Convenience Retail Asia

Convenience Retail Asia Limited

利亞零售有限公司

(incorporated in the Cayman Islands with limited liability)

A member of the Li & Fung Retailing Group

Annual Report 2003

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.

With a small store size of less than 60 square metres, the new Circle K store at Goldlion Digital Network Centre, 138 Tiyu Road East, Guangzhou has enjoyed good business since its opening on 3 November 2003.

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.

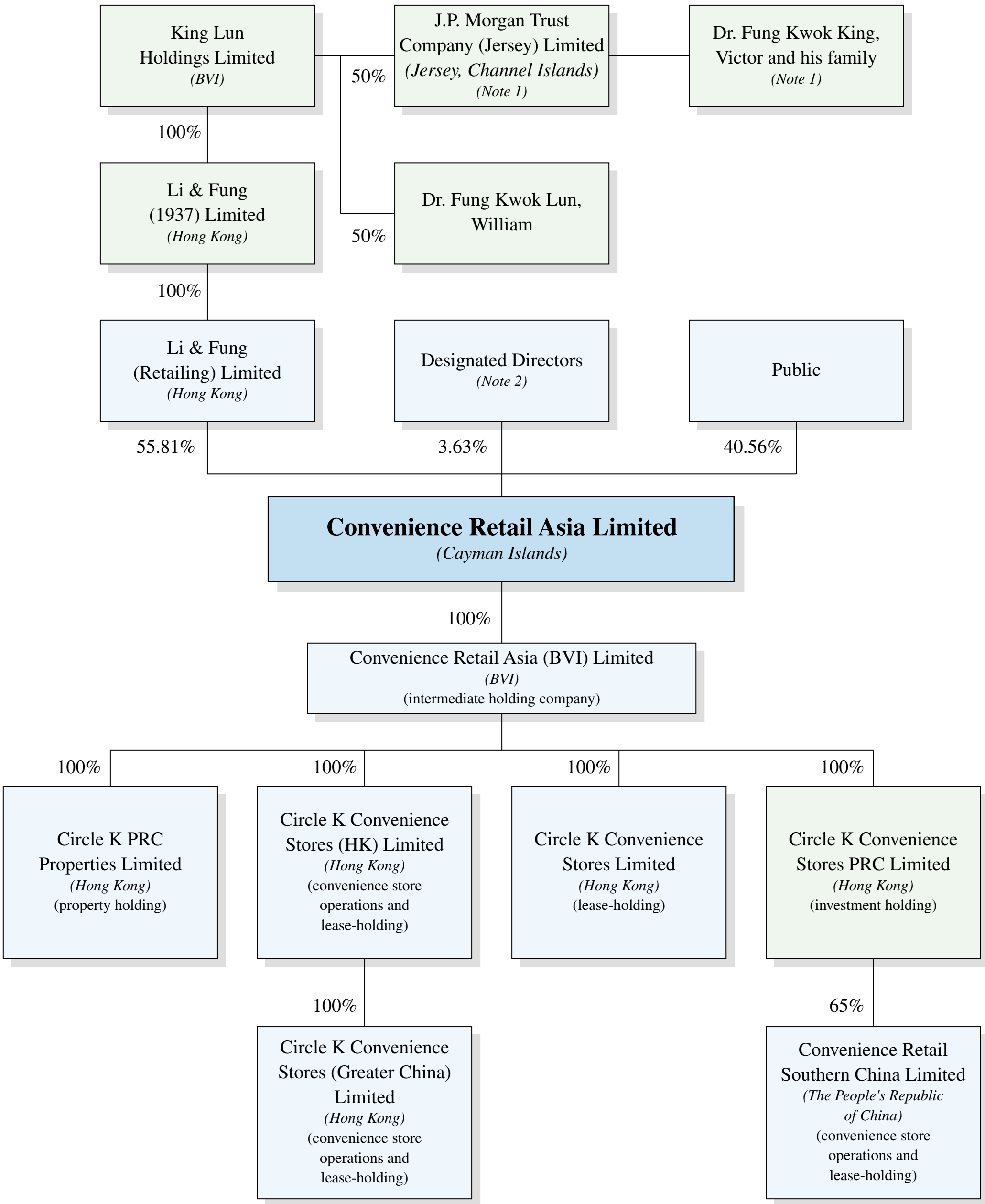
Corporate Information

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 Lau Butt Farn Wong Yuk Nor, Louisa
Independent non-executive Directors	Dr. Ch'ien Kuo Fung, Raymond Au Man Chung, Malcolm Godfrey Ernest Scotchbrook
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
Company secretary	Wong Wing Ha (FCIS)
Compliance officer	Li Kwok Ho, Bruno
Qualified accountant	Lam Siu Tak, Jimmy (FHKSA, FCPA)
Audit committee	Dr. Ch'ien Kuo Fung, Raymond Au Man Chung, Malcolm Lau Butt Farn Godfrey Ernest Scotchbrook
Authorised representatives	Li Kwok Ho, Bruno Wong Wing Ha
Authorised person to accept service of process and notices	Li Kwok Ho, Bruno

Legal adviser	Johnson Stokes & Master (as to Hong Kong Law) Conyers Dill & Pearman, Cayman (as to Cayman Islands Law)
Auditors	PricewaterhouseCoopers *Certified Public Accountants*
Principal share registrar and transfer office	Bank of Butterfield International (Cayman) Ltd. P.O. Box 705 Butterfield House Fort Street George Town Grand Cayman Cayman Islands
Hong Kong share registrar and transfer office	Abacus Share Registrars Limited G/F, Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai, Hong Kong
Principal bankers	The Hongkong & Shanghai Banking Corporation Limited
Stock code	8052

Group Business Structure

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



Notes:

1. J.P. Morgan Trust Company (Jersey) Limited is the trustee of a discretionary trust established for the benefit of the family members of Dr. Fung Kwok King, Victor.

2. "Designated Directors" refer to Messrs. Yeung Lap Bun, Richard, Li Kwok Ho, Bruno and Lau Butt Farn and Ms. Wong Yuk Nor, Louisa.

Chairman's Statement

Dr. Fung Kwok King, Victor
Chairman

FINANCIAL OVERVIEW

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

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

REVIEW OF THE HONG KONG RETAIL MARKET

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

REVIEW OF THE HONG KONG RETAIL MARKET (continued)

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

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

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

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

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

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

COMPANY INITIATIVES FOR HONG KONG OPERATION

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

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

REVIEW OF RETAIL MARKET ON THE CHINESE MAINLAND

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

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

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

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

REVIEW OF GUANGZHOU OPERATION

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

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

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

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

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

FUTURE PROSPECTS

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

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

FUTURE PROSPECTS (continued)

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

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

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

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

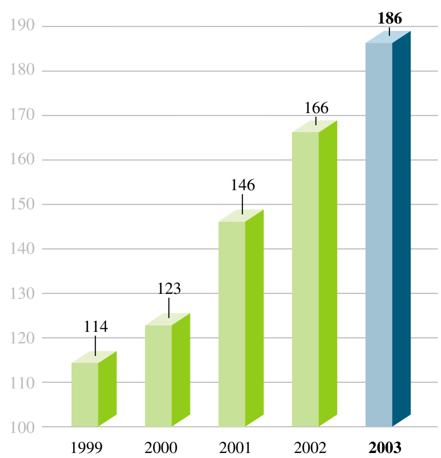
Fung Kwok King, Victor
Chairman

Hong Kong, 3 March 2004

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



No. of Circle K Outlets in Hong Kong

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

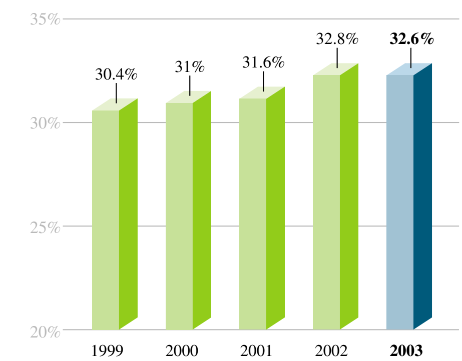
FINANCIAL REVIEW (continued)

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

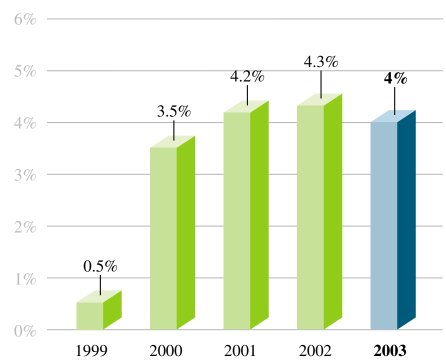
The increase in store expenses from 22.7% to 23.3% of sales for the year and from 23.5% to 24.1% of sales for the fourth quarter when compared to 2002 was mainly due to the full-year impact of store expenses in Guangzhou. Such expenses were recorded in the start-up costs separately until November 2002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

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

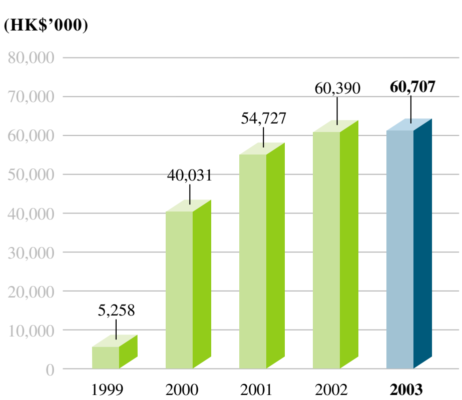
The Group was able to achieve a continuous record of quarter-on-quarter growth in net profit since the Group's GEM listing on 18 January 2001 with the exception of the first quarter of 2003. Net profit attributable to shareholders increased by 0.5% to HK$60.7 million for the year and by 9.1% to HK$18.6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



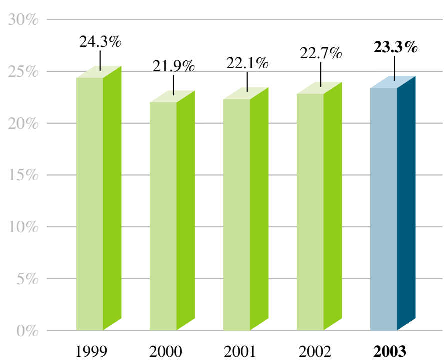
Gross Margin and Other Income (excluding interest income)



Net Margin*



Net Profit*



Store Operating Expenses as % of Sales*

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

FINANCIAL REVIEW (continued)

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

OPERATION REVIEW – HONG KONG

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

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

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

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

The Circle K store at Hong Kong Spinners Industrial Building, No. 800 Cheung Sha Wan Road, Kowloon is the third Circle K store in the vicinity of the Lai Chi Kok MTR station. All three stores register healthy turnover in a high street location.

The Hot & In food services counter is an important experimental feature of the new store at Hong Kong Spinners Industrial Building, serving hot drinks, sandwiches and hot meals to office workers in the neighbourhood.

OPERATION REVIEW – HONG KONG (continued)

Employees

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

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

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

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

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

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

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

Marketing and Promotion

The campaign to promote exclusive protective products against SARS generated significant incremental sales which compensated for the sales loss of hard hit categories such as packaged cold drink and ice-cream.

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

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

OPERATION REVIEW – HONG KONG (continued)

Marketing and Promotion (continued)

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

An exclusive collection of Qoo dancer plush dolls offered fun, novelty and great value to Circle K customers.

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

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

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

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

A Christmas redemption promotion featuring mini antique jukebox which was actually a CD player generated tremendous consumer interest.

OPERATION REVIEW – HONG KONG (continued)

Category Management Excellence

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

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

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

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

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

Online game card was one of the fastest growing categories in 2003 registering over 200% increase in sales compared with 2002.

”Ding-a-Meal”, a microwavable meal concept, was launched in the second quarter of 2003 offering gourmet recipes and has the potential to become a signature product of Circle K food services.

OPERATION REVIEW – HONG KONG (continued)

Service Excellence

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

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

Circle K representative received the Award for Excellence in Training 2003 from the Hong Kong Management Association.

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

Supply Chain Management and Logistics

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

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

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

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

OPERATION REVIEW – HONG KONG (continued)

Cost Saving Initiatives

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

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

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

OPERATION REVIEW – GUANGZHOU

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

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

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

A series of innovative, premium quality food and drink products were launched at various time of the year at the Circle K stores in Guangzhou to stimulate consumer demand and sustain the novelty appeal of the Hot & In offerings.

OPERATION REVIEW – GUANGZHOU (continued)

An Update on Market Performances

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

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

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

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

Consumer Insights

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

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

Competition and New Entries

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

OPERATION REVIEW – GUANGZHOU (continued)

Competition and New Entries (continued)

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

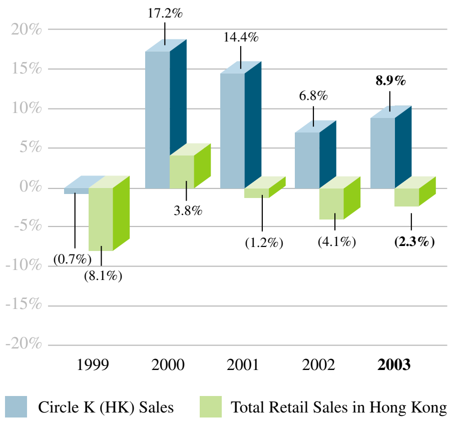
FUTURE PROSPECTS

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

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

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

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



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

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

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

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

Review of Business Objectives

For the six months ended 31 December 2003

1. HONG KONG OPERATION

Initiatives	Progress Update
• Enhance the CRA Group's capability of opening more new Circle K stores and with shorter lead-time. This capability will be important to the CRA Group if it wishes to achieve a double-digit percentage increase in the total number of outlets.	• The Hong Kong team have now developed different store types – Standard Circle K, Mega-store and Mini-store – to fit into sites of different sizes. Construction lead-time of a store is also shortened to 21 – 28 days.
• Further improve the CRA Group's core competencies in marketing, customer services, category management, supply chain management and information technology applications, all of which will have a major impact on the realisation of the CRA Group's vision of becoming the fastest-growing and preferred convenience store chain in Hong Kong and the People's Republic of China ("PRC").	• In-house training, external training and external consultants have been deployed to improve our core competencies. Continuous improvements and learning have become part of the Company culture.

2. PRC OPERATION

Initiatives	Progress Update
• Build the network of Circle K stores of up to 100 outlets in Guangzhou and the Pearl River Delta Area.	• Due to the need to test, refine and improve the business store models in China, we did not adopt an aggressive approach to opening store in 2003 and we finished the year with 7 stores in Southern China. As the store models have been tested and refined, the Company will be taking a more aggressive approach to opening stores in 2004.
• If the Pearl River Delta market becomes profitable, obtain the relevant business licences and commence expansion into other potential markets in the Eastern PRC and/or the Northern PRC.	• The Company will be evaluating the final plan to expand into either the Eastern or Northern PRC market in the second half of 2004.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Yeung Lap Bun, Richard – *Chief Executive Officer*

Mr. Yeung, aged 47, 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 54, joined Li & Fung Group in January 1991 as the Chief Financial Officer. Since February 1993, he has been appointed as the Retail Services Director and takes charge of all the centralised supporting services of Li & Fung Retailing Group, which comprises the businesses of Circle K and Toys "R" Us. His areas of responsibilities include Finance and Accounting, Human Resource and Administration, Business Systems Development and Real Estate. Mr. Li graduated from the Chinese University of Hong Kong with a Bachelor of Science degree and is a member of the Institute of Chartered Accountants of Scotland. He has more than 20 years of professional experience in finance and accounting.

NON-EXECUTIVE DIRECTORS

Dr. Fung Kwok King, Victor – *Chairman*

Dr. Fung, aged 58, is the Group Chairman of the Li & Fung group of companies, which includes the major subsidiaries, Li & Fung (Distribution) Limited, Li & Fung (Retailing) Limited, and the publicly listed Li & Fung Limited and Convenience Retail Asia Limited. 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 currently Chairman of the Hong Kong Airport Authority, the Hong Kong University Council and the Greater Pearl River Delta Business Council. Dr. Fung holds a number of civic and professional appointments. He is a member of Chinese People's Political Consultative Conference and the Hong Kong Government Judicial Officers Recommendation Committee. From 1991 to 2000, Dr. Fung was Chairman of the Hong Kong Trade Development Council and from 1996 to 2003, he was the Hong Kong representative on the APEC Business Advisory Council. In 2003, the Government awarded Dr. Fung the Gold Bauhinia Star for distinguished service to the community.

NON-EXECUTIVE DIRECTORS (continued)

Dr. Fung Kwok Lun, William

Dr. Fung, OBE, JP, aged 55, brother of Dr. Fung Kwok King, Victor, is the Managing Director of Li & Fung Limited and Li & Fung (Retailing) Limited. He is also a director of Li & Fung (Distribution) Limited. Dr. Fung graduated from Princeton University with a Bachelor of Science degree in engineering and holds a Master degree in Business Administration from the Harvard Graduate School of Business. He was awarded the degree of Doctor of Business Administration, *honoris causa* by the Hong Kong University of Science & Technology. Dr. Fung is a non-executive director of HSBC Holdings plc, CLP Holdings Limited, chinadotcom corporation and VTech Holdings Limited. He is past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and the Hong Kong Committee for the Pacific Economic Cooperation Council. In January 2004, Dr. Fung was appointed by the Government of the Hong Kong Special Administrative Region to serve as member on the Economic and Employment Council.

Lau Butt Farn

Mr. Lau, aged 56, joined Li & Fung Group in 1981 as the Financial Controller. Between 1985 and 1998, he was the Operations Director for the Li & Fung Retailing Group. Since 1999, Mr. Lau is the Chief Financial Officer of Li & Fung (Distribution) Limited, an unlisted company in the supply chain management business. Mr. Lau graduated from the University of London with a Bachelor of Science degree in Physics and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Wong Yuk Nor, Louisa

Ms. Wong, aged 54, 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 52, is Executive Chairman of chinadotcom corporation as well as Executive Chairman of chinadotcom Mobile Interactive Corporation and Chairman of hongkong.com corporation, subsidiaries of chinadotcom corporation. He is also non-executive Chairman of HSBC Private Equity (Asia) Limited and MTR Corporation Limited. Dr. Ch'ien serves on the boards of HSBC Holdings plc; the Hongkong and Shanghai Banking Corporation Limited; Inchcape plc, VTech Holdings Limited and The Wharf (Holdings) Limited. In public service, Dr. Ch'ien is Chairman of the Hong Kong/Japan Business Cooperation Committee; and Chairman of the Advisory Committee on Corruption of the Independent Commission Against Corruption. Dr. Ch'ien is an honorary President and past Chairman of the Federation of Hong Kong Industries. He is also President of Hong Chi Association, Hong Kong's leading non-government organization helping mentally handicapped persons. From 1992 to 1997, Dr. Ch'ien was a member of the Executive Council of Hong Kong, then under British Administration. He was appointed a member of the Executive Council of the Hong Kong Special Administrative Region on 1 July 1997 and served until 2002. Dr. Ch'ien was previously Chairman of the Industry and Technology Development Council and the Hong Kong Industrial Technology Centre Corporation Ltd. Dr. Ch'ien received a doctoral degree in Economics from the University of Pennsylvania, U.S.A. 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 and awarded the Gold Bauhinia Star Medal in 1999.

Au Man Chung, Malcolm

Mr. Au, aged 54, holds a Bachelor of Science degree in Chemical Engineering and a Master of Science degree in Food Science both from the University of Wisconsin, USA and a Master of Business Administration degree from the University of Toronto, Canada. Mr. Au is also a non-executive director of China-Hongkong Photo Products Holdings Ltd.

Godfrey Ernest Scotchbrook

Mr. Scotchbrook, aged 58, presently serves as an independent director of Del Monte Pacific Limited (a company engaged in the production, marketing and distribution of premium branded food and beverage products) and a non-executive director of Boustead Singapore Limited (a company engaged in engineering, information technology and investments) in Singapore. Mr. Scotchbrook was a founder of Scotchbrook Communications Ltd., a firm specializing in investor relations, issues management, corporate positioning and public affairs; and is a veteran in corporate governance.

SENIOR MANAGEMENT

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

Mr. Kan, aged 52, has over 20 years of experience in manufacturing and logistics management with multinationals and local companies in Hong Kong and Southern China. Prior to joining the Group in February 2000, he was the General Manager of HAVI Food Services Group and IDS Logistics (HK) Limited, and was responsible for providing supply chain management services to multinational clients of the companies. After joining the Group he was appointed as General Manager for Southern China and responsible for the Group's expansion into the PRC market. He graduated from the McGill University of Canada with a Bachelor degree in Mechanical Engineering. He also holds a Master degree in Business Administration from the University of East Asia, Macau.

Pak Chi Kin – *General Manager – Operations*

Mr. Pak, aged 45, has over 10 years of experience in the food distribution Industry. With an excellent performance as Divisional Manager of Supply Chain Management and Logistics, Mr. Pak was promoted to the new position of General Manager – Operations of Circle K, Hong Kong in January 2003. The position was created to head up Store Operations, Store Development, Supply Chain Management and Logistics functions while taking the lead in coordinating the centralized support services and Total Quality Culture initiatives. Prior to joining the Group in May 1999, Mr. Pak spent 7 years in senior position at HAVI Food Services Group and was in charge of the distribution of food products and logistics services to McDonald's Restaurants. Graduated from the University of Hong Kong with a Bachelor degree of Science in Engineering, he also holds a Master degree of Science in Engineering from the University of Hong Kong. Mr. Pak is a member of the ECR Hong Kong (previously known as the Hong Kong Supply Chain Management Advisory Board) facilitated by the Hong Kong Article Numbering Association.

Ko Kam Cheong – *Business & Store Development Manager – Business Development*

Mr. Ko, aged 63, has been with the Circle K stores since 1991. He has over 41 years of solid experience in the retailing industry. Prior to joining the Group, he spent 18 years as Operations Manager in PARKnSHOP and he was in charge of all matters related to Store Operations. With his extensive experience, Mr. Ko successfully led a very strong and effective operations team in Hong Kong as the Operations Manager before he assumed the new role as Business & Store Development Manager.

Tsui Yin Ming, Benjamin – *Divisional Manager – Business Development*

Mr. Tsui, aged 46, has solid experience in conducting the Group's Sales Forecasting Model and location analysis of new stores. He is currently responsible for expediting the Group's new store growth in Hong Kong and the Group's business expansion into the PRC market. He has over 15 years of experience gained in trade finance, marketing and business development area. He graduated from the University of Hong Kong with a Bachelor degree in Geography/Economics.

SENIOR MANAGEMENT (continued)

Li Kam Hung, Mody – *Divisional Manager – Site Development*

Mr. Li, aged 51, has been with the Li & Fung Retailing Group since 1985. He has over 27 years of experience in the Construction Industry. He is responsible for the Group's store construction, renovation, project planning and maintenance in Hong Kong. He has been awarded the Associateship in Building Technology and Management from the Hong Kong Polytechnic University and a Diploma in Legal Studies from the University of Hong Kong. He is also a member of The Chartered Institute of Building, a member of The Hong Kong Institution of Engineers, a member of the Architecture & Surveying Institute and a member of the Royal Institution of Chartered Surveyors.

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

Mr. Tse, aged 43, 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.

Lee Hon Choi – *Divisional Manager – Operations, Southern China*

Mr. Lee, aged 41, has been with Circle K stores since 1985. He holds a Bachelor degree in Business Administration from the Open University of Hong Kong. Prior to his appointment to the present position, he spent 10 years as District Manager in Circle K, Hong Kong and has acquired valuable first hand experience and knowledge in the management of our store operations. He is currently responsible for store operations in the PRC market.

Lai Chun Pang – *Divisional Manager – Sales and Operations*

Mr. Lai, aged 42, has over 20 years of experience in retail operations management. He is responsible for overseeing the daily operations of the entire retail stores of Circle K. Prior to joining the Group in 1987, he spent over 6 years in retail operations and local distribution of imported sportswear. He persisted his career in store operations after joining the Group. He was promoted to the position of Divisional Manager, Sales and Operations, in January 2002. He graduated from the City University of Hong Kong with a Bachelor degree of Arts with honors in Business Studies. He also holds a Master degree of Arts in International Business Management from the City University of Hong Kong.

SENIOR MANAGEMENT (continued)

Law Ping Lun, Alan – *Divisional Manager – Supply Chain Management and Logistics*

Mr. Law, aged 44, has over 15 years of solid operation experience in food distribution industry and inventory control. He was appointed as Divisional Manager, Supply Chain Management and Logistics. Mr. Law is currently responsible for overseeing the Group's logistics and supply chain management system and processes. Prior to joining the Group in April 2000, he spent 10 years in a managerial position at HAVI Food Services Group. He has acquired extensive distribution experiences and professional knowledge over the years while providing logistics and supply chain management services to McDonald's Restaurants. Mr. Law graduated from the University of Western Sydney with a Bachelor degree in Business Administration.

Yip Pak Chuen – *Food Commissary & Store Development Manager – Southern China*

Mr. Yip, aged 39, joined the Southern China operation of the Group in 2002. Prior to joining the Group, he worked for the HAVI Food Services Group for 11 years, and was responsible for providing technical supporting services for the operations in the markets of Hong Kong and Southern China, and also participated in the construction of distribution centers in these two markets. After joining the Group, he took part in the development of the Group's Southern China market. He is in charge of store design, decoration and maintenance, and is responsible for managing the Food Commissary. Mr. Yip graduated from the Hong Kong Institute of Vocational Education (Haking Wong) and holds a Certificate in Electrical Engineering.

Luo Xian Qian, Wilson – *Supply Chain Management & Logistics Manager – Southern China*

Mr. Luo, aged 36, has over 12 years of experience in production material control, production management, supply chain management and logistics gained in two manufacturing companies, Guangzhou Persecco Management & Consultation Company Ltd and HAVI Food Services (GZ) Ltd respectively. Mr. Luo joined the Southern China operation of the Group in 2001 as Supply Chain Management & Logistics Manager. He graduated from the Zhongshan University in Guangzhou with a diploma majored in Computer Software.

Lam Siu Tak, Jimmy – *Divisional Manager – Finance & Accounting*

Mr. Lam, aged 45, has over 21 years of experience in finance and accounting in various companies including Shell Australia and Wellcome Supermarket in Hong Kong. Mr. Lam graduated from the University of Melbourne with a Bachelor degree of Commerce. He also holds a Master degree of Business Administration from the University of South Australia. He is a Fellow member of the Hong Kong Society of Accountants, and a Fellow member of the CPA Australia.

SENIOR MANAGEMENT (continued)

Wu Tsz Kin, Chris – *Divisional Manager – Human Resource & Administration*

Mr. Wu, aged 42, is responsible for overseeing all Human Resources functions of the Group including manpower planning, compensation and benefits, training and development, insurance and administration as well as staff management and relations. He has over 16 years of Human Resources management experience gained in various companies including Watson's the Chemist Ltd. and Asia Television Limited. He holds a Master degree of Business Administration from the Queen's University of Belfast as well as a Master degree of Arts in Human Resources from Macquarie University of Australia.

Yiu Chi Chung, Joseph – *Divisional Manager – Real Estate*

Mr. Yiu, aged 44, has over 20 years of solid experience in real estate management gained from various companies including Chinese Estates, Ltd., Emperor Investment Ltd. and Hang Lung Development Co., Ltd. He has an in-depth knowledge on the real estate market of Hong Kong and he is responsible for the management of rental leases and for securing new sites for the Group's expansion in Hong Kong.

Fung Chiu Ming, Danny – *Divisional Manager – Business Systems Development*

Mr. Fung, aged 43, has over 15 years of experience in information technology gained from various companies including ABN AMRO Bank, Theme International Holdings Ltd., PolyU Technology Ltd. and U-Campus. com. He is responsible for the overall management of the MIS function and project implementation in support of business strategies and operations. He graduated from the Brigham Young University of U.S.A. with a Bachelor of Science degree in Finance and a Master of Science degree in Information/Administrative Management with Computer Science emphasis.

Directors' Report

The directors submit their report together with the audited accounts for the year ended 31 December 2003.

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 Stores Inc. of the United States of America.

An analysis of the Group's performance for the year by geographical segments is set out in note 2 to the accounts. No business activity analysis is presented as substantially all the Group's turnover and contribution to results were derived from the operation of a chain of convenience stores in Hong Kong and the Chinese Mainland.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 46.

The directors have declared an interim dividend of 1 HK cent per share, totalling HK$6,685,000, which was paid on 20 August 2003.

The directors recommended the payment of a final dividend of 3 HK cents per share, totalling HK$20,086,500.

RESERVES

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

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$61,000.

FIXED ASSETS

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

SHARE CAPITAL

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

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2003 calculated under the Companies Law (2000 Revision) of the Cayman Islands, amounted to HK$141,432,000 (2002: HK$134,318,000 (restated)).

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 2003 are set out in note 12 to the accounts.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 82.

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 2003 were as follows:

	Options held at 1 January 2003	**Options exercised during the year** *(Note 1)*	**Options lapsed during the year**	**Options held at 31 December 2003**	**Exercise price** HK$	**Grant date**	**Exercisable from**	**Exercisable until**
Continuous contract employees	3,790,000	(1,090,000)	–	2,700,000	0.92	30 December 2000	10 January 2002	9 January 2006
	3,610,000	(960,000)	–	2,650,000	0.92	30 December 2000	10 January 2003	9 January 2006

Note:

1. 2,050,000 share options were exercised at an exercise price of HK$0.92 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$2.03.

(b) Share Option Scheme

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

(i) Purpose of the Scheme

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

SHARE OPTIONS (continued)

(b) Share Option Scheme (continued)

(ii) Qualifying participants

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

(iii) Maximum number of shares

The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes (including the Pre-IPO Share Option Plan in (a) above) must not in aggregate exceed 10% of the Shares in issue as at 6 January 2001 being 65,560,000 Shares, which represent approximately 9.79% of the issued share capital of the Company as at the date of this Report.

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

(iv) Option period

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

(v) Amount payable on application or acceptance

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

SHARE OPTIONS (continued)

(b) Share Option Scheme (continued)

(vi) Subscription price

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

(vii) The remaining life of the Scheme

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

SHARE OPTIONS (continued)

(b) Share Option Scheme (continued)

Details of the share options granted and remain outstanding as at 31 December 2003 were as follows:

	Options held at 1 January 2003	Options granted during the year *(Note 2)*	Options lapsed during the year *(Note 3)*	Options held at 31 December 2003	Exercise price HK$	Grant date	Exercisable from	Exercisable until
(A) Continuous contract employees								
	242,000	–	–	242,000	2.42	21 September 2001	21 September 2002	20 September 2006
	472,000	–	–	472,000	2.42	21 September 2001	21 September 2003	20 September 2006
	2,436,000	–	–	2,436,000	2.785	24 May 2002	24 May 2003	23 May 2007
	620,000	–	(42,000)	578,000	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
	66,000	–	(18,000)	48,000	2.15	23 September 2002	23 September 2004	22 September 2007
	–	1,398,000	(20,000)	1,378,000	1.69	20 May 2003	20 May 2004	19 May 2008
	–	748,000	(12,000)	736,000	1.69	20 May 2003	20 May 2005	19 May 2008
	–	152,000	–	152,000	2.225	30 September 2003	30 September 2004	29 September 2008
	–	180,000	–	180,000	2.225	30 September 2003	30 September 2005	29 September 2008
(B) Directors								
	1,800,000 *(Note 1)*	–	–	1,800,000	2.785	24 May *2002*	24 May *2003*	23 May *2007*

SHARE OPTIONS (continued)

(b) Share Option Scheme (continued)

Notes:

(1) 1,300,000, 250,000 and 250,000 options were respectively granted to the Directors, Messrs. Yeung Lap Bun, Richard and Li Kwok Ho, Bruno and Ms. Wong Yuk Nor, Louisa. Please refer to the section headed "Interests and Short Positions of Directors in the Shares, Underlying Shares and Debentures of the Company and certain major associated corporations" for details.

(2) During the year, options were respectively granted on 20 May 2003 and 30 September 2003. The closing price of the Shares immediately before the date on which the options were granted was HK$1.66 on 19 May 2003 and HK$2.075 on 29 September 2003 respectively.

(3) 92,000 options were lapsed following the cessation of employment of certain grantees.

(4) Rule 23.08 of the GEM Listing Rules stipulates that listed issuers are encouraged to disclose in its annual report the value of options granted to participants set out in (i) to (v) of Rule 23.07 during the financial year. The Directors consider it inappropriate to value the options as there are serious limitations in the application of the Black & Scholes Model and Binomial Model in the valuation of employee share options, especially in the case of the Company of which liquidity of its share trading is relatively low. Detailed explanations are given below on certain assumptions of the models which cannot be followed in the valuation of employee share options of the Company.

a. Options are freely tradeable in the market

In the case of employee share option, it is not freely tradeable and transferable and a vesting period also applies.

b. European exercise terms are used

European exercise terms dictate that the option can only be exercised on expiration date. Employee share option follows the American exercise term which allows the option to be exercised at any time during the option exercisable period. It is impossible to predict when the option will be exercised as it depends on the financial and tax considerations of the option holder concerned.

c. Returns are lognormally distributed

The models are based on a normal distribution of underlying asset returns. In practice underlying asset price distributions often depart significantly from the lognormal.

d. Estimating volatility

The models are making the assumption that the volatility in the past is a good indicator of the volatility in the future. This may not be a valid assumption especially in the case of the Company of which liquidity of its share trading is relatively low. Since the option is not tradeable in the market, it is not possible to calculate the "implied volatility" based on market quotes.

e. Value of underlying share

As the liquidity of the share trading of the Company is relatively low, the current market price may not be an accurate reflection of the value of the underlying Shares.

SHARE OPTIONS (continued)

(b) Share Option Scheme (continued)

Notes: (continued)

(4) (continued)

f. No tax and commissions are charged

This is not a valid assumption in the case of the Company.

g. Interest rates remain constant and known during the option's life

In reality interest rates are expected to fluctuate especially during periods of rapidly changing interest rates. The longer the time to maturity of the option, the more the effect of the interest rate will be important.

Save as disclosed above, as at 31 December 2003, none of the Directors, chief executives, management shareholders or substantial shareholders of the Company or their respective associates have been granted options under the Pre-IPO Share Option Plan and the Scheme.

DIRECTORS

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

Dr. FUNG Kwok King, Victor+
Dr. FUNG Kwok Lun, William+
Mr. LAU Butt Farn+
Mr. LI Kwok Ho, Bruno
Mr. YEUNG Lap Bun, Richard
Ms. WONG Yuk Nor, Louisa+
Dr. CH'IEN Kuo Fung, Raymond*
Mr. AU Man Chung, Malcolm*
Mr. Godfrey Ernest SCOTCHBROOK*

\+ *Non-executive directors*
* *Independent non-executive directors*

In accordance with Articles 86 and 87 of the Company's Articles of Association, Dr. Ch'ien Kuo Fung, Raymond and Mr. Au Man Chung, Malcolm retire and being eligible, offer themselves for re-election.

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

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

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

As at 31 December 2003, the interests and short positions of each of the Directors, chief executives and their associates in the shares, underlying shares and debentures of the Company and certain of its major associated corporations* (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as required to be recorded in the register maintained by the Company pursuant to section 352 of SFO or otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by the Directors under the GEM Listing Rules, 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 1)*	55.84%
Dr. Fung Kwok Lun, William	373,692,000	–	Corporate *(Note 1)*	55.84%
Mr. Yeung Lap Bun, Richard	17,896,000	1,300,000 *(Note 2)*	Personal/beneficiary	2.87%
Mr. Li Kwok Ho, Bruno	2,676,000	250,000 *(Note 3)*	Personal/beneficiary	0.43%
Mr. Lau Butt Farn	2,390,000	–	Personal/beneficiary	0.36%
Ms. Wong Yuk Nor, Louisa	1,338,000	250,000 *(Note 4)*	Personal/beneficiary	0.23%
Dr. Ch'ien Kuo Fung, Raymond	1,000,000	–	Personal/beneficiary	0.14%

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	7,549,123	–	Corporate *(Note 5)*	
			871,052	–	Corporate *(Notes 1 & 6)*	84.80%
	Li & Fung (Distribution) Limited	Full voting ordinary shares	6,800,000	–	Corporate *(Note 7)*	
			–	130,000 *(Note 8)*	Personal/ beneficiary	
			–	160,000 *(Note 9)*	Personal/ beneficiary	70.55%
		Redeemable participating preferred shares	3,060,000	–	Corporate *(Note 7)*	10.41%
Dr. Fung Kwok Lun, William	Li & Fung (Gemini) Limited	Ordinary shares	7,549,123	–	Corporate *(Note 5)*	76.02%
	Li & Fung (Distribution) Limited	Full voting ordinary shares	6,800,000	–	Corporate *(Note 7)*	67.66%
		Redeemable participating preferred shares	3,060,000	–	Corporate *(Note 7)*	10.41%
Mr. Lau Butt Farn	Li & Fung (Distribution) Limited	Full voting ordinary shares	–	32,500 *(Note 8)*	Personal/ beneficiary	
				32,500 *(Note 10)*	Personal/ beneficiary	0.65%

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

* Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William, by virtue of their interests in King Lun Holdings Limited ("King Lun") and the Company are deemed to be interested in the shares and underlying shares of certain associated corporations of the Company under SFO. A waiver from full compliance from Rule 18.15 of the GEM Listing Rules for the disclosure of Directors' interests in the shares and underlying shares of the associated corporations has been granted by the Stock Exchange on 1 March 2004. Accordingly, the companies under the section headed "Interests and Short Positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations" are only the major associated corporations of the Company and are not intended to be exhaustive.

Notes:

1. 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.

2. 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.

3. 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.

4. 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.

5. King Lun through its wholly owned subsidiary, LF (1937) held 7,549,123 shares in Li & Fung (Gemini) Limited ("LFG"). Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun and LF (1937) as set out in note (1) above.

6. 871,052 shares in LFG are owned by a company which is held by J.P. Morgan Trust Company (Jersey) Limited.

7. LFG holds 6,800,000 full voting ordinary shares and 3,060,000 redeemable participating preferred shares in Li & Fung (Distribution) Limited ("LFD"). Dr Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun and LF (1937) and indirect interests in LFG as set out in notes (1) and (5) above.

8. Dr. Fung Kwok King, Victor and Mr. Lau Butt Farn were respectively granted share options on 6 January 1999 and 13 December 1999 to subscribe for 130,000 and 32,500 full voting ordinary shares of US$0.01 each in LFD ("LFD Shares"). As of 31 December 2003, these share options were fully vested in Dr. Fung Kwok King, Victor and Mr. Lau Butt Farn respectively. The share options are exercisable at US$1 per LFD Share within 21 business days after the earliest of (a) the date of issuance of a notice for an initial public offering of LFD Shares, (b) the date of issuance of a notice of the sale of all or substantially all of the business or shares of LFD and (c) 31 December 2006.

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

Notes: (continued)

9. On 6 January 1999, Dr. Fung Kwok King, Victor was granted share options to subscribe for 16,000 LFD Shares for each full percentage point by which certain LFD investors' fully diluted aggregate estimated internal rate of return on a public share offer by LFD, or on a sale of all or substantially all of its business or shares, exceeds 30% per annum, subject to a maximum of 160,000 LFD Shares. The share options are exercisable at US$1 per LFD Share within 21 business days after the date of issuance of a notice of public offer or sale (whichever is earlier) as described in note (8) above.

10. On 12 December 2002, Mr. Lau Butt Farn was granted share options to subscribe for 3,250 LFD Shares for each full percentage point by which certain LFD investors' fully diluted aggregate estimated internal rate of return on a public share offer by LFD, or on a sale of all or substantially all of its business or shares, exceeds 30% per annum, subject to a maximum of 32,500 LFD Shares. The share options are exercisable at US$1 per LFD Share within 21 business days after the date of issuance of a notice of public offer or sale (whichever is earlier) as described in note (8) above.

Save as disclosed above, as at 31 December 2003, 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 2003, 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)*	55.84%
Commonwealth Bank of Australia	49,050,000	Corporate *(Note 2)*	7.33%

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

Long positions in Shares (continued)

Notes:

1. These shares are held by Li & Fung (Retailing) Limited ("LFR"). King Lun Holdings Limited ("King Lun") indirectly owns 100% interests in LFR through its wholly owned subsidiary, Li & Fung (1937) Limited ("LF (1937)"). All of King Lun, LFR and LF (1937) are taken to be interested in the shares. Please refer to Note (1) in the above section headed "Interests and Short Positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations".

2. These shares are held directly by First State Investment Management (UK) Limited, which is indirectly 100% held by Commonwealth Bank of Australia through a chain of 100% held companies, Colonial Ltd, Colonial Holding Company Pty Ltd, Colonial Holding Company (No.2) Pty Limited, The Colonial Mutual Life Assurance Society Ltd, Colonial First State Group Ltd, First State Investment (UK Holdings) Limited and SI Holdings Limited. All of these companies are taken to be interested in the shares under SFO.

Save as disclosed above, as at 31 December 2003, 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	18%
– five largest suppliers combined	49%

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

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

CONNECTED TRANSACTIONS

During the year, the Group had various transactions with related parties (details are set out in note 23 to the accounts on page 81). 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 independent shareholders' approval requirements)" of the Company *(Note 1)*:

		HK$'000
1.	Provision of services by LFR *(Note 2)*	10,358
2.	Net purchases of products from JDH (Hong Kong) Limited *(Note 3)*	7,675
3.	The Circle K Convenience Stores (HK) Limited ("Circle K (HK)") lease *(Note 4)*	1,390
4.	The Web-Logistic (HK) Limited ("Web-Logistic (HK)") lease *(Note 5)*	849

Notes:

1. Before the introduction of the "Amendments to the Listing Rules Relating to Corporate Governance issues and Consultation conclusions on Proposed Amendments to the Listing Rules Relating to Initial Listing Criteria and Continuing Listing Obligations" published on 30 January 2004 (the "Amendments", which will take effect on 31 March 2004), the transactions mentioned herein (the "Transactions") constituted non-exempt connected transactions which required approval of independent shareholders at general meeting on the maximum cap at which the Transactions might be conducted and/or the relevant agreements. However, as a result of the Amendments and confirmation has been obtained from the Stock Exchange of Hong Kong Limited that, the Transactions, upon renewal of the relevant agreements, will all fall within a new category of continuing connected transactions which are exempted from independent shareholders approval requirements.

2. This refers to the provision by LFR to Circle K (HK) for services relating to finance and accounting, management information systems, human resources, real estate and other administrative support pursuant to the agreement dated 20 March 2002 (the "Services Agreement") (details of which were disclosed in the circular to the shareholders of the Company dated 28 March 2002 (the "2002 Circular")). Apart from the payment of the service fee, Circle K (HK) has also reimbursed LFR for utility expenses, insurance premiums and other office or administrative expenses which were paid by LFR on behalf of Circle K (HK).

3. This refers to the net purchases of various products (being food and non-food products) by Circle K (HK) from JDH (Hong Kong) Limited, an indirect subsidiary of LF (1937) which has an effective interest in it of 51.44%, on its standard terms of business pursuant to the agreement dated 20 March 2002 (the "Purchase Agreement") (details of which were disclosed in the 2002 Circular).

4. This refers to the lease payment from Circle K (HK) to Li & Fung Distribution (Management) Limited, an indirect subsidiary of LF (1937), 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. under the lease agreement dated 20 March 2003 (the "Circle K Lease") (details of which were disclosed in the circular to the shareholders of the Company dated 31 March 2003 (the "2003 Circular")). Such premises are used as an office-cum-workshop.

5. This refers to the lease payment from Web-Logistic (HK) to Li & Fung Distribution (Management) Limited, an indirect subsidiary of LF (1937), 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. under the lease agreement dated 20 March 2003 (the "Web-Logistic Lease"), details of which were disclosed in the 2003 Circular. Such premises are used as an office-cum-workshop.

CONNECTED TRANSACTIONS (continued)

The independent non-executive Directors confirmed that the transaction in relation to the provision of services by LFR has been entered into in accordance with the terms of the Services Agreement, the purchase of products from JDH (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 four transactions has been entered into in the ordinary course of business of the Group, and is fair and reasonable to the Company and in the interests of the shareholders of the Company as a whole.

MANAGEMENT CONTRACTS

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

BOARD PRACTICES AND PROCEDURES

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

AUDIT COMMITTEE

The Company established an audit committee on 6 January 2001 with written terms of reference in compliance with Rules 5.23 to 5.27 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises four members, namely Dr. Ch'ien Kuo Fung, Raymond, Mr. Au Man Chung, Malcolm, Mr. Godfrey Ernest Scotchbrook (being independent non-executive Directors) and Mr. Lau Butt Farn (being a non-executive Director). The chairman of the audit committee is Dr. Ch'ien Kuo Fung, Raymond.

During the year, the audit committee met four times to review the internal control, the quarterly, half-year and full year financial reports of the Group prior to recommending them to the Board for approval.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

SPONSOR'S INTERESTS

BNP Paribas Peregrine Capital Limited ("BNP") acted as the Company's sponsor for the period from 18 January 2001 to 31 December 2003. As at 31 December 2003, none of BNP, its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

BNP received usual sponsorship fees for acting as the Company's retained sponsor.

AUDITORS

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

On behalf of the Board
Fung Kwok King, Victor
Chairman

Hong Kong, 3 March 2004

PRICEWATERHOUSECOOPERS

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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 46 to 81 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

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

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of 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 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 3 March 2004

Consolidated Profit and Loss Account

For the year ended 31 December 2003

	Note	**2003 HK$'000**	2002 HK$'000 (Restated)*
Turnover	*2*	**1,526,099**	1,393,542
Cost of sales		**(1,141,575)**	(1,044,124)
Gross profit		**384,524**	349,418
Other revenues	*2*	**120,111**	114,575
Store expenses		**(354,832)**	(316,596)
Distribution costs		**(24,548)**	(21,513)
Administrative expenses		**(56,409)**	(48,255)
Start-up costs for China operations		**–**	(8,339)
Profit before taxation	*3*	**68,846**	69,290
Taxation	*4*	**(12,769)**	(11,639)
Profit after taxation		**56,077**	57,651
Minority interests		**4,630**	2,739
Profit attributable to shareholders	*5 & 17*	**60,707**	60,390
Dividend	*6*	**26,772**	–
Basic earnings per share	*7*	**9.1 cents**	9.1 cents
Diluted earnings per share	*7*	**9.0 cents**	9.0 cents

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

Consolidated Balance Sheet

As at 31 December 2003

	Note	**2003** **HK$'000**	2002 HK$'000 (Restated)
Intangible assets	*10*	**97**	175
Fixed assets	*11*	**97,197**	77,382
Deferred tax assets	*13*	**2,389**	2,779
Current assets			
Inventories		**61,607**	50,556
Rental deposits		**26,737**	24,833
Trade receivables	*14*	**12,896**	15,687
Other receivables, deposits and prepayments		**27,374**	28,766
Bank balances and cash		**460,022**	407,489
		588,636	527,331
Current liabilities			
Amount due to immediate holding company		**1,005**	1,014
Trade payables	*15*	**238,508**	214,118
Other payables and accruals		**38,455**	39,039
Taxation payable		**766**	–
		278,734	254,171
Net current assets		**309,902**	273,160
Total assets less current liabilities		**409,585**	353,496
Financed by:			
Share capital	*16*	**66,921**	66,722
Reserves	*17*	**314,240**	278,630
Proposed final dividend	*17*	**20,087**	–
Shareholders' funds		**401,248**	345,352
Minority interests	*12*	**(1,560)**	297
Long service payment liabilities	*19*	**7,521**	7,200
Deferred tax liabilities	*13*	**2,376**	647
		409,585	353,496

On behalf of the Board

Fung Kwok King, Victor
Director

Yeung Lap Bun, Richard
Director

Balance Sheet

As at 31 December 2003

	Note	2003 HK$'000	2002 HK$'000 (Restated)
Investment in subsidiaries	*12*	**74,165**	59,395
Current assets			
Other receivables, deposits and prepayments		**2,943**	4,903
Bank balances and cash		**416,523**	347,897
		419,466	352,800
Current liabilities			
Other payables and accruals		**1,368**	1,116
Net current assets		**418,098**	351,684
Total assets less current liabilities		**492,263**	411,079
Financed by:			
Share capital	*16*	**66,921**	66,722
Reserves	*17*	**121,345**	134,318
Proposed final dividend	*17*	**20,087**	–
Shareholders' funds		**208,353**	201,040
Loans from a subsidiary	*18*	**283,910**	210,000
Deferred tax liabilities	*13*	**–**	39
		492,263	411,079

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 2003

	Note	2003 HK$'000	2002 HK$'000
Net cash inflow generated from operations	*20(a)*	**113,115**	78,584
Hong Kong profits tax paid		**(9,884)**	–
Net cash inflow from operating activities		**103,231**	78,584
Investing activities			
Purchase of fixed assets		**(52,095)**	(43,491)
Proceeds from disposal of fixed assets		**34**	12
Increase interest in a subsidiary		**(1,206)**	–
Interest received		**6,461**	7,126
Net cash outflow from investing activities		**(46,806)**	(36,353)
Net cash inflow before financing		**56,425**	42,231
Financing activities	*20(b)*		
Proceeds from issuance of shares		**1,831**	10,691
Capital contribution from a minority shareholder		**845**	–
Dividend paid		**(6,685)**	–
Net cash (outflow)/inflow from financing activities		**(4,009)**	10,691
Increase in cash and cash equivalents		**52,416**	52,922
Cash and cash equivalents at 1 January		**407,489**	354,567
Effect of foreign exchange rate changes		**117**	–
Cash and cash equivalents at 31 December		**460,022**	407,489
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**460,022**	407,489

Note:

As at 31 December 2003, the Group's cash and bank balances of HK$16,787,000 (2002: HK$32,560,000) were kept in PRC. The remittance of funds out of this country is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2003

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

1. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

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

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

(b) Consolidation

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

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

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

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

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

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

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Revenue recognition

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

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

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

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

(d) Intangible assets

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

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

(e) Fixed assets

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

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

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

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

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

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Operating leases

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

(g) Inventories

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

(h) Trade receivables

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

(i) Translation of foreign currencies

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

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

(j) Cash and cash equivalents

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

(k) Provisions

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Profit sharing and bonus plans

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

(iii) Pension obligations

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

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

(iv) Long service payment liabilities

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

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Employee benefits (continued)

(iv) Long service payment liabilities (continued)

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

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

As detailed in the consolidated statement of changes in equity and note 17 to the accounts, opening accumulated losses at 1 January 2002 and 2003 have been increased by HK$7,132,000 and HK$7,200,000 respectively which represent the unprovided long service payment liabilities. This change has resulted in an increase in long service payment liabilities at 31 December 2002 by HK$7,200,000. The profit for the year ended 31 December 2002 has been reduced by HK$68,000.

(m) Deferred taxation

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

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

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

As detailed in the consolidated statement of changes in equity and note 17 to the accounts, opening accumulated losses at 1 January 2002 and 2003 have been reduced by HK$13,798,000 and HK$2,139,000 respectively which represent the unprovided net deferred tax assets. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31 December 2002 by HK$2,779,000 and HK$647,000 respectively. The profit attributable to shareholders for the year ended 31 December 2002 has been reduced by HK$11,659,000.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(n) Segment reporting

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

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

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

2. TURNOVER, OTHER REVENUES AND SEGMENT INFORMATION

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

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

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

Primary reporting format – geographical segments

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

	Hong Kong	Chinese Mainland	Group
	2003	2003	2003
	HK$'000	HK$'000	HK$'000
Turnover from external customers	1,517,078	9,021	1,526,099
Other revenues from external customers	112,698	952	113,650
	1,629,776	9,973	1,639,749
Segment results	75,601	(13,216)	62,385
Interest income			6,461
Profit before taxation			68,846
Taxation			(12,769)
Profit after taxation			56,077
Minority interests	72	4,558	4,630
Profit attributable to shareholders			60,707
Segment assets	222,116	35,445	257,561
Unallocated assets			430,758
Total assets			688,319
Segment liabilities	271,587	13,902	285,489
Unallocated liabilities			3,142
Total liabilities			288,631
Capital expenditure	34,173	20,997	55,170
Depreciation	31,465	3,240	34,705
Amortisation	78	–	78

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

Primary reporting format – geographical segments (continued)

	Hong Kong 2002 HK$'000	Chinese Mainland 2002 HK$'000	Group 2002 HK$'000 (Restated)
Turnover from external customers	1,393,288	254	1,393,542
Other revenues from external customers	107,431	18	107,449
	1,500,719	272	1,500,991
Segment results	65,842	(3,678)	62,164
Interest income			7,126
Profit before taxation			69,290
Taxation			(11,639)
Profit after taxation			57,651
Minority interests	290	2,449	2,739
Profit attributable to shareholders			60,390
Segment assets	214,793	12,095	226,888
Unallocated assets			380,779
Total assets			607,667
Segment liabilities	249,511	11,860	261,371
Unallocated liabilities			647
Total liabilities			262,018
Capital expenditure	37,417	7,552	44,969
Depreciation	25,621	142	25,763
Amortisation	78	–	78

There are no sales between the geographical segments.

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

Primary reporting format – geographical segments (continued)

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

3. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging the following:

	Group	
	2003	2002
	HK$'000	HK$'000
Amortisation of franchise licence	**78**	78
Auditors' remuneration		
Charge for the current year	**616**	689
Over provision in prior year	**(76)**	–
Cost of inventories sold	**1,126,685**	1,031,368
Depreciation of owned fixed assets	**34,705**	25,763
Loss on disposal of fixed assets	**472**	791
Operating leases rental for land and buildings	**103,507**	93,243

4. TAXATION

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

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

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

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

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

5. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$12,167,000 (2002: HK$3,058,000 (restated)).

6. DIVIDEND

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

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

7. EARNINGS PER SHARE

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

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

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

8. STAFF COSTS

	Group	
	2003	2002
	HK$'000	HK$'000
		(Restated)
Wages and salaries	**177,011**	162,722
Unutilised annual leave	**572**	–
Pension costs – defined contribution scheme	**8,421**	7,436
Long service payment costs *(Note 19)*	**388**	294
	186,392	170,452

Note:

The staff costs include directors' emoluments.

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	2003	2002
	HK$'000	HK$'000
Fees	**270**	270
Basic salaries, housing allowances, other allowances and benefits in kind	**2,785**	2,906
Discretionary bonuses	**3,060**	3,005
Pension costs – defined contribution scheme	**24**	24
	6,139	6,205

In addition to the directors' emoluments disclosed above, certain directors of the Company had emoluments receivable from the immediate holding company, which totals HK$4,695,000 (2002: HK$4,838,000), 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.

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

(a) Directors' emoluments (continued)

Directors' fees disclosed above include HK$90,000 (2002: HK$90,000) payable to independent non-executive directors.

During the year, no (2002: 1,800,000) option was granted to the directors under the Share Option Scheme approved by a written resolution of the shareholders on 6 January 2001. The market value per share at the date before the options were granted in 2002 was HK$2.625.

The emoluments of the directors fell within the following bands:

	Number of directors	
	2003	2002
HK$ Nil – HK$1,000,000	**8**	8
HK$4,500,001 – HK$5,500,000	**1**	1
	9	9

The individual emoluments of the executive directors for the year ended 31 December 2003 were approximately HK$5,262,000 (2002: HK$5,303,000) and HK$667,000 (2002: HK$692,000) respectively.

No director waived or agreed to waive any of their emoluments in respect of the years ended 31 December 2003 and 2002.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2002: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2002: four) individuals during the year are as follows:

	2003	2002
	HK$'000	HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**4,511**	4,228
Bonuses	**1,089**	896
Pension costs – defined contribution scheme	**36**	48
	5,636	5,172

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

(b) Five highest paid individuals (continued)

The emoluments of the employees fell within the following bands:

	Number of individuals	
	2003	2002
HK$1,000,001 – HK$1,500,000	**3**	4
HK$2,000,001 – HK$2,500,000	**1**	–
	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.

10. INTANGIBLE ASSETS

	Group	
	2003	2002
	HK$'000	HK$'000
Franchise licence, at cost	**1,559**	1,559
Less: accumulated amortisation	**(1,462)**	(1,384)
	97	175

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

11. FIXED ASSETS

	Group				
	Properties	Leasehold improvements	Equipment, furniture and fixtures	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Costs					
At 1 January 2003	1,478	60,168	156,847	3,967	222,460
Exchange adjustment	(24)	(27)	(81)	(15)	(147)
Additions	14,948	4,390	34,917	915	55,170
Disposals	–	(15,453)	(19,096)	(430)	(34,979)
At 31 December 2003	16,402	49,078	172,587	4,437	242,504
Accumulated depreciation					
At 1 January 2003	5	41,415	101,131	2,527	145,078
Exchange adjustment	–	(1)	(2)	–	(3)
Charge for the year	182	8,169	25,876	478	34,705
Disposals	–	(15,451)	(18,592)	(430)	(34,473)
At 31 December 2003	187	34,132	108,413	2,575	145,307
Net book value					
At 31 December 2003	16,215	14,946	64,174	1,862	97,197
At 31 December 2002	1,473	18,753	55,716	1,440	77,382

The Group's interest in properties at its net book value is analysed as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Outside Hong Kong, held on:		
Leases of 10 to 50 years	**16,215**	1,473

12. INVESTMENT IN SUBSIDIARIES

	Company	
	2003	2002
	HK$'000	HK$'000
Investment at cost:		
Unlisted shares	**6,769**	6,769
Loans to subsidiaries	**55,166**	49,550
Amounts due from subsidiaries	**12,230**	8,911
Amount due to a subsidiary	**–**	(5,835)
	74,165	59,395

Loans to and amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The following is a list of the subsidiaries of the Company as at 31 December 2003:

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%

12. INVESTMENT IN SUBSIDIARIES (continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Interest held
Indirectly held: (continued)				
Circle K Convenience Stores PRC (BVI) Limited	British Virgin Islands, limited liability company	Inactive	1 ordinary share of US$1 each	100%
Circle K Convenience Stores PRC Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	2 ordinary shares of HK$1 each	100%
Circle K PRC Properties Limited	Hong Kong, limited liability company	Property holding in PRC	2 ordinary shares of HK$1 each	100%
Convenience Retail Southern China Limited (formerly known as New Kent Investments Limited)	Hong Kong, limited liability company	Inactive	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 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 2003, the paid-up capital amounted to RMB44,722,000 (2002: RMB40,548,000). In accordance with the Co-operative Agreement dated 20 December 2001, the minority shareholders have binding obligation to inject additional capital of RMB15,278,000 into the company before 17 November 2005.

13. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

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

	Group	
	2003	2002
	HK$'000	HK$'000
		(Restated)
At 1 January	**(2,132)**	(13,771)
Deferred taxation charged to profit and loss account *(Note 4)*	**2,119**	11,639
At 31 December	**(13)**	(2,132)

	Company	
	2003	2002
	HK$'000	HK$'000
		(Restated)
At 1 January	**39**	26
Deferred taxation (credited)/charged to profit and loss account	**(39)**	13
At 31 December	**–**	39

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

13. **DEFERRED TAXATION** (continued)

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

	Group					
Deferred tax liabilities	**Accelerated tax depreciation**		**Others**		**Total**	
	2003	2002	**2003**	2002	**2003**	2002
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)
At 1 January	**2,193**	936	**248**	220	**2,441**	1,156
Charged/(credited) to profit and loss account	**623**	1,257	**(244)**	28	**379**	1,285
At 31 December	**2,816**	2,193	**4**	248	**2,820**	2,441

	Group					
Deferred tax assets	**Tax losses**		**Others**		**Total**	
	2003	2002	**2003**	2002	**2003**	2002
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)
At 1 January	**(4,116)**	(14,272)	**(457)**	(655)	**(4,573)**	(14,927)
Charged to profit and loss account	**1,691**	10,156	**49**	198	**1,740**	10,354
At 31 December	**(2,425)**	(4,116)	**(408)**	(457)	**(2,833)**	(4,573)

	Company	
Deferred tax liabilities	**Others**	
	2003	2002
	HK$'000	HK$'000 (Restated)
At 1 January	**39**	26
(Credited)/charged to profit and loss account	**(39)**	13
At 31 December	**–**	39

13. DEFERRED TAXATION (continued)

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

	Group	
	2003	2002
	HK$'000	HK$'000
		(Restated)
Deferred tax assets	**(2,389)**	(2,779)
Deferred tax liabilities	**2,376**	647

	Company	
	2003	2002
	HK$'000	HK$'000
		(Restated)
Deferred tax liabilities	**–**	39

14. TRADE RECEIVABLES

Majority of the Group's turnover are cash sales. The Group's credit terms on trade receivables from other revenues mainly range from 30 days to 60 days. At 31 December 2003, the ageing analysis of trade receivables was as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
0-30 days	**11,038**	12,428
31-60 days	**1,613**	2,591
61-90 days	**68**	514
Over 90 days	**177**	154
	12,896	15,687

15. TRADE PAYABLES

At 31 December 2003, the ageing analysis of the trade payables was as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
0-30 days	**116,256**	104,313
31-60 days	**67,397**	65,435
61-90 days	**37,002**	30,709
Over 90 days	**17,853**	13,661
	238,508	214,118

16. SHARE CAPITAL

	2003 Shares of HK$0.1 each		2002 Shares of HK$0.1 each	
	No. of shares	**HK$'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	**667,220,000**	**66,722**	655,600,000	65,560
Issuance of shares *(Note a)*	**1,990,000**	**199**	11,620,000	1,162
At 31 December	**669,210,000**	**66,921**	667,220,000	66,722

Note:

(a) During the year, 1,990,000 (2002: 11,620,000) 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.

16. **SHARE CAPITAL** (continued)

Share options

(i) Pre-IPO Share Option Plan

On 27 December 2000, a Pre-IPO Share Option Plan (the “Pre-IPO Share Option Plan”) was approved by a written resolution of the shareholders of the Company under which the board of Directors may, at its discretion, grant options to full time or part time employees of the Group entitling them to subscribe for shares representing up to a maximum of 19,930,000 Shares of HK$0.10 each. 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 2003 which have been granted under the Pre-IPO Share Option Plan were as follows:

Grant date	Options held at 1 January 2003	Options exercised during the year	Options lapsed during the year	Options held at 31 December 2003	Exercise price HK$	Exercisable from	Exercisable until
30 December 2000	3,790,000	(1,090,000)	–	2,700,000	0.92	10 January 2002	9 January 2006
30 December 2000	3,610,000	(960,000)	–	2,650,000	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.

16. SHARE CAPITAL (continued)

Share options (continued)

(ii) Share Option Scheme (continued)

Details of the share options granted and outstanding as at 31 December 2003 were as follows:

Grant date	Options held at 1 January 2003	Options granted during the year	Options lapsed during the year	Options held at 31 December 2003	Exercise price HK$	Exercisable from	Exercisable until
21 September 2001	242,000	–	–	242,000	2.42	21 September 2002	20 September 2006
21 September 2001	472,000	–	–	472,000	2.42	21 September 2003	20 September 2006
24 May 2002	4,236,000	–	–	4,236,000	2.785	24 May 2003	23 May 2007
24 May 2002	620,000	–	(42,000)	578,000	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	66,000	–	(18,000)	48,000	2.15	23 September 2004	22 September 2007
20 May 2003	–	1,398,000	(20,000)	1,378,000	1.69	20 May 2004	19 May 2008
20 May 2003	–	748,000	(12,000)	736,000	1.69	20 May 2005	19 May 2008
30 September 2003	–	152,000	–	152,000	2.225	30 September 2004	29 September 2008
30 September 2003	–	180,000	–	180,000	2.225	30 September 2005	29 September 2008

17. RESERVES

(a) Group

	Share premium HK$'000	Merger reserve HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2002, as previously reported	103,915	177,087	13,433	–	(92,390)	202,045
Effect of changes in accounting policies						
– deferred tax *(note 1(m))*	–	–	–	–	13,798	13,798
– long service payment liabilities *(note 1(l))*	–	–	–	–	(7,132)	(7,132)
At 1 January 2002, as restated	103,915	177,087	13,433	–	(85,724)	208,711
Premium arising from issuance of shares	9,529	–	–	–	–	9,529
Profit for the year attributable to shareholders	–	–	–	–	60,390	60,390
At 31 December 2002	113,444	177,087	13,433	–	(25,334)	278,630
At 1 January 2003, as previously reported	113,444	177,087	13,433	–	(20,273)	283,691
Effect of changes in accounting policies						
– deferred tax *(note 1(m))*	–	–	–	–	2,139	2,139
– long service payment liabilities *(note 1(l))*	–	–	–	–	(7,200)	(7,200)
At 1 January 2003, as restated	113,444	177,087	13,433	–	(25,334)	278,630
Premium arising from issuance of shares	1,632	–	–	–	–	1,632
Exchange differences	–	–	–	43	–	43
Profit for the year attributable to shareholders	–	–	–	–	60,707	60,707
Dividend	–	–	–	–	(6,685)	(6,685)
At 31 December 2003	115,076	177,087	13,433	43	28,688	334,327

Representing:

Reserves	314,240
2003 final dividend proposed	20,087
	334,327

17. RESERVES (continued)

(b) Company

	Share premium HK$'000	Capital reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2002, as previously reported	103,915	12,792	5,050	121,757
Effect of changes in accounting policy – deferred tax	–	–	(26)	(26)
At 1 January 2002, as restated	103,915	12,792	5,024	121,731
Premium arising from issuance of shares	9,529	–	–	9,529
Profit for the year attributable to shareholders	–	–	3,058	3,058
At 31 December 2002	113,444	12,792	8,082	134,318
At 1 January 2003, as previously reported	113,444	12,792	8,121	134,357
Effect of changes in accounting policy – deferred tax	–	–	(39)	(39)
At 1 January 2003, as restated	113,444	12,792	8,082	134,318
Premium arising from issuance of shares	1,632	–	–	1,632
Profit for the year attributable to shareholders	–	–	12,167	12,167
Dividend	–	–	(6,685)	(6,685)
At 31 December 2003	115,076	12,792	13,564	141,432
Representing:				
Reserves				121,345
2003 final dividend proposed				20,087
				141,432

18. LOANS FROM A SUBSIDIARY

Loans from a subsidiary are unsecured, interest-free and have no fixed terms of repayment.

19. LONG SERVICE PAYMENT LIABILITIES

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

An actuarial valuation of long service payment liabilities was carried out at 31 December 2003, by Watson Wyatt Hong Kong Limited, using the projected unit credit method.

The amounts recognised in the balance sheet are as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
		(Restated)
Present value of unfunded obligations	**6,901**	7,200
Net unrecognised actuarial gains	**620**	–
Liability in the balance sheet	**7,521**	7,200

Movements in the liability recognised in the balance sheet:

	Group	
	2003	2002
	HK$'000	HK$'000
		(Restated)
At 1 January	**7,200**	7,132
Expenses recognised in the profit and loss account		
– as shown below	**388**	294
Benefits paid	**(67)**	(226)
At 31 December	**7,521**	7,200

19. LONG SERVICE PAYMENT LIABILITIES (continued)

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

	2003	2002
	HK$'000	HK$'000
		(Restated)
Current service cost	**10**	11
Interest cost	**378**	283
Total, included in staff costs *(Note 8)*	**388**	294

Of the total charge, HK$299,000 (2002: HK$227,000), HK$24,000 (2002: HK$14,000) and HK$65,000 (2002: HK$53,000) were included, respectively, in store expenses, distribution costs and administrative expenses.

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

	2003	2002
Discount rate	**4%**	4%
Long term rate of salary increases	**2%**	2%
Long term rate of increases to mandatory provident fund relevant income and long service payments maximum amount/wages	**2%**	2%

20. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow from operations

	2003	2002
	HK$'000	HK$'000
		(Restated)
Profit before taxation	**68,846**	69,290
Interest income	**(6,461)**	(7,126)
Depreciation of owned fixed assets	**34,705**	25,763
Loss on disposal of fixed assets	**472**	791
Amortisation of franchise licence	**78**	78
Operating profit before working capital changes	**97,640**	88,796
Increase in inventories	**(11,051)**	(15,035)
Decrease/(increase) in trade receivables, rental deposits, other receivables, deposits and prepayments	**2,279**	(6,704)
(Decrease)/increase in amount due to immediate holding company	**(9)**	293
Increase in trade payables, other payables and accruals	**23,806**	11,166
Increase in long service payment liabilities	**321**	68
Effect of foreign exchange movement	**129**	–
Net cash inflow from operations	**113,115**	78,584

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

(b) Analysis of changes in financing during the year

	Share capital including premium		Minority interests	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000 (Restated)
At 1 January	**180,166**	169,475	**297**	1,558
Exchange differences	**–**	–	**59**	–
Net proceeds from issuance of shares	**1,831**	10,691	**–**	–
Capital contribution from a minority shareholder	**–**	–	**845**	–
Increase interest in a subsidiary	**–**	–	**(1,206)**	–
Non-cash movements				
Capital contribution from a minority shareholder *(note)*	**–**	–	**3,075**	1,478
Minority interests' share of loss and exchange reserve	**–**	–	**(4,630)**	(2,739)
At 31 December	**181,997**	180,166	**(1,560)**	297

Note:

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

21. COMMITMENTS

(a) Capital commitments

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

	Group	
	2003	2002
	HK$'000	HK$'000
Contracted but not provided for	**2,660**	4,346
Authorised but not contracted for	**2,055**	4,951
	4,715	9,297

(b) Commitments under operating leases

At 31 December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Not later than one year	**95,386**	82,464
Later than one year and not later than five years	**77,264**	73,378
	172,650	155,842

22. CONTINGENT LIABILITIES

	Company	
	2003	2002
	HK$'000	HK$'000
Guarantees for bank loans and overdrafts of a subsidiary	**50,888**	50,888

23. RELATED PARTY TRANSACTIONS

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

		Group	
	Note	**2003**	2002
		HK$'000	HK$'000
Net purchases from related companies	*a*	**7,675**	8,468
Management fee and reimbursement of office and administrative expenses to LFR	*b*	**10,478**	9,396
Rental payable to group companies	*c*	**3,120**	2,969

Note:

(a) Purchases from a fellow subsidiary were carried out on normal commercial terms in ordinary course of business and on terms mutually agreed between the Group and the related companies. Purchases were also made from an associated company of an intermediate holding company in 2002.

(b) Management fee and reimbursements payable to the immediate holding company in respect of office and administrative expenses incurred are charged on an actual cost recovery basis.

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

24. ULTIMATE HOLDING COMPANY

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

25. APPROVAL OF ACCOUNTS

The accounts were approved by the board of Directors on 3 March 2004.

Five Year Financial Summary

The following table summaries the results, assets and liabilities of the Group for the five years ended 31 December 2003.

	2003	2002	2001	2000	1999
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Turnover	**1,526,099**	1,393,542	1,305,124	1,140,671	972,921
Profit attributable to shareholders	**60,707**	60,390	54,727	40,031	5,258
Total assets	**688,319**	607,667	525,851	286,026	172,036
Total liabilities	**(288,631)**	(262,018)	(250,022)	(227,232)	(346,021)
Minority interests	**1,560**	(297)	(1,558)	(1,956)	–
Surplus/(deficit) on shareholders' funds	**401,248**	345,352	274,271	56,838	(173,985)

Note:

The results, total assets and total liabilities of the Group for the years ended 31 December 2000 and 1999 have been prepared on a combined basis as if the Company had been the holding company of the Group throughout the years.