



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.

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This document, for which the directors of Convenience Retail Asia Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to Convenience Retail Asia Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this document 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 document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

**FIRST QUARTERLY RESULTS
FOR THE THREE MONTHS ENDED 31 MARCH 2004**

		2004	2003
• Group Turnover	+15%	HK\$403,700,000	HK\$349,600,000
• Group Profit	+17%	HK\$8,509,000	HK\$7,256,000
• Earnings Per Share (Basic)	+18%	1.3 cents	1.1 cents

HIGHLIGHTS

- ☑ Improved economic outlook and recovery in retail market in Hong Kong contributed to a strong performance in turnover and profit.
- ☑ Number of stores in Hong Kong increased by 4 to 190 during the quarter.
- ☑ Number of stores in Guangzhou increased by 3 to 10 during the quarter.
- ☑ Strong cash position with HK\$466.7 million and no bank borrowings as at 31 March 2004.
- ☑ Growing pressure on retail rental levels in Hong Kong due to speculative transactions which generated unrealistic expectations among landlords.
- ☑ Focus on store network expansion in Guangzhou and the Pearl River Delta in the coming months.

CHAIRMAN'S STATEMENT

Financial Review

I am pleased to report the unaudited results of Convenience Retail Asia Limited and its subsidiaries (the "Group") for the first quarter of 2004. During the three-month period ended 31 March 2004, the Group recorded a satisfactory increase in both turnover and profit, underpinned by an overall economic recovery in Hong Kong.

During the first quarter of 2004, the Group's turnover was HK\$403.7 million, an increase of 15% when compared to the same period last year. Comparable stores sales (stores in existence throughout the first quarter of 2003 and 2004) in Hong Kong and Guangzhou showed an increase of 5% and 10% respectively when compared to the first quarter of 2003. At the end of the first quarter of 2004, there were a total of 190 stores in Hong Kong and 10 stores in Guangzhou compared to 168 stores in Hong Kong and 4 stores in Guangzhou as at the end of the first quarter of 2003.

Gross margin excluding interest increased slightly from 31% in 2003 to 31.3% in 2004, mainly due to an increase in promotional income and incentive rebates from suppliers.

Both store expenses and administrative expenses as a percentage of turnover dropped below the levels achieved last year. The combination of an increase in turnover and a decrease in store operating and administrative expenses (as a percentage of turnover) led to an increase in profit attributable to shareholders of 17% to HK\$8.5 million during the quarter.


Review of Hong Kong Operations

The first quarter of 2004 began with a healthy rebound in the local economy, which started in the last quarter of 2003 and was well sustained by strong performance of the stock market, a robust recovery of property prices and a continued increase in the number of mainland Chinese tourists visiting Hong Kong.

For the first two months of 2004, total retail sales in Hong Kong increased by 8%* in value compared with the same period a year earlier. This reflected a continued revival in local consumer demand together with a sustained growth in inbound tourism.

The turnaround in consumer sentiment was amply reflected in the Group's strong sales performance in the first quarter, notably the 5% increase in comparable store sales, which reversed the negative trend of the last two years.

* *"Provisional statistics of retail sales for February 2004" published by the Census and Statistics Department on 6 April 2004.*



Review of Guangzhou Operations

With a total of ten stores in operation at the end of the first quarter, the Group's Guangzhou operation embarked on a phase of strategic brand building and product awareness promotion.

The grand opening of the Group's tenth outlet at a company-owned store offered an ideal occasion for generating publicity and developing customer relationships. A chain wide celebration of the event created considerable media interest as well as incremental customer traffic and sales.

In addition, promotional and thematic campaigns were launched to support a variety of new products. Consumer acceptance of the new offerings was most encouraging and sales of special occasion gifts were outstanding.

At the operations level, stringent cost control measures were implemented to improve store margins.

Business Outlook


Economic indicators for both Hong Kong and Guangzhou seem to be signaling a year of healthy growth and a return to normal market conditions, after a year battered by SARS.

The Group maintains an optimistic view about business performance for the rest of the year. This confidence is further supported by the better-than-expected business results in the first quarter.

In Guangzhou, the focus will be the aggressive expansion of stores, the control of operational costs and the reduction of capital expenditure. Brand building and product promotion will be the two key objectives of the marketing programme to increase store traffic and transaction value. The Group is also making preparations to expand into other cities in the Pearl River Delta.

In Hong Kong, profit maximisation through incremental sales and margin improvement will be the main strategic thrust.

The only area of caution in Hong Kong is the escalation of retail rental levels as a result of increased speculative transactions in retail properties after Chinese New Year, which raised landlords' expectations to unrealistic levels. However, it is expected that in the later part of 2004, retail rentals would return to a more realistic level.



It is the Group's intention to exercise caution and prudence in this market environment, rather than rashly committing to excessive rental levels. Hence, the pace of the new store opening programme in Hong Kong will be somewhat moderated in the short term.

In conclusion, the Group is well prepared to fully exploit the opportunities for growth and expansion provided by the favourable economic environment that is expected to prevail during the rest of the year, in both Hong Kong and Guangzhou.

Fung Kwok King, Victor

Chairman

Hong Kong, 5 May 2004

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

RESULTS

The Board of Directors (“the Board”) is pleased to announce the unaudited results of the Group for the three months ended 31 March 2004, together with the comparative unaudited figures for the corresponding period ended 31 March 2003 as follows:

	<i>Note</i>	Three months ended 31 March	
		2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	2	403,700	349,600
Cost of sales		<u>(305,059)</u>	<u>(264,638)</u>
Gross profit		98,641	84,962
Other revenues	2	29,138	24,919
Store expenses		(96,585)	(84,559)
Distribution costs		(6,856)	(5,080)
Administrative expenses		<u>(14,699)</u>	<u>(12,770)</u>
Profit before taxation		9,639	7,472
Taxation	3	<u>(2,362)</u>	<u>(1,473)</u>
Profit after taxation		7,277	5,999
Minority interest		<u>1,232</u>	<u>1,257</u>
Profit attributable to shareholders		<u><u>8,509</u></u>	<u><u>7,256</u></u>
Basic earnings per share	4	<u><u>1.3 cents</u></u>	<u><u>1.1 cents</u></u>

Notes:

1. Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention.

2. Turnover and other revenues

The Group is principally engaged in the operation of a chain of convenience stores. Revenues recognised during the three months ended 31 March 2004 are as follows:

	Three months ended	
	31 March	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Merchandise sales revenue	403,700	349,600
Other revenues		
Supplier rebate and promotion fees	23,164	20,023
Service items income	4,374	3,258
Interest income	1,600	1,638
	29,138	24,919
Total revenues	<u>432,838</u>	<u>374,519</u>

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

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

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

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

3. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the three months ended 31 March 2004. No Hong Kong profits tax had been provided for the three months ended 31 March 2003 as the Group had been able to utilise available tax losses brought forward from previous years to offset the assessable profit for the period. No provision for overseas profits tax has been made as the Group has no overseas estimated assessable profit for the three months ended 31 March 2004 and 2003.

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

	Three months ended 31 March	
	2004 HK\$'000	2003 HK\$'000
Current taxation – Hong Kong profits tax	1,337	–
Deferred taxation relating to the origination and reversal of temporary differences	1,025	1,673
Deferred taxation resulting from an increase in tax rate	–	(200)
	<hr/>	<hr/>
Taxation	<u>2,362</u>	<u>1,473</u>

4. Earnings per share

The calculation of the Group's basic earnings per share for the three months ended 31 March 2004 is based on the unaudited consolidated profit attributable to shareholders of HK\$8,509,000 (2003: HK\$7,256,000).

The basic earnings per share is based on the weighted average of 669,547,692 (2003: 667,639,333) shares of HK\$0.10 each (the "Shares") in issue during the three months ended 31 March 2004.

Diluted earnings per share for the three months ended 31 March 2004 and 2003 are not shown as there is no dilutive effect arising from the share options granted by the Company.

5. Interim dividends

The Board does not recommend payment of an interim dividend for the three months ended 31 March 2004 (2003: Nil).

6. Loss attributable to shareholders from Chinese Mainland operations

Loss attributable to shareholders from Chinese Mainland operations for the three months ended 31 March 2004 amounted to HK\$2,289,000 (2003: HK\$2,217,000).

7. Reserves

Movements in reserves of the Group during the three months ended 31 March 2004 were as follows:

	Three months ended 31 March						2003
	Share premium	Merger reserve	Capital reserve	Exchange reserve	Retained earnings	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January, as previously reported	115,076	177,087	13,433	43	28,688	334,327	283,691
Effect of changes in accounting policies							
– deferred tax	–	–	–	–	–	–	2,139
– long service payment liabilities	–	–	–	–	–	–	(7,200)
At 1 January, as restated	115,076	177,087	13,433	43	28,688	334,327	278,630
Issue of Shares	623	–	–	–	–	623	565
Profit for the period attributable to shareholders	–	–	–	–	8,509	8,509	7,256
At 31 March	<u>115,699</u>	<u>177,087</u>	<u>13,433</u>	<u>43</u>	<u>37,197</u>	<u>343,459</u>	<u>286,451</u>
Representing:							
Reserves						323,353	
2003 final dividend						20,106	
						<u>343,459</u>	

COMPETING INTERESTS

During the period under review, 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.

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

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

The Company

Long positions in Shares and the underlying Shares of equity derivatives

Name of Directors	Number of		Nature of interests/ Holding capacity	Approximate percentage of interests
	(i) Shares	(ii) underlying Shares		
Dr. Fung Kwok King, Victor	373,692,000	–	Corporate (Note 1)	55.78%
Dr. Fung Kwok Lun, William	373,692,000	–	Corporate (Note 1)	55.78%
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%

Major associated corporations

Long positions in shares and the underlying shares of equity derivatives

Name of Directors	Name of associated corporations	Class of shares	Number of		Nature of interests/ Holding capacity	Approximate percentage of interests
			(i) shares	(ii) underlying shares		
Dr. Fung Kwok King, Victor	Li & Fung (Gemini) Limited	Ordinary shares	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	–
		Redeemable participating preferred shares	3,060,000		–	Corporate (Note 7)

Name of Directors	Name of associated corporations	Class of shares	Number of		Nature of interests/ Holding capacity	Approximate percentage of interests
			(i) shares	(ii) underlying shares		
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%

* *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 18.69 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 26 April 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:

- King Lun through its indirect wholly owned subsidiary, Li & Fung (Retailing) Limited (“LFR”) (a wholly owned subsidiary of Li & Fung (1937) Limited (“LF (1937)”) held 373,692,000 Shares in the Company. 1,332,840 shares in King Lun, representing 50% of its issued share capital, are owned by J.P. Morgan Trust Company (Jersey) Limited, the trustee of a trust established for the benefit of the family members of Dr. Fung Kwok King, Victor. The remaining 50% of King Lun is owned by Dr. Fung Kwok Lun, William.
- On 24 May 2002, Mr. Yeung Lap Bun, Richard was granted share options to subscribe for 1,300,000 Shares pursuant to the Share Option Scheme of the Company. The options are exercisable at a subscription price of HK\$2.785 per Share during the period from 24 May 2003 to 23 May 2007. No relevant share options have been exercised.
- On 24 May 2002, Mr. Li Kwok Ho, Bruno was granted share options to subscribe for 250,000 Shares pursuant to the Share Option Scheme of the Company. The options are exercisable at a subscription price of HK\$2.785 per Share during the period from 24 May 2003 to 23 May 2007. No relevant share options have been exercised.
- On 24 May 2002, Ms. Wong Yuk Nor, Louisa was granted share options to subscribe for 250,000 Shares pursuant to the Share Option Scheme of the Company. The options are exercisable at a subscription price of HK\$2.785 per Share during the period from 24 May 2003 to 23 May 2007. No relevant share options have been exercised.
- King Lun through its wholly owned subsidiary, LF (1937) held 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.
- 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”). All 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.
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 March 2004, none of the Directors, chief executives and their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations.

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

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

Long positions in Shares

Name	Number of Shares	Nature of interests/ Holding capacity	Approximate percentage of interests
King Lun Holdings Limited	373,692,000	Corporate (Note 1)	55.78%
Commonwealth Bank of Australia	54,510,000	Corporate (Note 2)	8.14%
Overlook Investments (BVI) Limited	34,272,000	Other (Note 3)	5.12%

Notes:

- 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”.
- These shares are indirectly held by Commonwealth Bank of Australia through a chain of 100% owned companies, namely 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, SI Holdings Limited, First State Investment Management (UK) Limited, First State Investment Managers (Asia) Ltd, First State Investments (Bermuda) Ltd, First State (Hong Kong) LLC and First State Investments (Hong Kong) Limited.
- These shares are held by Overlook Investments (BVI) Limited, as general partner for Overlook Investments L.P., the general partner of The Overlook Partners Fund L.P. Overlook Investments (BVI) Limited is jointly owned by Richard Hurd Lawrence, Jr. and Dee Macleod Lawrence, all of whom are taken to be interested in such shares under SFO.

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



AUDIT COMMITTEE

The Company established an audit committee on 6 January 2001 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to 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.

The audit committee has reviewed with management this unaudited quarterly report for the period ended 31 March 2004.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.