000)	316,000	2.40	6 August 2004	6 August 2006	5 August 2009
–	868,000	–	(10,000)	858,000	2.86	4 May 2005	4 May 2006	3 May 2010
–	536,000	–	(68,000)	468,000	2.86	4 May 2005	4 May 2007	3 May 2010
–	2,128,000	–	–	2,128,000	2.53	14 September 2005	14 September 2006	13 September 2010
–	272,000	–	–	272,000	2.53	14 September 2005	14 September 2007	13 September 2010

SHARE OPTIONS (continued)

(b) Share Option Scheme (continued)

(B) Directors

Options held at 1 January 2005	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 2005	Exercise price HK$	Grant date	Exercisable from	Exercisable until
1,800,000 *(Note 1)*	–	–	–	1,800,000	2.785	24 May 2002	24 May 2003	23 May 2007

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 4 May 2005 and 14 September 2005. The closing price of the Shares immediately before the date on which the options were granted was HK$2.85 on 3 May 2005 and HK$2.55 on 13 September 2005 respectively.

(3) 292,000 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$2.692.

10,000 options were exercised at an exercise price of HK$2.15 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$2.9.

68,000 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$2.678.

32,000 options were exercised at an exercise price of HK$2.42 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$2.869.

48,000 options were exercised at an exercise price of HK$2.535 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$2.691.

(4) 298,000 options were lapsed following the cessation of employment of certain grantees.

(5) The value of the options granted during the year is HK$3,123,000 based on the Black-Scholes Valuation model. The significant inputs into the model were share price of HK$2.775 and HK$2.5 at the grant dates, exercise prices shown above, standard deviation of expected share price returns of 40%, expected life of options of 4.5 years (2004: 4.5 years), expected dividend paid out rate of 2% (2004: 2%) and annual risk-free interest rate of 3.4% (2004: 3.1%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years. The Black-Scholes Valuation model is developed to estimate the fair value of European share options. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

Save as disclosed above, as at 31 December 2005, 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:

Non-executive Directors
Dr. FUNG Kwok King, Victor
Dr. FUNG Kwok Lun, William
Dr. CH'IEN Kuo Fung, Raymond*
Mr. AU Man Chung, Malcolm*
Mr. LO Kai Yiu, Anthony* (appointed on 3 August 2005)
Mr. Godfrey Ernest SCOTCHBROOK
Mr. Jeremy Paul Egerton HOBBINS
Ms. WONG Yuk Nor, Louisa

Executive Directors
Mr. YEUNG Lap Bun, Richard
Mr. LI Kwok Ho, Bruno

* *Independent non-executive Directors*

In accordance with Article 86 of the Company's Articles of Association, Mr. Lo Kai Yiu, Anthony 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 Lun, William, Mr. Li Kwok Ho, Bruno and Mr. Godfrey Ernest Scotchbrook retire and being eligible, offer themselves for re-election.

All non-executive Directors were appointed for a term of three years and will continue thereafter subject to termination by not less than three months' prior notice in writing by either party to the other party or in accordance with the Articles of Association of the Company (as amended from time to time), in particular, retirement by way of rotation.

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, any of its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a Director of the Company 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 2005, 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 *(Note 1)* (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

	Number of			
Name of Directors	**(i) Shares**	**(ii) underlying Shares**	**Nature of interests/Holding capacity**	**Approximate percentage of interests**
Dr. Fung Kwok King, Victor	373,692,000	–	Corporate *(Note 2)*	55.47%
Dr. Fung Kwok Lun, William	373,692,000	–	Corporate *(Note 2)*	55.47%
Mr. Yeung Lap Bun, Richard	17,896,000	1,300,000 *(Note 3)*	Personal/ beneficiary	2.85%
Mr. Li Kwok Ho, Bruno	2,676,000	250,000 *(Note 4)*	Personal/ beneficiary	0.43%
Ms. Wong Yuk Nor, Louisa	1,338,000	250,000 *(Note 5)*	Personal/ beneficiary	0.24%
Dr. Ch'ien Kuo Fung, Raymond	1,000,000	–	Personal/ beneficiary	0.15%
Mr. Jeremy Paul Egerton Hobbins	180,000	–	Personal/ beneficiary	0.03%

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

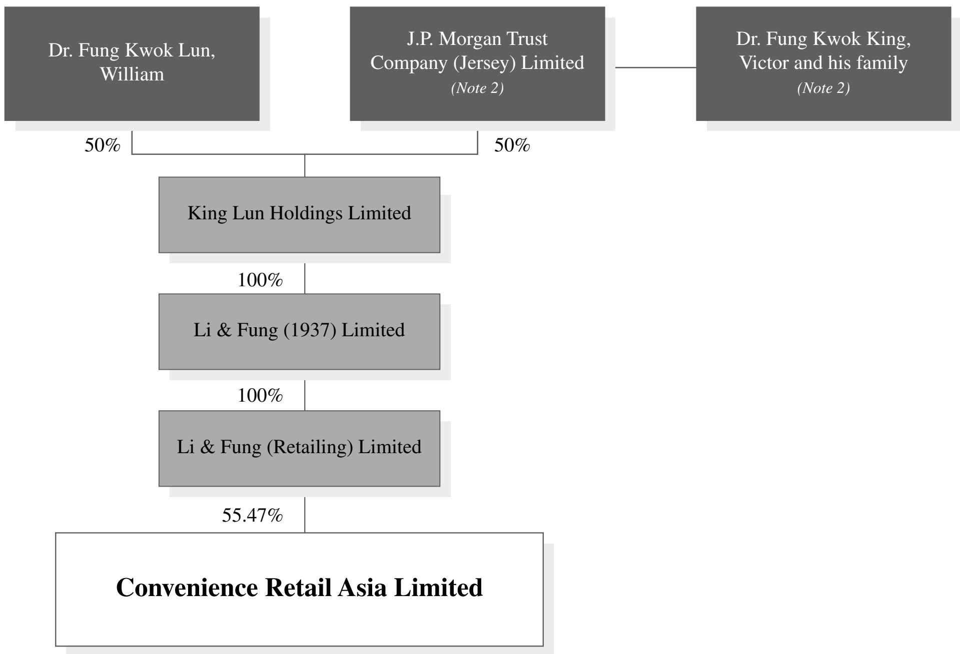
Major associated corporations

Long positions in shares and the underlying shares of equity derivatives

Name of Directors	Name of associated corporations	Class of shares	Number of (i) shares	Number of (ii) underlying shares	Nature of interests/ Holding capacity	Approximate percentage of interests
Dr. Fung Kwok King, Victor	Li & Fung (Gemini) Limited	Ordinary shares	5,222,807	–	Corporate *(Note 6)*	
			602,631	–	Corporate *(Notes 2 & 7)*	84.80%
	Li & Fung (Distribution) Limited	Full voting ordinary shares	12,960,000	–	Corporate *(Note 8)*	
			–	840,000	Corporate *(Note 9)*	100%
	Integrated Distribution Services Group Limited	Ordinary shares	157,960,917	–	Corporate *(Note 10)*	
			2,405,509	–	Personal/ beneficiary	51.90%
Dr. Fung Kwok Lun, William	Li & Fung (Gemini) Limited	Ordinary shares	5,222,807	–	Corporate *(Note 6)*	76.02%
	Li & Fung (Distribution) Limited	Full voting ordinary shares	12,960,000	–	Corporate *(Note 8)*	
			–	840,000	Corporate *(Note 9)*	100%
	Integrated Distribution Services Group Limited	Ordinary shares	157,960,917	–	Corporate *(Note 10)*	51.12%
Mr. Jeremy Paul Egerton Hobbins	Li & Fung (Gemini) Limited	Ordinary shares	462,018	–	Corporate *(Note 11)*	6.73%
	Integrated Distribution Services Group Limited	Ordinary shares	1,202,754	–	Personal/ beneficiary	0.39%
Mr. Li Kwok Ho, Bruno	Integrated Distribution Services Group Limited	Ordinary shares	4,000	–	Other *(Note 12)*	0.00%

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

The interests of Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William in Shares of the Company are summarised in the following chart:



Notes:

1. 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 20 February 2006. 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.

2. 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.

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

Notes: (continued)

3. 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.

4. 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.

5. 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.

6. 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 (2) above.

7. 602,631 shares in LFG are owned by a company which is held by J.P. Morgan Trust Company (Jersey) Limited.

8. Out of the total 12,960,000 shares, LFG holds 6,800,000 shares and LF (1937) holds 6,160,000 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 (2) and (6) above.

9. Under SFO, LF (1937) is deemed to have interest in 840,000 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 840,000 shares at cash consideration.

10. 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, LF (1937), LFG and Li & Fung (Distribution) Limited as set out in notes (2), (6) and (8) above.

11. 462,018 shares in LFG are held by Martinville Holdings Limited which is owned by Mr. Jeremy Paul Egerton Hobbins.

12. 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 2005, 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 2005, 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)*	55.47%
Commonwealth Bank of Australia	53,660,000	Corporate *(Note 2)*	7.97%
Aberdeen Asset Management Plc and its Associates	61,398,000	Other *(Note 3)*	9.11%
Overlook Investments (BVI) Limited	35,260,000	Other *(Note 4)*	5.23%

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 (2) 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, Colonial Holding Company (No. 2) Pty Limited, Commonwealth Insurance Holdings 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 and First State Investment International Ltd.

3. Aberdeen Asset Management Plc and its Associates (together "the Aberdeen Group") on behalf of accounts managed by the Aberdeen Group.

4. 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 Macleond Lawrence, all of whom are taken to be interested in such shares under SFO.

Save as disclosed above, as at 31 December 2005, 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	16%
– five largest suppliers combined	48%

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 26 to the accounts on pages 98 and 99). 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.	Net purchases of products from IDS (Hong Kong) Limited *(Note 1)*	6,658
2.	The Circle K Convenience Stores (HK) Limited ("Circle K (HK)") lease *(Note 2)*	1,405
3.	The Web-Logistic (HK) Limited ("Web-Logistic (HK)") lease *(Note 3)*	859

CONNECTED TRANSACTIONS (continued)

Notes:

1. This refers to the net purchases of various products (being food and non-food products) by Circle K (HK) from IDS (Hong Kong) Limited, an indirect subsidiary of LF (1937), on its standard terms of business pursuant to the agreement dated 10 December 2004 (the "Purchase Agreement") (details of which were disclosed in the announcement dated 10 December 2004).

2. This refers to the lease payment from Circle K (HK) to IDS (Hong Kong) Limited under a lease agreement dated 12 May 2004 (the "Circle K Lease") (details of which were disclosed in the announcement dated 12 May 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.

3. This refers to the lease payment from Web-Logistic (HK) to IDS (Hong Kong) Limited under a lease agreement dated 12 May 2004 (the "Web-Logistic Lease") (details of which were disclosed in the announcement dated 12 May 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 transaction in relation to the purchase of products from IDS (Hong Kong) Limited pursuant to the 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.

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.

DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS

The Directors are responsible for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these accounts for the year ended 31 December 2005, the Directors have selected suitable accounting policies and applied them consistently except for those policies as stated in note 2(a) to the accounts; made judgements and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position 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, 9 March 2006

PRICEWATERHOUSECOOPERS

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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 51 to 99 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 Hong Kong Standards on Auditing 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 2005 and of the Group's profit and cash flows 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, 9 March 2006

Consolidated Profit and Loss Account

For the year ended 31 December 2005

	Note	**2005 HK$'000**	2004 HK$'000 (Restated)
Turnover	*5*	**1,995,206**	1,736,491
Cost of sales	*6*	**(1,509,403)**	(1,312,920)
Gross profit		**485,803**	423,571
Other revenues	*5*	**187,901**	146,084
Store expenses	*6*	**(488,364)**	(402,155)
Distribution costs	*6*	**(34,625)**	(29,128)
Administrative expenses	*6*	**(69,053)**	(63,454)
Profit before income tax		**81,662**	74,918
Income tax expenses	*7*	**(14,048)**	(13,673)
Profit for the year		**67,614**	61,245
Profit attributable to:			
Shareholders of the Company	*8 & 21*	**73,578**	66,276
Minority interests		**(5,964)**	(5,031)
		67,614	61,245
Dividends	*9*	**40,483**	33,590
Earnings per share for profit attributable to the shareholders of the Company			
– Basic earnings per share	*10*	**HK10.9 cents**	HK9.9 cents
– Diluted earnings per share	*10*	**HK10.9 cents**	HK9.8 cents

Consolidated Balance Sheet

As at 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (Restated)
Non-current assets			
Intangible assets	*13*	**–**	19
Fixed assets	*14*	**89,827**	81,339
Lease premium for land	*15*	**15,142**	15,450
Rental deposits		**25,523**	22,413
Deferred tax assets	*17*	**1,361**	1,651
		131,853	120,872
Current assets			
Inventories		**79,065**	67,361
Rental deposits		**11,680**	8,672
Trade receivables	*18*	**26,647**	19,828
Other receivables, deposits and prepayments		**32,469**	30,605
Lease premium for land	*15*	**425**	422
Bank balances and cash		**597,310**	531,360
		747,596	658,248
Current liabilities			
Amount due to immediate holding company		**177**	676
Trade payables	*19*	**321,936**	270,730
Other payables and accruals		**66,224**	58,647
Taxation payable		**1,665**	4,389
		390,002	334,442
Net current assets		**357,594**	323,806
Total assets less current liabilities		**489,447**	444,678

	Note	2005 HK$'000	2004 HK$'000 (Restated)
Financed by:			
Share capital	*20*	**67,367**	67,202
Reserves	*21*	**386,738**	350,098
Proposed final dividend	*21*	**30,392**	25,205
Shareholders' funds		**484,497**	442,505
Minority interests		**(2,912)**	(6,613)
		481,585	435,892
Non-current liabilities			
Long service payment liabilities	*22*	**7,862**	7,721
Deferred tax liabilities	*17*	**–**	1,065
		489,447	444,678

On behalf of the Board

Fung Kwok King, Victor
Director

Yeung Lap Bun, Richard
Director

Balance Sheet

As at 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (Restated)
Non-current assets			
Investment in subsidiaries	*16*	**35,769**	12,769
Current assets			
Amount due from immediate holding company		**21**	–
Amounts due from subsidiaries		**65,351**	65,002
Other receivables, deposits and prepayments		**2,774**	4,764
Bank balances and cash		**541,580**	486,014
		609,726	555,780
Current liabilities			
Amount due to subsidiary		**418,281**	348,776
Other payables and accruals		**1,538**	1,350
		419,819	350,126
Net current assets		**189,907**	205,654
Total assets less current liabilities		**225,676**	218,423
Financed by:			
Share capital	*20*	**67,367**	67,202
Reserves	*21*	**127,917**	126,016
Proposed final dividend	*21*	**30,392**	25,205
		225,676	218,423

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 2005

	Note	2005 HK$'000	2004 HK$'000 (Restated)
Cash flows from operating activities			
Net cash generated from operations	*23(a)*	**145,680**	138,291
Hong Kong profits tax paid		**(17,547)**	(10,623)
Net cash generated from operating activities		**128,133**	127,668
Cash flows from investing activities			
Purchase of fixed assets		**(52,780)**	(38,147)
Payment of lease premium for land		**–**	(728)
Proceeds from disposal of fixed assets		**2**	–
Interest received		**14,727**	8,267
Net cash used in investing activities		**(38,051)**	(30,608)
Cash flows from financing activities	*23(b)*		
Proceeds from issuance of shares		**1,969**	2,765
Capital contribution from a minority shareholder		**9,598**	–
Dividends paid		**(35,310)**	(28,491)
Net cash used in financing activities		**(23,743)**	(25,726)
Increase in cash and cash equivalents		**66,339**	71,334
Cash and cash equivalents at 1 January		**531,360**	460,022
Effect of foreign exchange rate changes		**(389)**	4
Cash and cash equivalents at 31 December		**597,310**	531,360
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**597,310**	531,360

Note:

As at 31 December 2005, the Group's cash and bank balances of HK$15,087,000 (2004: HK$4,364,000) were kept in Chinese Mainland. The remittance of funds out of this country is subject to rules and regulations of foreign exchange control promulgated by the Chinese Mainland government.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Attributable to shareholders of the Company							Minority interests	Total equity
	Share capital	Share premium	Merger reserve	Capital reserve	Employee share-based compensation reserve	Exchange reserve	Retained earnings		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004, as previously reported as equity	66,921	115,076	177,087	13,433	–	43	28,688	–	401,248
At 1 January 2004, as previously separately reported as minority interests	–	–	–	–	–	–	–	(1,560)	(1,560)
Effect of changes in accounting policies									
– employee share option benefits	–	–	–	–	118	–	(118)	–	–
– amortisation of lease premium for land	–	–	–	–	–	–	(88)	–	(88)
At 1 January 2004, as restated	66,921	115,076	177,087	13,433	118	43	28,482	(1,560)	399,600
Issue of shares	281	2,484	–	–	–	–	–	–	2,765
Employee share option benefits	–	–	–	–	838	–	–	–	838
Exchange differences	–	–	–	–	–	(43)	–	(22)	(65)
Profit/(loss) for the year	–	–	–	–	–	–	66,276	(5,031)	61,245
Dividends	–	–	–	–	–	–	(28,491)	–	(28,491)
At 31 December 2004	67,202	117,560	177,087	13,433	956	–	66,267	(6,613)	435,892
At 1 January 2005, as previously reported as equity	67,202	117,560	177,087	13,433	–	–	67,156	–	442,438
At 1 January 2005, as previously separately reported as minority interests	–	–	–	–	–	–	–	(6,613)	(6,613)
Effect of changes in accounting policies									
– employee share option benefits	–	–	–	–	956	–	(956)	–	–
– amortisation of lease premium for land	–	–	–	–	–	–	67	–	67
At 1 January 2005, as restated	67,202	117,560	177,087	13,433	956	–	66,267	(6,613)	435,892
Issue of shares	165	1,804	–	–	–	–	–	–	1,969
Employee share option benefits	–	93	–	–	1,510	–	29	–	1,632
Exchange differences	–	–	–	–	–	123	–	67	190
Profit/(loss) for the year	–	–	–	–	–	–	73,578	(5,964)	67,614
Dividends	–	–	–	–	–	–	(35,310)	–	(35,310)
Capital contribution from a minority shareholder	–	–	–	–	–	–	–	9,598	9,598
At 31 December 2005	67,367	119,457	177,087	13,433	2,466	123	104,564	(2,912)	481,585

Notes to the Accounts

1. GENERAL INFORMATION

Convenience Retail Asia Limited (the "Company") and its subsidiaries (collectively the "Group") is principally engaged in the operation of a chain of convenience stores under the trademark of Circle K in Hong Kong and the Chinese Mainland.

The Company is a limited liability company incorporated in Cayman Islands. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies.

The Company has its primary listing on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

These consolidated accounts are presented in thousands of units of Hong Kong dollars (HK$'000). These consolidated accounts have been approved for issue by the Board of Directors on 9 March 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these accounts are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

(a) Basis of preparation

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and under historical cost convention.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been restated as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payment

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 16, 21, 24, 27, 32, 33, 36, 38, 39 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interests and other disclosures.

– HKASs 2, 7, 8, 10, 12, 16, 27, 32, 33, 36, 38, 39 and HKAS-Int 15 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity accounts.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of lease premium for land from fixed assets to operating leases. The up-front prepayments made for the lease premium for land are expensed in the profit and loss account on a straight-line basis over the period of the leases or when there is impairment, the impairment is expensed in the profit and loss account. In prior years, the lease premium for land was accounted for at cost less accumulated depreciation and accumulated impairment and included in properties of fixed assets. HKAS 17 has been applied retrospectively.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for employee share options benefits. Until 31 December 2004, the provision of share options to employees did not result in an expense in the profit and loss account. Effective on 1 January 2005, the Group expenses the cost of share options in the profit and loss account. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the profit and loss account of the respective periods.

The effect to adopting HKAS 17 and HKFRS 2 on the consolidated profit and loss account for the years ended 31 December 2005 and 31 December 2004 and on the consolidated balance sheet as at 31 December 2005 and 31 December 2004 are shown below:

Effect of adopting HKAS 17 and HKFRS 2 on the consolidated profit and loss account are as follows:

	2005		2004	
	HKAS 17	**HKFRS 2**	HKAS 17	HKFRS 2
	HK$'000	**HK$'000**	HK$'000	HK$'000
Decrease/(increase) in store expenses	**180**	**(713)**	155	(456)
Increase in distribution costs	**–**	**(26)**	–	(36)
Increase in administrative expenses	**–**	**(893)**	–	(346)
Total increase/(decrease) in profit	**180**	**(1,632)**	155	(838)
Increase/(decrease) in basic earnings per share (HK cents)	**0.03**	**(0.24)**	0.02	(0.12)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Effect of adopting HKAS 17 and HKFRS 2 on the consolidated balance sheet are as follows:

	2005		2004	
	HKAS 17	**HKFRS 2**	HKAS 17	HKFRS 2
	HK$'000	**HK$'000**	HK$'000	HK$'000
Increase/(decrease) in assets				
Fixed assets	**(15,320)**	**–**	(15,805)	–
Lease premium for land (current and non-current)	**15,567**	**–**	15,872	–
Increase/(decrease) in equity				
Share premium	**–**	**93**	–	–
Employee share-based compensation reserve	**–**	**2,466**	–	956
Retained earnings	**247**	**(2,559)**	67	(956)

Certain comparative figures have been reclassified to conform with current year's presentation.

(b) Consolidation

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

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Inter-company transactions, balances and unrealised gains on transactions between the Group's companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(iii) Group companies

The results and financial position of all of the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates; and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

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 $^{1}/_{3}$%
Motor vehicles	16 $^{2}/_{3}$% to 25%

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(g)).

(f) Intangible assets

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

(g) Impairment of assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(h) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases net of any incentives received from the lessor are expensed in the profit and loss account on a straight-line basis over the period of the leases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) 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 the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(j) Trade and other receivables

Trade and other receivables are recognised initially at fair value less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the profit and loss account.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

(l) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

(m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

(n) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Employee benefits (continued)

(ii) Profit sharing and bonus plans

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

(iii) Pension obligations

The Group pays contributions to an independently administered fund on a mandatory basis. The Group has no further payment obligations once the contributions have been paid is the contributions are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the fund prior to vesting fully in the contributions. Contributions to the fund by the Group and employees are calculated as a percentage of employees' salaries.

The assets of the fund are held separately from those of the Group in the 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.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

(n) Employee benefits (continued)

(v) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(o) Deferred taxation

Deferred income tax 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 consolidated accounts. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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.

(p) Revenue recognition

Revenue comprises the fair value for the sales of goods and services, net of discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of goods are recognised when a product is sold to the customer.

(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) Sales of services are recognised in the accounting period in which 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.

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and interest rate risk.

(a) Foreign exchange risk

The Group has certain investment in subsidiaries in Chinese Mainland. The net assets of these entities and most of the transactions conducted by these entities are denominated in Renminbi. The Group is exposed to foreign exchange translation risk arising from the exposure of Renminbi against Hong Kong dollars. The Group manages its foreign exchange risk by performing regular review and monitoring its foreign exchange exposures.

In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the Chinese Mainland government.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of the trade and other receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets.

(c) Liquidity risk

The Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

(d) Interest rate risk

The Group has significant interest-bearing assets, mainly represent cash in hand and deposits held with banks, and are exposed to changes in market interest rates.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of fixed assets

The Group's management determines the estimated useful lives and related depreciation charges for its fixed assets. This estimate is based on the historical experience of the actual useful lives of fixed assets of similar nature and functions. It could change significantly as a result of store renovation and relocation. Management will increase the depreciation charge where useful lives are less than previously estimated lives.

(b) Taxation

The Group is subject to taxation in Hong Kong and Chinese Mainland. Significant judgment is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

(c) Employee benefits – share-based payments

The determination of the fair value of the share options granted requires estimates in determining the expected volatility of the share price, the dividends expected on the shares and the risk-free interest rate for the life of the option as stated in note 20. Where the outcome of the number of options that are exercisable is different, such difference will impact the profit and loss account in the subsequent remaining vesting period of the relevant share options.

(d) Long service payment liabilities

The present value of the long service payment liabilities depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of liabilities.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the liabilities. In determining the appropriate discount rate, the Group considers the yield of Exchange Fund Notes that are denominated in Hong Kong dollars which the liabilities will be paid, and that have terms to maturity approximating the terms of the related liabilities.

Other key assumptions for long service payment liabilities are based in part on current market conditions. Additional information is disclosed in note 22.

5. 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	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Turnover		
Merchandise sales revenue	**1,995,206**	1,736,491
Other revenues		
Supplier rebate and promotion fees	**143,848**	118,189
Service items income	**29,326**	19,628
Interest income	**14,727**	8,267
	187,901	146,084
Total revenues	**2,183,107**	1,882,575

5. **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
	2005	2005	2005
	HK$'000	HK$'000	HK$'000
Turnover from external customers	1,937,819	57,387	1,995,206
Other revenues from external customers	167,509	5,665	173,174
	2,105,328	63,052	2,168,380
Segment results	84,794	(17,859)	66,935
Interest income			14,727
Profit before income tax			81,662
Income tax expenses			(14,048)
Profit for the year			67,614
Segment assets	264,482	72,906	337,388
Unallocated assets			542,061
Total assets			879,449
Segment liabilities	378,723	17,476	396,199
Unallocated liabilities			1,665
Total liabilities			397,864
Capital expenditure	33,593	19,187	52,780
Depreciation	36,689	6,079	42,768
Amortisation	19	430	449

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

Primary reporting format – geographical segments (continued)

	Hong Kong 2004 HK$'000 (Restated)	Chinese Mainland 2004 HK$'000 (Restated)	Group 2004 HK$'000 (Restated)
Turnover from external customers	1,707,625	28,866	1,736,491
Other revenues from external customers	135,193	2,624	137,817
	1,842,818	31,490	1,874,308
Segment results	81,071	(14,420)	66,651
Interest income			8,267
Profit before income tax			74,918
Income tax expenses			(13,673)
Profit for the year			61,245
Segment assets	247,128	44,961	292,089
Unallocated assets			487,031
Total assets			779,120
Segment liabilities	327,983	9,791	337,774
Unallocated liabilities			5,454
Total liabilities			343,228
Capital expenditure	28,596	10,279	38,875
Depreciation	34,614	3,464	38,078
Amortisation	78	410	488

5. **TURNOVER, OTHER REVENUES AND SEGMENT INFORMATION** (continued)

Primary reporting format – geographical segments (continued)

Segment assets consist primarily of lease premium for land, fixed assets, intangible assets, inventories, receivables and operating cash but exclude deferred taxation.

Segment liabilities comprise operating liabilities but exclude taxation.

Capital expenditure comprises additions to fixed assets *(note 14)* and lease premium for land *(note 15).*

There are no sales between the geographical segments.

No business activity analysis is presented for the years ended 31 December 2005 and 2004 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.

6. **EXPENSES BY NATURE**

Expenses included in cost of sales, store expenses, distribution costs and administrative expenses are analysed as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Amortisation of franchise licence (included in administrative expenses)	**19**	78
Amortisation of lease premium for land	**430**	410
Auditors' remuneration		
Charge for the current year	**691**	667
Over provision in prior year	**(16)**	(10)
Cost of inventories sold	**1,490,745**	1,293,139
Depreciation of owned fixed assets	**42,768**	38,078
Loss on disposal of fixed assets	**1,853**	294
Operating leases rental for land and buildings	**151,659**	122,652

7. INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year. No provision for overseas profits tax has been made as the Group has no overseas estimated assessable profit for the year ended 31 December 2005 (2004: Nil).

The amount of income tax expenses charged/(credited) to the consolidated profit and loss account represents:

	2005	2004
	HK$'000	HK$'000
Current income tax – Hong Kong profits tax	**14,823**	14,246
Deferred income tax *(note 17)*	**(775)**	(573)
	14,048	13,673

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

	2005	2004
	HK$'000	HK$'000
		(Restated)
Profit before income tax	**81,662**	74,918
Calculated at a taxation rate of 17.5%	**14,291**	13,110
Effect of different taxation rates in other jurisdiction	**(2,858)**	(2,221)
Income not subject to taxation	**(3,059)**	(1,548)
Expenses not deductible for tax purposes	**433**	362
Tax losses not recognised	**6,090**	4,929
Effect of previously unrecognised tax losses	**(958)**	(469)
Effect of previously unrecognised temporary differences	**109**	(490)
	14,048	13,673

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of HK$38,962,000 (2004 (Restated): HK$34,958,000).

9. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Interim dividend, paid, of 1.5 HK cents (2004: 1.25 HK cents) per share	**10,091**	8,385
Final dividend, proposed, of 4.5 HK cents (2004: 3.75 HK cents) per share	**30,392**	25,205
	40,483	33,590

At a meeting held on 9 March 2006, the Directors proposed a final dividend of 4.5 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 2006.

10. 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$73,578,000 (2004 (Restated): HK$66,276,000).

The basic earnings per share is based on the weighted average of 672,741,375 (2004: 670,534,683) shares in issue during the year.

The diluted earnings per share is based on the weighted average number of 672,741,375 (2004: 670,534,683) shares in issue during the year plus the weighted average of 2,367,381 (2004: 3,397,960) shares deemed to be issued at no consideration if all outstanding options had been exercised.

11. EMPLOYEE BENEFIT EXPENSES

	Group	
	2005 HK$'000	2004 HK$'000 (Restated)
Wages and salaries	**234,916**	203,299
Unutilised annual leave	**779**	702
Share options granted to employees	**1,632**	838
Pension costs – defined contribution plan *(note b)*	**11,442**	9,272
Long service payment costs *(note 22)*	**299**	295
	249,068	214,406

Notes:

(a) The employee benefit expenses include directors' and senior management's emoluments.

(b) Contributions totalling HK$1,945,000 (2004: HK$1,631,000) were payable to the independently administered fund at the year-end.

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2004 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits *(note 1)*	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Dr. Fung Kwok King, Victor	35	–	–	–	–	35
Dr. Fung Kwok Lun, William	35	–	–	–	–	35
Mr. Jeremy Paul Egerton Hobbins *(note 2)*	6	–	–	–	–	6
Mr. Lau Butt Farn *(note 3)*	29	–	–	–	–	29
Mr. Yeung Lap Bun, Richard	35	2,194	3,360	121	12	5,722
Mr. Li Kwok Ho, Bruno	35	675	–	–	12	722
Ms. Wong Yuk Nor, Louisa	35	–	–	–	–	35
Dr. Ch'ien Kuo Fung, Raymond	60	–	–	–	–	60
Mr. Au Man Chung, Malcolm	60	–	–	–	–	60
Mr. Godfrey Ernest Scotchbrook	60	–	–	–	–	60

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

(a) Directors' emoluments (continued)

The remuneration of every Director for the year ended 31 December 2005 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits *(note 1)*	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Dr. Fung Kwok King, Victor	35	–	–	–	–	35
Dr. Fung Kwok Lun, William	35	–	–	–	–	35
Mr. Jeremy Paul Egerton Hobbins *(note 2)*	56	–	–	–	–	56
Mr. Yeung Lap Bun, Richard	35	2,400	3,509	164	12	6,120
Mr. Li Kwok Ho, Bruno	35	600	–	–	12	647
Ms. Wong Yuk Nor, Louisa	35	–	–	–	–	35
Dr. Ch'ien Kuo Fung, Raymond	60	–	–	–	–	60
Mr. Au Man Chung, Malcolm	60	–	–	–	–	60
Mr. Godfrey Ernest Scotchbrook	60	–	–	–	–	60
Mr. Lo Kai Yiu, Anthony *(note 4)*	25	–	–	–	–	25

Notes:

1. Other benefits include leave pay, share option, insurance premium and club membership.

2. Mr. Jeremy Paul Egerton Hobbins was appointed as a non-executive Director and a member of Audit Committee of the Company on 29 October 2004 and 4 March 2005 respectively.

3. Mr. Lau Butt Farn resigned as a non-executive Director of the Company on 29 October 2004.

4. Mr. Lo Kai Yiu, Anthony was appointed as an independent non-executive Director and a member of Audit Committee of the Company on 3 August 2005.

In addition to the Directors' emoluments disclosed above, certain Directors of the Company had emoluments receivable from the immediate holding company, which totals HK$9,867,000 (2004: HK$4,136,000), 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 (2004: HK$180,000) payable to independent non-executive Directors.

No Director waived or agreed to waive any of their emoluments in respect of the years ended 31 December 2005 and 2004.

12. 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 included one (2004: one) Director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2004: four) individuals during the year are as follows:

	2005	2004
	HK$'000	HK$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	**5,621**	4,597
Discretionary bonuses	**1,308**	1,084
Pension costs – defined contribution scheme	**33**	36
	6,962	5,717

The emoluments of the employees fell within the following band:

	Number of individuals	
	2005	2004
HK$1,000,001 – HK$2,000,000	**4**	4

(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.

13. INTANGIBLE ASSETS

	Group	
	2005	2004
	HK$'000	HK$'000
Franchise licence, at cost	**1,559**	1,559
Less: accumulated amortisation	**(1,559)**	(1,540)
	–	19
Opening net book amount	**19**	97
Amortisation for the year	**(19)**	(78)
Closing net book amount	**–**	19

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.

14. FIXED ASSETS

	Group				
	Properties HK$'000	Leasehold improvements HK$'000	Equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2004					
Cost	591	49,078	172,587	4,437	226,693
Accumulated depreciation	(12)	(34,132)	(108,413)	(2,575)	(145,132)
Net book amount	579	14,946	64,174	1,862	81,561
Year ended 31 December 2004					
Opening net book amount					
– as previously reported	16,215	14,946	64,174	1,862	97,197
– effect of change in accounting policy	(15,636)	–	–	–	(15,636)
– as restated	579	14,946	64,174	1,862	81,561
Exchange differences	–	(3)	5	1	3
Additions	141	10,452	27,158	396	38,147
Disposals	–	–	(294)	–	(294)
Depreciation	(21)	(9,311)	(28,142)	(604)	(38,078)
Closing net book amount	699	16,084	62,901	1,655	81,339
At 31 December 2004					
Cost	732	54,628	190,044	4,834	250,238
Accumulated depreciation	(33)	(38,544)	(127,143)	(3,179)	(168,899)
Net book amount	699	16,084	62,901	1,655	81,339
Year ended 31 December 2005					
Opening net book amount					
– as previously reported	16,504	16,084	62,901	1,655	97,144
– effect of change in accounting policy	(15,805)	–	–	–	(15,805)
– as restated	699	16,084	62,901	1,655	81,339
Exchange differences	6	111	188	26	331
Additions	5	16,567	35,274	934	52,780
Disposals	–	(168)	(1,687)	–	(1,855)
Depreciation	(24)	(10,352)	(31,793)	(599)	(42,768)
Closing net book amount	686	22,242	64,883	2,016	89,827
At 31 December 2005					
Cost	743	65,491	213,327	5,379	284,940
Accumulated depreciation	(57)	(43,249)	(148,444)	(3,363)	(195,113)
Net book amount	686	22,242	64,883	2,016	89,827

15. LEASE PREMIUM FOR LAND

The Group's interests in leasehold land represent prepaid operating lease payments and their movements and net book value are analysed as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Net book value at 1 January		
– as previously reported	**–**	–
– effect of change in accounting policy	**15,872**	15,548
– as restated	**15,872**	15,548
Exchange differences	**125**	6
Additions	**–**	728
Amortisation	**(430)**	(410)
Net book value at 31 December	**15,567**	15,872
Current portion of non-current assets	**(425)**	(422)
Non-current portion	**15,142**	15,450
Outside Hong Kong, held on:		
Leases of over 50 years	**739**	727
Leases of 10 to 50 years	**14,828**	15,145
	15,567	15,872

16. INVESTMENT IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Investment at cost:		
Unlisted shares	**6,769**	6,769
Loans to subsidiary	**29,000**	6,000
	35,769	12,769

Loans to subsidiary represent loans of HK$19,000,000 (2004: HK$6,000,000) and HK$10,000,000 (2004: Nil) which are interest bearing at 2% (2004: 2%) per annum and repayable on 17 October 2007 and 18 August 2008 respectively.

16. INVESTMENT IN SUBSIDIARIES (continued)

The following is a list of the subsidiaries of the Company as at 31 December 2005:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Interest held
Directly held:				
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%
Indirectly held:				
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%
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 PRC	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 Dongguan Limited 東莞利亞便利店有限公司*	PRC, limited liability company	Convenience stores operator and lease-holder in PRC	Registered capital of RMB30,000,000	100%

16. 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
Indirectly held: (continued)				
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 2005, the paid-up capital of Convenience Retail Southern China Limited ("CRSC") amounted to RMB54,900,000 (2004: RMB44,722,000). In accordance with the Co-operative Agreement dated 20 December 2001, one of the minority shareholders has binding obligation to inject additional capital of RMB5,100,000 into CRSC before 14 October 2005. The shareholders of CRSC have entered into a supplemental agreement to extend the completion date of this capital injection to 31 March 2006.

17. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

The movement on the deferred tax assets account is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
At 1 January	**586**	13
Deferred taxation credited to consolidated profit and loss account *(note 7)*	**775**	573
At 31 December	**1,361**	586

17. DEFERRED TAXATION (continued)

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 assets	**Tax losses**		**Others**		**Total**	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**(1,655)**	(2,425)	**(99)**	(408)	**(1,754)**	(2,833)
(Credited)/charged to profit and loss account	**374**	770	**(65)**	309	**309**	1,079
At 31 December	**(1,281)**	(1,655)	**(164)**	(99)	**(1,445)**	(1,754)

	Group					
Deferred tax liabilities	**Accelerated tax depreciation**		**Others**		**Total**	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**1,168**	2,816	**–**	4	**1,168**	2,820
(Credited)/charged to profit and loss account	**(1,130)**	(1,648)	**46**	(4)	**(1,084)**	(1,652)
At 31 December	**38**	1,168	**46**	–	**84**	1,168

17. DEFERRED TAXATION (continued)

	Group	
	2005	2004
	HK$'000	HK$'000
Deferred tax assets		
– Deferred tax assets to be recovered after more than 12 months	**(261)**	(982)
– Deferred tax assets to be recovered within 12 months	**(1,184)**	(772)
	(1,445)	(1,754)
Deferred tax liabilities		
– Deferred tax liabilities to be recovered after more than 12 months	**46**	38
– Deferred tax liabilities to be recovered within 12 months	**38**	1,130
	84	1,168

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset 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	
	2005	2004
	HK$'000	HK$'000
Deferred tax assets	**(1,361)**	(1,651)
Deferred tax liabilities	**–**	1,065

18. TRADE RECEIVABLES

Majority of the Group's turnover are cash sales. The Group's credit terms on trade receivable from other revenues mainly range from 30 days to 60 days. Trade receivables are non-interest bearing. The carrying amounts of trade receivables approximate their fair values. At 31 December 2005, the ageing analysis of trade receivables was as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
0-30 days	**23,168**	17,510
31-60 days	**2,491**	1,615
61-90 days	**923**	473
Over 90 days	**65**	230
	26,647	19,828

19. TRADE PAYABLES

At 31 December 2005, the ageing analysis of the trade payables was as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
0-30 days	**152,425**	127,753
31-60 days	**93,438**	78,966
61-90 days	**42,256**	41,545
Over 90 days	**33,817**	22,466
	321,936	270,730

20. SHARE CAPITAL

	2005		2004	
	Shares of HK$0.10 each		Shares of HK$0.10 each	
	No. of shares	**HK$'000**	No. of shares	HK$'000
Authorised:				
At 31 December	**2,000,000,000**	**200,000**	2,000,000,000	200,000
Issued and fully paid:				
At 1 January	**672,018,000**	**67,202**	669,210,000	66,921
Issuance of shares *(note a)*	**1,650,000**	**165**	2,808,000	281
At 31 December	**673,668,000**	**67,367**	672,018,000	67,202

Note:

(a) During the year, 1,200,000 (2004: 2,580,000) and 450,000 (2004: 228,000) shares (the "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.

20. 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 2005 which have been granted under the Pre-IPO Share Option Plan were as follows:

Grant date	Options held at 1 January 2005	Options exercised during the year	Options lapsed during the year	Options held at 31 December 2005	Exercise price HK$	Exercisable from	Exercisable until
30 December 2000	1,060,000	(960,000)	–	100,000	0.92	10 January 2002	9 January 2006
30 December 2000	1,710,000	(210,000)	–	1,500,000	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.

20. SHARE CAPITAL (continued)

Share options (continued)

(ii) Share Option Scheme (continued)

Details of the share options granted and outstanding as at 31 December 2005 were as follows:

Grant date	Options held at 1 January 2005	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options held at 31 December 2005	Exercise price HK$	Exercisable from	Exercisable until
21 September 2001	226,000	–	(32,000)	–	194,000	2.42	21 September 2002	20 September 2006
21 September 2001	348,000	–	–	–	348,000	2.42	21 September 2003	20 September 2006
24 May 2002	4,176,000	–	–	(58,000)	4,118,000	2.785	24 May 2003	23 May 2007
24 May 2002	530,000	–	–	–	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	–	(10,000)	–	38,000	2.15	23 September 2004	22 September 2007
20 May 2003	1,162,000	–	(186,000)	–	976,000	1.69	20 May 2004	19 May 2008
20 May 2003	640,000	–	(106,000)	(12,000)	522,000	1.69	20 May 2005	19 May 2008
30 September 2003	130,000	–	(50,000)	–	80,000	2.225	30 September 2004	29 September 2008
30 September 2003	162,000	–	(18,000)	–	144,000	2.225	30 September 2005	29 September 2008

20. SHARE CAPITAL (continued)

Share options (continued)

(ii) *Share Option Scheme* (continued)

Grant date	Options held at 1 January 2005	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options held at 31 December 2005	Exercise price HK$	Exercisable from	Exercisable until
29 March 2004	804,000	–	(48,000)	(40,000)	716,000	2.535	29 March 2005	28 March 2009
29 March 2004	150,000	–	–	(32,000)	118,000	2.535	29 March 2006	28 March 2009
6 August 2004	108,000	–	–	(8,000)	100,000	2.40	6 August 2005	5 August 2009
6 August 2004	386,000	–	–	(70,000)	316,000	2.40	6 August 2006	5 August 2009
4 May 2005	–	868,000	–	(10,000)	858,000	2.86	4 May 2006	3 May 2010
4 May 2005	–	536,000	–	(68,000)	468,000	2.86	4 May 2007	3 May 2010
14 September 2005	–	2,128,000	–	–	2,128,000	2.53	14 September 2006	13 September 2010
14 September 2005	–	272,000	–	–	272,000	2.53	14 September 2007	13 September 2010

20. SHARE CAPITAL (continued)

Share options (continued)

(iii) Share options are granted to Directors and employees in accordance with terms of Share Option Scheme which are accounted for under HKFRS 2. Movements in the number of share options, granted after 7 November 2002 and had not yet vested on 1 January 2005, outstanding and their related weighted average exercise prices are as follows:

	2005		2004	
	Options	**Weighted average exercise price HK$**	Options	Weighted average exercise price HK$
At 1 January	**2,250,000**	**2.24**	916,000	1.80
Granted	**3,804,000**	**2.65**	1,528,000	2.49
Lapsed	**(240,000)**	**2.55**	(194,000)	2.09
Exercised	**(172,000)**	**1.98**	–	–
At 31 December	**5,642,000**	**2.51**	2,250,000	2.24
Exercisable	**1,482,000**	**2.20**	–	–

The weighted average share price at the date of exercise for share options exercised during the year was HK$2.62 (2004: Nil). The options outstanding at 31 December 2005 and 2004 had a weighted average remaining contractual life of 4.06 and 4.04 years respectively.

Share options outstanding at the year-end have the following expiry dates and exercise prices:

Expiry date	Exercise price HK$	**2005 Options**	2004 Options
20 May 2008	1.69	**522,000**	640,000
30 September 2008	2.225	**144,000**	162,000
29 March 2009	2.535	**834,000**	954,000
6 August 2009	2.40	**416,000**	494,000
4 May 2010	2.86	**1,326,000**	–
14 September 2010	2.53	**2,400,000**	–
		5,642,000	2,250,000

20. SHARE CAPITAL (continued)

Share options (continued)

(iii) The fair value of options granted are determined by using the Black-Scholes Valuation model. The significant inputs into the models were as follows:

	2005	2004
Expected volatility	**40%**	40%
Expected life	**4.5 years**	4.5 years
Risk free rate	**3.4%**	3.1%
Expected dividends	**2%**	2%

Expected volatility was determined by calculating the historical volatility of the Group's daily share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

21. RESERVES

(a) Group

	Share premium HK$'000	Merger reserve HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2004, as previously reported	115,076	177,087	13,433	–	43	28,688	334,327
Effect of changes in accounting policies							
– employee share option benefits	–	–	–	118	–	(118)	–
– amortisation of lease premium for land	–	–	–	–	–	(88)	(88)
At 1 January 2004, as restated	115,076	177,087	13,433	118	43	28,482	334,239
Issue of new shares	2,484	–	–	–	–	–	2,484
Employee share option benefits	–	–	–	838	–	–	838
Exchange differences	–	–	–	–	(43)	–	(43)
Profit attributable to shareholders	–	–	–	–	–	66,276	66,276
Dividends	–	–	–	–	–	(28,491)	(28,491)
At 31 December 2004	117,560	177,087	13,433	956	–	66,267	375,303
Representing:							
Reserves							350,098
2004 final dividend proposed							25,205
							375,303

21. RESERVES (continued)

(a) Group (continued)

	Share premium HK$'000	Merger reserve HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2005, as previously reported	117,560	177,087	13,433	–	–	67,156	375,236
Effect of changes in accounting policies							
– employee share option benefits	–	–	–	956	–	(956)	–
– amortisation of lease premium for land	–	–	–	–	–	67	67
At 1 January 2005, as restated	117,560	177,087	13,433	956	–	66,267	375,303
Issue of new shares	1,804	–	–	–	–	–	1,804
Employee share option benefits	93	–	–	1,510	–	29	1,632
Exchange differences	–	–	–	–	123	–	123
Profit attributable to shareholders	–	–	–	–	–	73,578	73,578
Dividends	–	–	–	–	–	(35,310)	(35,310)
At 31 December 2005	119,457	177,087	13,433	2,466	123	104,564	417,130

Representing:	
Reserves	386,738
2005 final dividend proposed	30,392
	417,130

21. RESERVES (continued)

(b) Company

	Share premium HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2004, as previously reported	115,076	12,792	–	13,564	141,432
Effect of change in accounting policy – employee share option benefits	–	–	118	(118)	–
At 1 January 2004, as restated	115,076	12,792	118	13,446	141,432
Issue of new shares	2,484	–	–	–	2,484
Employee share option benefits	–	–	838	–	838
Profit attributable to shareholders	–	–	–	34,958	34,958
Dividends	–	–	–	(28,491)	(28,491)
At 31 December 2004	117,560	12,792	956	19,913	151,221

Representing:

Reserves	126,016
2004 final dividend proposed	25,205
	151,221

21. **RESERVES** (continued)

(b) **Company** (continued)

	Share premium HK$'000	**Capital reserve** HK$'000	**Employee share-based compensation reserve** HK$'000	**Retained earnings** HK$'000	**Total** HK$'000
At 1 January 2005, as previously reported	117,560	12,792	–	20,869	151,221
Effect of change in accounting policy – employee share option benefits	–	–	956	(956)	–
At 1 January 2005, as restated	117,560	12,792	956	19,913	151,221
Issue of new shares	1,804	–	–	–	1,804
Employee share option benefits	93	–	1,510	29	1,632
Profit attributable to shareholders	–	–	–	38,962	38,962
Dividends	–	–	–	(35,310)	(35,310)
At 31 December 2005	119,457	12,792	2,466	23,594	158,309

Representing:

Reserves	127,917
2005 final dividend proposed	30,392
	158,309

22. 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	
	2005	2004
	HK$'000	HK$'000
Present value of unfunded obligations	**7,241**	7,102
Net unrecognised actuarial gains	**621**	619
Liability in the consolidated balance sheet	**7,862**	7,721

Movements in the liability recognised in the consolidated balance sheet:

	Group	
	2005	2004
	HK$'000	HK$'000
At 1 January	**7,721**	7,521
Expenses recognised in the consolidated profit and loss account		
– as shown below	**299**	295
Benefits paid	**(158)**	(95)
At 31 December	**7,862**	7,721

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

	Group	
	2005	2004
	HK$'000	HK$'000
Current service cost	**10**	10
Interest cost	**286**	286
Net actuarial losses/(gains) recognised	**3**	(1)
Total, included in employee benefit expenses *(note 11)*	**299**	295

22. LONG SERVICE PAYMENT LIABILITIES (continued)

Of the total charge, HK$218,000 (2004: HK$217,000), HK$20,000 (2004: HK$20,000) and HK$61,000 (2004: HK$58,000) were included, respectively, in store expenses, distribution costs and administrative expenses.

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

	2005	2004
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%

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Net cash generated from operations

	2005 HK$'000	2004 HK$'000 (Restated)
Profit for the year	**67,614**	61,245
Adjustments for		
– Income tax expenses	**14,048**	13,673
– Interest income	**(14,727)**	(8,267)
– Depreciation of owned fixed assets	**42,768**	38,078
– Employee share option benefits	**1,632**	838
– Amortisation of lease premium for land	**430**	410
– Loss on disposal of fixed assets	**1,853**	294
– Amortisation of franchise licence	**19**	78
	113,637	106,349
Changes in working capital		
– Inventories	**(11,704)**	(5,754)
– Trade receivables, rental deposits, other receivables, deposits and prepayments	**(14,801)**	(14,511)
– Amount due to immediate holding company	**(499)**	(329)
– Trade payables, other payables and accruals	**58,783**	52,414
– Long service payment liabilities	**141**	200
– Effect of foreign exchange movement	**123**	(78)
Net cash generated from operations	**145,680**	138,291

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Cash flows from financing activities

	Share capital including premium		Minority interests	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**184,762**	181,997	**(6,613)**	(1,560)
Exchange differences	**–**	–	**67**	(22)
Net proceeds from issuance of shares	**1,969**	2,765	**–**	–
Capital contribution from a minority shareholder	**–**	–	**9,598**	–
Transfer from employee share-based compensation reserve	**93**	–	**–**	–
Minority interests' share of loss and exchange reserve	**–**	–	**(5,964)**	(5,031)
At 31 December	**186,824**	184,762	**(2,912)**	(6,613)

24. COMMITMENTS

(a) Capital commitments

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

	Group	
	2005	2004
	HK$'000	HK$'000
Contracted but not provided for	**6,173**	3,059
Authorised but not contracted for	**7,962**	3,288
	14,135	6,347

24. COMMITMENTS (continued)

(b) Operating leases commitments

The Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Not later than one year	**139,947**	111,301
Later than one year and not later than five years	**144,499**	102,342
Later than five years	**752**	620
	285,198	214,263

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.

(c) During the year, a wholly-owned subsidiary of the Company entered into the agreement ("the Agreement") for making a capital contribution of HK$3,850,000 (RMB4,000,000) to Dongguan Sunhigh Trading Co. Ltd. ("DG Sun-High"). DG Sun-High is a limited liability company established in the People's Republic of China ("PRC"), engaging in the provision of franchising business to a chain of convenience stores in Dongguan. Completion of the Agreement is subject to certain conditions including, inter alia, the conversion of DG Sun-High into a sino-foreign joint venture and other necessary approvals by the relevant PRC government authorities. The capital contribution of RMB4,000,000 represents 60% interest in the enlarged share capital of DG Sun-High upon conversion of its status into a sino-foreign joint venture.

25. CONTINGENT LIABILITIES

	Company	
	2005	2004
	HK$'000	HK$'000
Guarantees for bank loans and overdrafts of a subsidiary	**50,888**	50,888

26. RELATED PARTY TRANSACTIONS

The Group is controlled by Li & Fung (Retailing) Limited (incorporated in Hong Kong), which owns 55.5% of the Company's shares. The remaining 44.5% of the shares are widely held.

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

(a) Immediate holding company

	Note	**2005**	2004
		HK$'000	HK$'000
Management fee and reimbursement of office and administrative expenses	*(i)*	**14,623**	12,915
Rental payable	*(ii)*	**884**	508

(b) Fellow subsidiaries

		2005	2004
		HK$'000	HK$'000
Rental payable	*(ii)*	**4,297**	3,640
Net purchases	*(iii)*	**6,778**	9,369

(c) Key management personnel compensation

	2005	2004
	HK$'000	HK$'000
Fees	**436**	390
Discretionary bonuses	**4,817**	4,444
Salaries, share options and other allowances	**8,785**	7,587
Pension costs – defined contribution scheme	**57**	60
	14,095	12,481

26. RELATED PARTY TRANSACTIONS (continued)

(d) Amounts due to related parties

	2005 HK$'000	2004 HK$'000
Amounts due to:		
– Immediate holding company	**177**	676
– Fellow subsidiaries	**2,554**	2,941

The amounts are unsecured, interest free and repayable on demand.

Notes:

(i) Management fee and reimbursements payable to the immediate holding company in respect of office and administrative expenses incurred, including certain Directors' emolument paid by the immediate holding company, are charged on an actual cost recovery basis.

(ii) Rentals are payable to the immediate holding company and fellow subsidiaries in accordance with the terms of agreements.

(iii) Purchases from fellow subsidiaries were carried out in ordinary course of business and on terms mutually agreed between the Group and the related companies.

27. ULTIMATE HOLDING COMPANY

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

Five Year Financial Summary

The following table summarise the results, assets and liabilities of the Group for the five years ended 31 December 2005.

	2005	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Turnover	**1,995,206**	1,736,491	1,515,839	1,383,573	1,297,203
Profit attributable to shareholders	**73,578**	66,276	60,512	60,379	54,727
Total assets	**879,449**	779,120	688,231	607,656	525,851
Total liabilities	**(397,864)**	(343,228)	(288,631)	(262,018)	(250,022)
Minority interests	**2,912**	6,613	1,560	(297)	(1,558)
Surplus on shareholders' funds	**484,497**	442,505	401,160	345,341	274,271

Note:

2001-2004 figures have been restated on the adoption of new/revised accounting standards. Certain comparative figures have been reclassified to conform with current year's presentation.