Convenience Retail Asia

Convenience Retail Asia Limited

利亞零售有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8052)

Annual Report 2006

Building for the next
100 Years
LI & FUNG GROUP

利豐

Member of the Li & Fung Group

The 250th Circle K store in Hong Kong was officially opened at G/F, Hsin Kuang Centre, 120 Lung Cheung Road, Wong Tai Sin on 13 December 2006.

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.

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The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This annual report (the "Report"), for which the directors of Convenience Retail Asia Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange for the purpose of giving information with regard to Convenience Retail Asia Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this Report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this Report misleading; and (3) all opinions expressed in this Report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Corporate Information

Executive Directors	Yeung Lap Bun, Richard *(Chief Executive Officer)* Li Kwok Ho, Bruno *(Chief Financial Officer)*
Non-executive Directors	Dr. Fung Kwok King, Victor+ *(Chairman)* Dr. Fung Kwok Lun, William Godfrey Ernest Scotchbrook* Jeremy Paul Egerton Hobbins* Wong Yuk Nor, Louisa
Independent Non-executive Directors	Dr. Ch'ien Kuo Fung, Raymond*+ Au Man Chung, Malcolm*+ Lo Kai Yiu, Anthony*
Group Chief Compliance Officer	Siu Kai Lau, James
Company Secretary	Wong Wing Ha (FCIS)
Qualified Accountant	Hui Chi Ho, Sam (HKICPA)
Registered Office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111, Cayman Islands
Head Office and Principal Place of Business	12th Floor, LiFung Centre 2 On Ping Street Siu Lek Yuen Shatin New Territories Hong Kong
Legal Advisers	Johnson Stokes & Master (as to Hong Kong Law) Conyers Dill & Pearman, Cayman (as to Cayman Islands Law)
Auditor	PricewaterhouseCoopers *Certified Public Accountants*
Principal Banker	The Hongkong & Shanghai Banking Corporation Limited

* *Audit committee members*
\+ *Remuneration committee members*

Key Financial Highlights

	2006 HK$'000	2005 HK$'000	Change %
Revenue	**2,231,217**	1,995,206	+11.8%
Profit attributable to shareholders of the Company	**75,054**	73,578	+2.0%
Earnings per Share	**HK11.1 cents**	HK10.9 cents	+1.8%
Dividend per Share			
– Final	**HK5 cents**	HK4.5 cents	+11.1%
– Full year	**HK6.5 cents**	HK6.0 cents	+8.3%

NUMBER OF CIRCLE K STORES

	2002	2003	2004	2005	**2006**
Hong Kong	166	186	205	230	**250**
Guangzhou	2	7	20	40	**52**
Dongguan	–	–	–	5	**8**
Shenzhen	–	–	–	–	**2**
Subtotal	168	193	225	275	**312**
Macau	–	–	–	11	**16**
Zhuhai	–	–	–	4	**6**
Subtotal (Franchised Stores)	–	–	–	15	**22**
Grand total	168	193	225	290	**334**

Dr. Fung Kwok King, Victor
Chairman

FINANCIAL OVERVIEW

I am pleased to report that Convenience Retail Asia Limited, together with its subsidiaries (the "Group"), achieved continued sales growth of 11.8% and a net profit increase of 2.0% compared to 2005. The Group's net profit increase in the Hong Kong market was offset by additional start-up losses in two new Southern China markets (Dongguan and Shenzhen), hence the small overall increase in earnings. Basic earnings per share increased by 1.8%, from 10.9 HK cents to 11.1 HK cents. The financial position of the Group remains strong with a cash on hand of HK$634.8 million without any bank borrowings.

REVIEW OF THE HONG KONG RETAIL MARKET

In 2006 the overall retail market in Hong Kong continued its solid growth amidst a robust property market, improving employment income and better job prospects. Optimistic consumer sentiment and a "wealth effect" as a result of the bullish stock market performance towards the end of the year fueled domestic consumption, setting the tone for increased consumer confidence and higher propensity to spend, not only in luxury goods categories but also in daily consumables.

REVIEW OF THE HONG KONG RETAIL MARKET (continued)

For 2006 as a whole, total retail sales increased by 7.3%[1] in value and 5.8%[1] in volume over 2005. Even though electronic goods, photographic equipment and cars were at the top of the consumer spending list, alcoholic drinks and tobacco increased by 13.1%[1], bread, pastry, confectionery and biscuits increased by 6.5%[1], and other foodstuffs increased by 8.9%[1] in volume during the same period. These increases in consumption contributed to the healthy growth of the Group's sales turnover in Hong Kong.

Consumer price inflation edged up slightly in November due to higher food prices on the Chinese Mainland and the appreciation of the RMB. The underlying price inflation was largely stable with the Consumer Price Index reflecting a 2.0%[2] increase over a year ago for the first 11 months of 2006. A substantial downward adjustment in oil prices towards the end of the year together with the sustained increase in productivity in Hong Kong kept overall price pressures in check.

On the back of robust economic performance, Hong Kong achieved a 4.4%[3] (provisional figure) unemployment rate in September-November 2006, the lowest in the past six years. Total employment rose to a record high at a pace that outstripped the labour supply. Decreases in the unemployment rate were mainly observed in the wholesale and retail trades as well as the manufacturing and restaurant sectors.

Visitor arrivals rose by 9.3%[4] in 2006. Despite the fact that the momentum of visitors from the Chinese Mainland has slowed somewhat, these visitors still account for more than 50% of total arrivals and registered a growth of 7.4%[4] for the year of 2006. It is anticipated that arrivals from the Chinese Mainland will remain stable as appreciation of the RMB continues to boost purchasing power. However, this may not have any direct impact on the Group's business performance in the market since the tourism sector has never been a major source of business for the convenience store outlets.

Possible threats that may directly affect the market environment in the coming months are a drastic downturn in the stock market performance, an outbreak of a pandemic disease, any unexpected natural disaster or political upheaval in the region. Otherwise, macroeconomic conditions should remain favourable to the local retail business.

COMPANY INITIATIVES FOR HONG KONG OPERATIONS

On 13 December 2006, the number of Circle K stores in Hong Kong reached 250 when we opened a new store in Wong Tai Sin. This was a significant milestone for the Group since we have now become the biggest 100% company-owned-and-managed retail chain in Hong Kong and the second-biggest chain in terms of number of outlets. Sales turnover for the Hong Kong operations exceeded HK$2 billion for the first time with a record high of HK$2.1 billion annual store sales.

The 250th Circle K store opening in Hong Kong was marked by a ribbon cutting ceremony officiated by Mr. Richard Yeung (Middle), Chief Executive Officer of Convenience Retail Asia Limited: Mr. C.K. Pak (Left), Managing Director of Convenience Retail Asia Limited and Ms. Fong Kam Lin (Right), Store Manager of Circle K Convenience Store.

With the addition of 20 new stores over the year and a non-stop refitting programme of the Circle K stores, the brand profile of the Circle K chain in the market has been substantially enhanced and rejuvenated. According to a brand preference study conducted by A.C. Nielsen among convenience store customers, Circle K enjoyed improvement of almost 30% in its brand preference score.

REVIEW OF THE RETAIL MARKET ON THE CHINESE MAINLAND

The overall economy of the Chinese Mainland continued to record healthy double-digit growth with strong retail sales increases. Consumer price inflation was held at a modest 1.3%[5].

Retail sales in Guangdong surged dramatically, registering 15.7%[5] growth for the first 11 months of 2006, driven by escalating sales of automobiles and fuel oil. This impressive growth was underpinned by the implementation of the minimum wage policy on 1 September 2006, and a resulting 19%[6] increase in overall salary level by the end of the year. Major growth categories included the catering trade, fast food outlets and food retailers, tobacco and alcohol.

The convenience store market in Guangzhou maintained the status quo in 2006 as key operators focused on improving top-line sales and maximising margin opportunity. With the relaxation of the rules and regulations governing franchising in 2007, the Group is currently applying for requisite licences in preparation for such a strategic development.

REVIEW OF THE RETAIL MARKET ON THE CHINESE MAINLAND (continued)

According to an independent research study the convenience store market in Guangzhou is growing steadily as it becomes part of consumers' daily shopping habits, especially among the younger generation of customers. Circle K is perceived as being among the top three brands (together with 7-Eleven and C-Store) in terms of brand awareness and market share (based on frequency of visits)[7].

REVIEW OF THE GUANGZHOU OPERATIONS

Against the backdrop of a booming retail market, the Circle K chain in Guangzhou reported healthy double-digit comparable store sales growth of 12.4% for the year.

Food and drink products under the Hot & In house brand continued to generate robust growth, accounting for more than 40% of the total sales mix. The introduction of a new range of Chinese meal boxes and a series of packaged bakery snacks contributed to this stellar sales performance.

Increases in minimum wage, welfare cost and other social security expenses continued to exert pressure on operating costs in Guangzhou with a negative effect on profit opportunity.

The Group moderated its pace of new store openings with a relatively modest 12 openings during the year. This stemmed from our decision to be more discriminating in the selection of suitable store sites and to secure potential customer traffic that fits the Group's target customer profile.

Outside of Guangzhou, four new stores were opened in Dongguan, taking the total number of stores to eight. In Shenzhen, two new stores (opened in 2006) are now in operation.

BUSINESS OPPORTUNITIES OUTSIDE THE PEARL RIVER DELTA

In South Korea, a Sale and Purchase agreement for the acquisition of approximately 2.5% equity interest of Buytheway Inc. was finalised and signed on 10 November 2006. Option agreements for acquiring a further approximately 30.5% equity interest of Buytheway Inc. within the next 24 months were also finalised and signed, together with a management consultancy agreement.

According to an independent study conducted by A.C. Nielsen Korea, the convenience store market in Seoul is quite mature in terms of store density with a total of more than 9,000 outlets. However, the degree of sophistication in customer service standards, product offerings and store environment leave much room for improvement. The Group considers the possibility of better fulfilling consumer expectations of convenience store service in South Korea to be a potential business opportunity.

BUSINESS OPPORTUNITIES OUTSIDE THE PEARL RIVER DELTA (continued)

The new business partnership in South Korea opens up a new geographical area for the Group's strategic expansion and is in line with our corporate vision and commitment to be the preferred and fastest-growing convenience store chain in Asia.

OUTLOOK FOR 2007

With optimistic economic outlooks in the markets where the Group operates, 2007 promises stable organic growth and multi-city expansion opportunities.

In Hong Kong, where the total number of convenience stores reached the 1,000 mark at the end of 2006, keener store-to-store competition is expected. This number of stores implies that there is one for every 7,000 people, compared with one for every 12,000 five years ago.

The Group's top priority is to ensure that the Circle K brand maintains a high degree of distinctiveness, differentiated by an enhanced product mix and better customer service compared to the competition. This is more critical than ever in order to build customer preference and brand loyalty.

The enforcement of no-smoking-zone regulations on 1 January 2007 poses a potential threat to cigarette sales. In order to neutralise the potential sales loss, the Group intends to identify and build up the sales of wholesome food/drink categories to appeal to health-conscious customers who are more responsive to health-related selling propositions.

Further rollout of the five-day workweek in 2007 may have some impact on customer traffic during Saturday morning breakfast hours. But appreciation of the RMB might result in less cross-border consumption during weekends, which could then translate into more customer traffic for retail outlets in Hong Kong.

An exciting new development in the first quarter of 2007 is the Group's acquisition of the Saint Honore bakery, a long-established and high quality cake and bakery chain in Hong Kong, Macau and Guangzhou. This forward integration not only enables the Group to acquire an additional core competence in bakery and food preparation but also add a recognised brand name and 88 bakery retailing outlets to the Group's operations in the Pearl River Delta.

In Guangzhou, the convenience store market continues to grow steadily. The Group intends to build on the most salient feature of our store model, the Hot & In food service, and make it the key driver of store profit and customer traffic. Continuous improvements will be made in the product mix and pricing of the convenience store product range as well.

In Dongguan and Shenzhen, the pace of store network expansion will be moderated while the store model is being modified and customised to better fulfill local market demand.

OUTLOOK FOR 2007 (continued)

In 2006, Group employees and their families across the Pearl River Delta participated in internal celebrations for the Li & Fung Group Centenary in the form of a staff family day at Hong Kong Disneyland and the Happy Valley, Shenzhen. Objectives of the celebrations were to commemorate the past achievements of the Li & Fung Group and to rally the team spirit of our Group members in a joint effort to build for the next 100 years.

In conclusion, I would like to take this opportunity to express the appreciation of the Board to the Group's management and staff. Thanks to their effort and dedication, the Group has been able to achieve satisfactory business growth and development in 2006. The Group looks forward to their even more outstanding performance in increasing market share and building brand preference in 2007.

Fung Kwok King, Victor
Chairman

Hong Kong, 7 March 2007

Notes:

1. *Provisional Statistics of Retail Sales for December 2006, published by Census and Statistics Department on 1 February 2007.*
2. *Consumer Price Indices for November 2006, published by Census and Statistics Department on 21 December 2006.*
3. *Unemployment and Underemployment Statistics for September-November 2006, published by Census and Statistics Department on 19 December 2006.*
4. *Visitor Arrival Statistics, published by Hong Kong Tourism Board, 22 January 2007.*
5. *Retail Sales Statistics from January to November 2006, published by Guangdong Bureau of Statistics, 25 December 2006.*
6. *Guangdong's Employment in the First Three Quarters of 2006 and Year-Round Forecast, Guangdong Bureau of Statistics, 10 January 2007.*
7. *Convenience Store Shopping and Beverage Consumption Survey, United Research China, 28 August 2006.*

Mr. Yeung Lap Bun, Richard
Chief Executive Officer

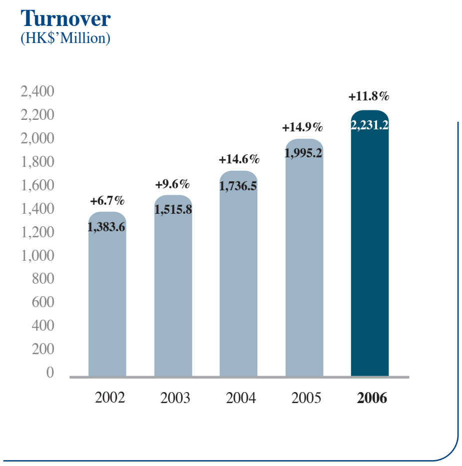
FINANCIAL REVIEW

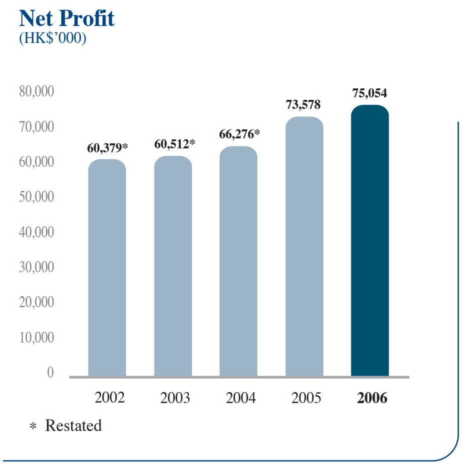
The Board is pleased to report the financial results of the Group for the year ended 31 December 2006. The Group's sales for the year and the fourth quarter increased to HK$2,231.2 million and HK$566.2 million respectively, representing a growth of 11.8% and 8.0% when compared to the corresponding periods in 2005.

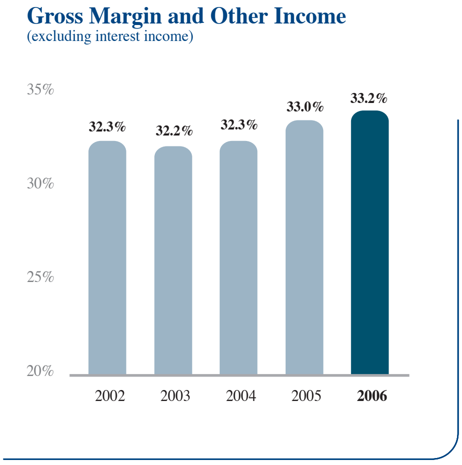
Sales growth was attributed to the increase of new stores in both Hong Kong and Southern China as well as the increase in comparable store sales (sales for stores that were in existence in 2005 and 2006). The number of stores in Hong Kong increased from 230 to 250 in 2006, while the number of stores in Guangzhou increased from 40 to 52. The number of stores in Dongguan increased from five to eight, and two stores were also opened in Shenzhen in 2006, signifying our entry into that market. For the franchised markets of Macau and Zhuhai, the Group ended 2006 with five new stores for a total of 16 in Macau, and two new stores for a total of six in Zhuhai. The Group will continue its strategy of accelerating store expansion. Sales in comparable stores showed an increase of 3.1% for the full year in Hong Kong and 12.4% for the full year in Guangzhou. The strong comparable sales growth in Southern China was driven by our category management initiatives, especially the food services category which is the cornerstone of our business model there.

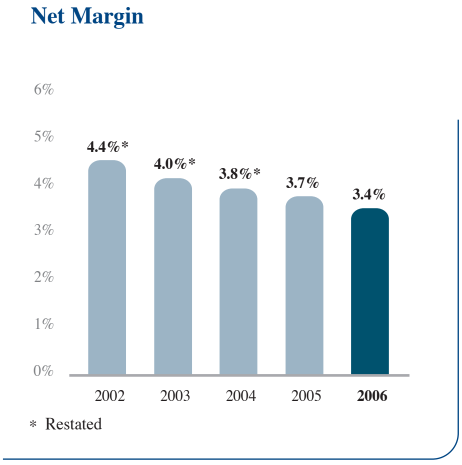
FINANCIAL REVIEW (continued)

Gross margin and other income (excluding interest income) increased from 33.0% to 33.2% of sales for the year and remained unchanged as 34.7% of sales for the fourth quarter when compared to 2005. In compliance with Hong Kong Accounting Standards 32 and 39, the Group's options of acquiring approximately 30.5% equity interest in Buytheway Inc. were recognised as financial assets at fair value and a gain on options value amounting to HK$1.7 million was recognised as other income.



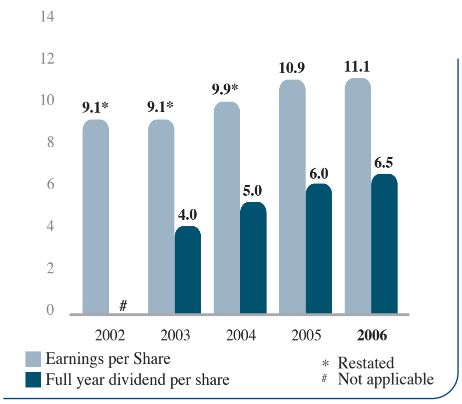




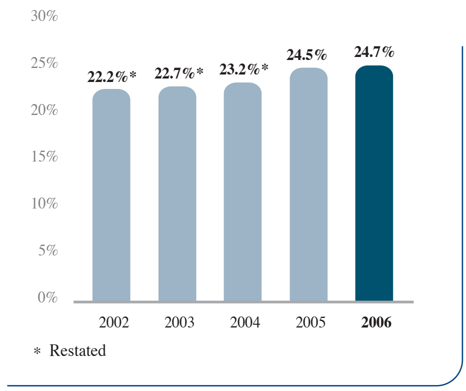


FINANCIAL REVIEW (continued)

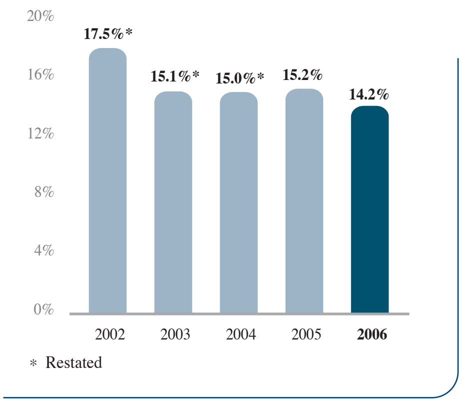
Earnings per Share and Dividend per Share
(HK cents)



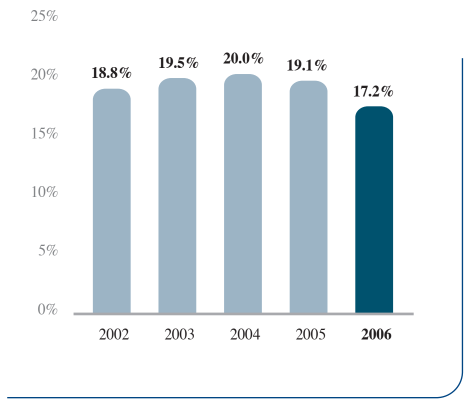
Store Operating Expenses as % of Sales



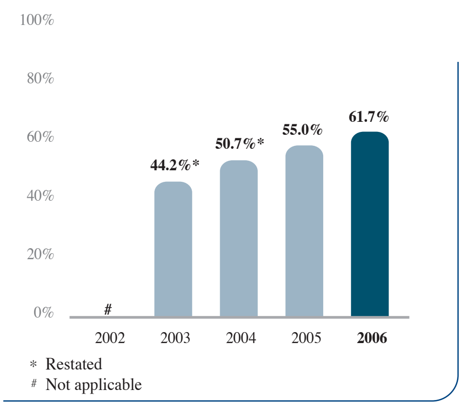
Return on Capital Employed



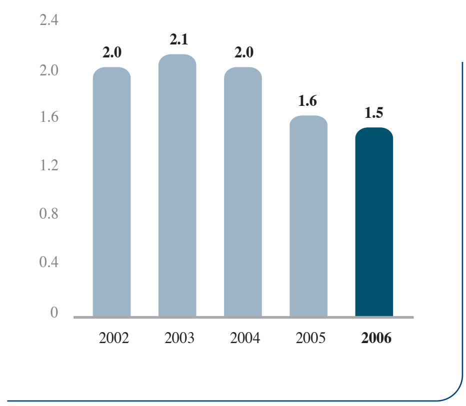
Operating Working Capital as % of Sales



Dividend Payout



Current Ratio



FINANCIAL REVIEW (continued)

The increase in store expenses from 24.5% to 24.7% of sales for the year and 25.6% to 25.7% for the fourth quarter when compared to 2005 was mainly due to increases in rental and the expansion of our store network in China.

The 3G (third generation) store design, launched in the last quarter of 2005, was rolled out to over two hundred Circle K stores in Hong Kong in 2006.

Distribution expenses as a percentages of sales increased slightly from 1.7% to 1.8% for the year and 1.7% to 1.8% for the fourth quarter when compared to 2005. The increase was mainly caused by the wider coverage of the store network in China.

Administration expenses as a percentage of sales increased from 3.5% to 3.7% for the year and 3.8% to 4.2% for the fourth quarter when compared to 2005. This was mainly due to the accrual of additional staff bonuses in Hong Kong and the additional staff costs incurred in China to support the two new markets in Dongguan and Shenzhen.

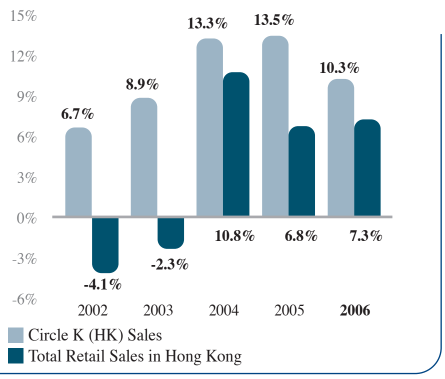
Net margin decreased from 3.7% to 3.4% of sales for the year and 4.0% to 3.4% for the fourth quarter when compared to 2005 based on the increase in start-up losses in the Dongguan and Shenzhen markets. Net profit attributable to shareholders increased by 2.0% to HK$75.1 million for the year but decreased by 7.0% to HK$19.5 million for the fourth quarter when compared to 2005. Basic earnings per share increased by 1.8% from 10.9 HK cents to 11.1 HK cents for the year.

The Group continued to maintain a strong financial position with net cash of HK$634.8 million without any bank borrowings. The Hong Kong business generated a free cash flow of approximately HK$64 million in 2006. The Group's capital expenditure in the coming year will be financed by internal resources and external financing.

The Group had a limited amount of foreign exchange exposure in RMB related to the business operations in the Chinese Mainland. The Group is subject to interest rate risks on the interest income earned from short-term bank cash deposits. The Group will continue its policy of placing surplus cash in short-term bank deposits to meet the funding requirements of any future merger and acquisition projects.

OPERATION REVIEW – HONG KONG

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



Despite the buoyant economy and strong consumer confidence during the year, the convenience store market in Hong Kong still faced considerable challenges such as the increased penetration of free newspaper titles, price wars among major cigarette brands and the implementation of the five-day workweek by the Government and some private business sectors. All these had varying degrees of negative impact either on the Group's sales turnover or by reducing customer traffic and altering shopping habits.

To neutralise these negative factors, the Group adopted an aggressive marketing programme throughout 2006 that proved to work well in maintaining sales volume and achieving a 3.1% comparable store sales growth for the year.

EMPLOYEES

As of 31 December 2006, the Group had a total of 3,342 employees, with 2,185 based in Hong Kong and 1,157 in Guangzhou, Dongguan and Shenzhen. Part-time staff accounted for 40% of the total headcount.

The Group offers its staff competitive remuneration schemes. In addition, discretionary bonuses and share options are also granted to eligible staff based on individual and Group performance.

A series of leadership training programmes were launched during the year to improve the communication and coaching skills of the Group's store managers.

Circle K Hong Kong has been a signatory of the workplace safety and hygiene charter since 2003 and is committed to maintaining a hygienic and safe workplace in strict compliance with all the safety practices outlined in the charter. In-house safety training programmes were conducted regularly in addition to the safety training courses provided by the Labour Department.

MARKETING AND PROMOTION

During the last quarter of 2006, a major thematic promotion was launched with the internet emoticon "Smiley Central" as a free premium giveaway for purchases over HK$20. In order to prevent consumer fatigue due to frequent repetition of the same mechanism, a short hiatus was planned in between the major thematic promotions of the year.

Another successful promotion, "Romancing Moomin" featuring premium quality plush toys of popular licenced character Moomin and his friends, was launched in December. The occasion for the promotion was the grand opening of the 250th Circle K store in Wong Tai Sin.

MARKETING AND PROMOTION (continued)

To commemorate the store opening, a donation of HK$250,000 was made to Heifer International-Hong Kong in the name of the Circle K customers. Heifer International-Hong Kong is dedicated to easing rural poverty on the Chinese Mainland by providing gifts of farm animals to impoverished peasant families to help them become self-reliant.

As the roll-out programme of the 3G (third generation) store model continued in 2006, point-of-purchase materials such as shelf-talkers, hanging mobiles and window posters were redesigned to complement the new colour scheme, enhance the store image and improve the effectiveness of communications.

CATEGORY MANAGEMENT

According to the retail market data provided by A.C. Nielsen for major categories, the Group outperformed the overall market in the sales growth of key categories including cigarettes, packaged drinks, confectionery, dairy products and grocery products.

Some of these positive results could be attributed to a key initiative in category management in 2006, which was to improve the efficiency and productivity of shelf space usage through a detailed analysis of sales volume generated per stock keeping unit and product assortment.

The Group introduced a new convenience service to the Circle K chain in Hong Kong with the launch of the EPS "Easy Cash" which enabled customers to make cash withdrawal during transactions with EPS payment.

The Moomin plush toy redemption promotion, launched before Christmas, 2006 proved to be extremely popular with Circle K customers in Hong Kong.

CATEGORY MANAGEMENT (continued)

Mr. Richard Yeung (Left), Chief Executive Officer of Convenience Retail Asia Limited, presented the cheque of HK$250,000 donation to Mr. Antony Leung (Right), Chairman of Heifer International-Hong Kong.

Another category showing strong growth potential is confectionery and snacks. An ongoing new product programme designed to inject fun and novelty into the category delivered satisfactory sales results. This is a category for destination shopping; having popular product items will provide customers with the motivation to visit Circle K repeatedly.

Growing circulation of free newspaper titles turned out to have less impact on actual newspaper sales than originally anticipated. However, price reduction of weekly magazines in the last quarter did have an impact on the sales value of the category. The Group expects that it will be a short-term market phenomenon that will adjust itself in the long run.

Since convenience services such as bill payment and cash withdrawal continue to grow in demand, the Group introduced the Towngas and the Hong Kong Electric bill payment services as well as EPS cash withdrawal services in 2006. These additional convenience services have been well received by customers, so it is anticipated that more bill payment services will be introduced in 2007.

SERVICE EXCELLENCE

Service excellence has always been an important part of the Group's company culture and a number of training programmes were implemented in 2006. Additional subjects for skill set examinations such as baking skills and preparation of coffee/tea and soft-serve ice-cream reflected yet another step forward.

To ensure sufficient manpower in stores with high traffic and sales volume, a scorecard was posted in the backrooms of all Circle K stores reflecting the ratio between sales dollar and staff cost so that a correct balance could be maintained. These numbers were also good indicators of store productivity.

About 40 Service Stars nominated as role models for frontline staff continued to spearhead quality customer service training programmes with their regular store visits as service ambassadors.

SERVICE EXCELLENCE (continued)

An “A-Grade” Managers’ Club was formed comprising store managers who were evaluated as “A-Grade” performers, distinguished by the gold medals on their uniforms. This elite group is also entrusted with the mission of acting as mentors for new store managers.

SUPPLY CHAIN MANAGEMENT AND LOGISTICS

In the last quarter of 2006, Phase One of a newly revamped Category Management System was successfully launched as a key initiative of the Group’s supply chain management. It was designed to improve the efficiency of price management with a simple, reliable and standardised platform, allowing direct processing of price data for store transactions with minimum manual work. The new system preserves data integrity, reduces administrative time and speeds up the price management processes.

Initiatives to ensure occupational health and safety were duly implemented in the Group’s Distribution Centre with the formation of the 5S committee in 2004. The 5S – promoting Organisation, Neatness, Cleanliness, Standardisation and Discipline – is a systematic model for good housekeeping in order to maintain a safer and more comfortable workplace.

Safety training sessions were organised twice a year to provide regular refresher courses on good housekeeping and occupational safety for Distribution Centre staff. Effectiveness of these training programmes was tracked regularly with tangible numbers such as the reduction of accidents in the workplace.

INITIATIVES IN SUPPORT OF ENVIRONMENTAL PROTECTION

Among the many company initiatives launched in 2006, environmental protection measures were the most noteworthy. As a responsible corporate citizen, Circle K Hong Kong participated in the “No Plastic Bag Day” programme organised by the Green Student Council by not proactively giving out plastic bags to customers on the first Tuesday of every month, starting August 2006.

An innovative collection of Smiley Central premiums injected new excitement to the student loyalty programme for Circle K, Guangzhou.

INITIATIVES IN SUPPORT OF ENVIRONMENTAL PROTECTION (continued)

To render full support for this good cause, the Group went one step further by training frontline staffs to urge customers to use fewer plastic bags even during daily transactions. A voluntary agreement to reduce plastic bag consumption by 15% over a 12-month period was signed by Circle K Hong Kong to promote environmental consciousness within the organisation.

The minimisation of paper consumption through the increased usage of electronic communications between the Circle K office and stores was another significant step forward in environmental protection.

In addition, specific task forces were appointed to distribute energy saving tips in the workplace and all Circle K stores. Installation of light sensors on store signage and on-off alerts for store lights and equipments enabled the Group to optimise daylight and reduce electricity consumption across the board.

OPERATION REVIEW – GUANGZHOU

Even though the competitive environment for the convenience store market in Guangzhou was rather uneventful in 2006, it is expected that in 2007 there will be a higher level of activity with new entry of multinational brands such as Family Mart and the opening of more outlets under the franchising model.

Continuous escalation of retail property rental is also anticipated. This will be triggered not only by the scramble for store sites by newcomers in the fast-growing retail market, but also by the government policy to levy taxation on real estate transaction profits which will eventually be passed on to the retail property tenants. This will result in more pressure on the Group's operation costs and more difficulty in committing new store sites.

Another potential threat for the Group's Guangzhou operations is policy risk. It is very difficult to anticipate new government policies that could have a negative impact on convenience store operations in the market, such as those affecting tobacco licences, minimum salary legislation, additional welfare costs or store density control.

The third Circle K store in Shenzhen is now opened for business at Block 56, Peng Xing Garden, Luohu.

OPERATION REVIEW – GUANGZHOU (continued)

Staff recruitment became more challenging during 2006 as the retail market in Guangzhou continued to boom and the increased demand for labour began to outpace supply. As the Group expands its store network, the quest for manpower to fill the frontline service team and support functions will require more effort than before. Considerable planning and resources have been dedicated to establish the Group's Guangzhou operation as a preferred employer in the market and to reduce full-time staff turnover which has remained reasonably low so far.

Information technology in support of the Group's business development was specifically tailored to meet the requirements of our convenience store operations. Features include state-of-the-art configuration and user-friendly software programmes.

Major efforts were made in the areas of energy conservation, resulting in significant savings in electricity expenses. The Group's convenience store outlets, food factory and distribution centre dutifully followed standard operating procedures in their daily operations to ensure strict adherence to environmental protection regulations and safety standards.

The Group devoted meticulous training, care and attention to maintain the highest standard of cleanliness, hygiene and food safety in its preparation of food and drink products under the "Hot & In" in-store bakery brand. The Group's total compliance with official requirements in these specific areas has been endorsed during numerous visits by relevant inspectors.

The Group was pleased to be elected one of "PRC Consumers' Most Favourable Hong Kong Brands" through an independent opinion poll conducted on the Chinese Mainland and on the internet, organised by China Enterprise Reputation and Credibility Association (Overseas) Limited.

FUTURE PROSPECTS

At the beginning of 2007 all economic indicators reflect growing consumer confidence and higher propensity to spend in both Hong Kong and the Chinese Mainland.

The Group's top priority for the year is to leverage buoyant market sentiment and maximise sales opportunities to achieve aggressive comparable store sales.

Due to the increasing pressure on operating costs in both markets, especially on rental and labour costs, the initiative to improve profit margin will require more effort from the management team than ever before.

FUTURE PROSPECTS (continued)

In order to improve brand image perception and create a more significant competitive edge, the Group plans to allocate substantial resources for brand-building and to communicate a strong differentiation between Circle K and the competition. The ultimate objectives are to induce brand switching and to inspire loyalty among repeat customers.

On the prospects of the real estate market, it is expected that more potential store sites will become available in secondary retail areas in Hong Kong due to minor adjustments in tourist arrival figures and spending, leading to more realistic expectations on the part of landlords. Hence, the Group will plan to accelerate the momentum of store openings. However, lease renewal negotiations for high-traffic stores will continue to be challenging.

The Group's successful acquisition of the Saint Honore operation was officially concluded on 22 February 2007. This enables the Group to further strengthen our food service offerings with the additional expertise in bakery and new product development. Total integration of the Saint Honore management team to the Group's corporate structure is being implemented. The Group anticipated that this strategic move will become an important competitive edge.

In Guangzhou, market competition will become more severe as new chain store operators enter the market, creating more demand for prime retail sites. To counteract this increased competition, the Group will focus on fine-tuning the store model and making continuous improvement in the product offering, food services and customer services.

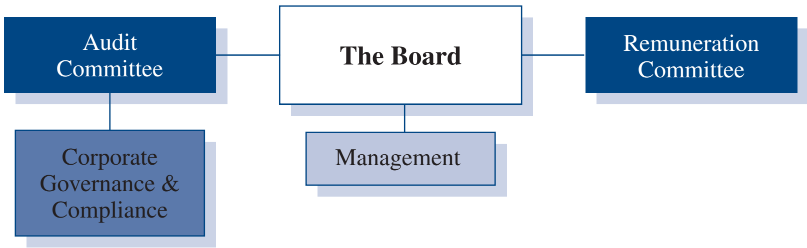
An important new development in the Guangzhou operation will be the Group's implementation of the franchising model, which will help speed up the store network expansion.

In summary, the key management objective in 2007 is quality growth in store number, store contribution and comparable store sales.

The Group will also continue to explore acquisition opportunities in all markets where we operate that are strategically complementary and compatible with the Group's convenience retail business models.

Corporate Governance Report

The Board of the Company and Management are committed to principles of good corporate governance consistent with prudent enhancement and management of shareholder value. These principles emphasise transparency, accountability and independence. Set out below are those principles of corporate governance as adopted by the Company.



THE BOARD

The Board is composed of the Group non-executive Chairman, two executive Directors including the Chief Executive Officer, and seven non-executive Directors (of whom three are independent) whose biographical details are set out in the Directors and Senior Management Profile on pages 30 to 35.

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

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

The Directors are also responsible for the appointment, re-appointment and removal of Directors. The Group Chairman in consultation with other Board members nominates for a new appointment as the Company's Director, in particular for independent non-executive Director. Under the guidelines on appointment of Directors as endorsed by the Board on 7 March 2007, the new appointee needs to have appropriate professional knowledge and industry experience, personal ethics, integrity, personal skills and be able to contribute sufficient time for the proper functioning of the Board. There was no appointment of Directors to fill Board vacancies in 2006.

THE BOARD (continued)

The Board meets regularly throughout the year to discuss the overall corporate strategic direction and objectives, operational and financial performance (including annual budget, annual, interim and quarterly results, recommendations on Directors' appointment or reappointment, approval of major capital transactions and other significant matters) of the Group as well as major investment opportunities. Board meetings are scheduled one year in advance to facilitate maximum attendance of Directors. The meeting agenda is set by the Group non-executive Chairman in consultation with members of the Board. All Directors are kept informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations. Written procedures are also in place for Directors to seek independent professional advice in performing their Directors' duties at the Company's expense. No request was made by any Director for such independent professional advice in 2006.

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

The Group Chief Compliance Officer as appointed by the Board also attends all Board and Committee meetings to advise on corporate governance, risk management, statutory compliance and accounting and financial matters. The Board held six meetings in 2006 and the average attendance rate was 87%.

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

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

THE BOARD (continued)

The attendance rates of individual members at Board and Committee meetings in 2006 are detailed in the following table:

Directors	No. of meetings **attended**/held		
	Board	**Audit Committee**	**Remuneration Committee**
Non-executive Directors:			
Dr. Fung Kwok King, Victor *(Group Chairman and Chairman of Remuneration Committee)*	**5**/6	–	**1**/1
Dr. Fung Kwok Lun, William	**5**/6	–	–
Mr. Godfrey Ernest Scotchbrook	**6**/6	**4**/4	–
Mr. Jeremy Paul Egerton Hobbins	**4**/6	**3**/4	–
Ms. Wong Yuk Nor, Louisa	**5**/6	–	–
Independent non-executive Directors:			
Dr. Ch'ien Kuo Fung, Raymond *(Chairman of Audit Committee)*	**3**/6	**4**/4	**1**/1
Mr. Au Man Chung, Malcolm	**6**/6	**4**/4	**1**/1
Mr. Lo Kai Yiu, Anthony	**6**/6	**4**/4	–
Executive Directors:			
Mr. Yeung Lap Bun, Richard *(Chief Executive Officer)*	**6**/6	–	–
Mr. Li Kwok Ho, Bruno *(Chief Financial Officer)*	**6**/6	–	–
Average attendance rate	87%	95%	100%
Dates of meeting	9/3/2006 2/5/2006 2/8/2006 6/11/2006 13/11/2006 14/11/2006	9/3/2006 2/5/2006 1/8/2006 6/11/2006	6/11/2006

BOARD COMMITTEES

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

Audit Committee

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

The Audit Committee met four times in 2006 (with an average attendance rate of 95%) to review with senior management and the Company's internal (Corporate Governance Division) and external auditors the Group's significant internal controls and financial matters as set out in the Audit Committee's terms of reference. The Committee's review covers the audit plans, audit findings of internal and external auditors, external auditor's independence, the Group's accounting principles and practices, GEM Listing Rules and statutory compliance, internal controls, risk management and financial reporting matters (including the annual, interim and quarterly accounts before recommending to the Board for approval).

Under the Group's Whistleblowing Policy, employees can report any concerns, including misconduct, impropriety or fraud in financial reporting, accounting practices and internal control matters, to either senior management or the Audit Committee through our Group Chief Compliance Officer. No incident of fraud or misconduct that have material effect on the Company's accounts and overall operations was noted in 2006.

External Auditor's independence

In order to further enhance independent reporting by the external auditor, part of the audit committee meetings was attended only by the independent non-executive Directors and the external auditor. In addition, the external audit engagement partner is subject to periodical rotation. A policy of the provision of non-audit services performed by the external auditor was established since 2005 which includes prohibition of specified non-audit services to be performed by the external auditor. Other non-audit services, with a fee above a threshold as endorsed by the Audit Committee that are considered not to affect the independence of the external auditor, require prior approval by the Audit Committee. The nature and ratio of annual external audit fees and non-audit services (including review of acquisitions, interim report and tax services) for 2006 amounted to HK$779,000 and HK$969,000 respectively have been endorsed by the Audit Committee. A policy restricting the hiring of employees or former employees of the external auditor as senior executives and financial positions within the Group was also in place. The Audit Committee has obtained written confirmation from the external auditor on their independence and objectivity as required under the Professional Ethics Statement 1.203A "Independence for Assurance Engagements" issued by the Hong Kong Institute of Certified Public Accountants prior to the commencement of the audit of the Company's accounts for the year ended 31 December 2006.

BOARD COMMITTEES (continued)

External Auditor's independence (continued)

The Audit Committee has been satisfied with the review of the audit fees and scope, process and effectiveness, independence and objectivity of the external auditor, PricewaterhouseCoopers, and has recommended to the Board their reappointment as the Company's external auditor for the year ending 31 December 2007 at the forthcoming annual general meeting.

Remuneration Committee

The Remuneration Committee was established in January 2005, comprising the Group non-executive Chairman, Dr. Fung Kwok King, Victor (Chairman of the Committee), Dr. Ch'ien Kuo Fung, Raymond and Mr. Au Man Chung, Malcolm (independent non-executive Directors). The responsibility of the Remuneration Committee includes the review of the Group's remuneration and human resources policy and the approving of the remuneration policy for all executive Directors, including the allocation of share options to employees under the Company's Share Option Scheme. The Remuneration Committee met once in 2006 with attendance rate of 100% to review the existing remuneration policy and to review and approve the Directors' and senior executives' remuneration for 2006.

Remuneration policy for Executive Directors

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

Remuneration policy for Non-Executive Directors

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

CODE OF CONDUCT AND BUSINESS ETHICS

Guidelines of the Group's business ethical practices as endorsed by the Board are set out in the Company's Code of Conduct and Business Ethics for all Directors and staff. For ease of reference and as a constant reminder to all staff, a copy of the guidelines is posted in the Company's internal electronic Bulletin Board.

DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted procedures governing Directors' securities transactions in compliance with Rules 5.48 to 5.67 of the GEM Listing Rules. Specific confirmation of compliance has been obtained from all Directors. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines on no less exacting terms than those set out in the GEM Listing Rules. No incident of non-compliance was noted by the Company in 2006.

DIRECTORS' INTERESTS

Details of Directors' interests in the shares of the Company and major associated corporations are set out in the Directors' Report on pages 46 to 49.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE ACCOUNTS

The Directors' responsibilities for the accounts and the responsibilities of the external auditor to the shareholders are set out on pages 53 and 54 respectively.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for maintaining an adequate system of internal controls in the Group and reviewing its effectiveness through the Audit Committee. Such system is aim to provide reasonable but not absolute assurance against material misstatement, loss or fraud. The Board has delegated to executive management the implementation of such systems of internal controls and the review of relevant financial, operational and compliance controls and risk management procedures.

The Group operates within an established control environment, which is consistent with the principles outlined in "Internal Control and Risk Management - A Basic Framework" issued by the Hong Kong Institute of Certified Public Accountants. The scope of internal control for the Group relates to three major areas: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.

The Group maintains a tailored governance framework with defined lines of responsibility and appropriate delegation of authority. An Operation Support Group, under the supervision of the Chief Financial Officer, was also established to centralise the function and control exercised over the treasury activities, financial and management reporting, human resources functions and computer systems. Qualified personnel throughout the Group maintain and monitor these systems of controls on an ongoing basis.

The Group's Internal Audit team within the Corporate Governance Division ("CGD"), under the supervision of the Group Chief Compliance Officer, independently reviews these controls, and evaluates their adequacy, effectiveness and compliance. In addition, members of CGD also visit overseas offices on a regular basis to help embedding the compliance culture into the Group's business practices by performing on-site reviews and giving presentations in respect of corporate compliance and risk management. Summary of major findings and recommendations is reported to the Audit Committee on a quarterly basis. Follow up on all recommendations is also performed on a periodic basis to ensure all agreed recommendations have been satisfactorily and timely implemented.

Based on the assessments made by senior management, the CGD (Internal Audit team) and the external auditor in 2006 and up to the date of approval of the Company's 2006 Annual Report and accounts, the Audit Committee is satisfied that:

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

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

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

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with the code provisions as set out in the Code of Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2006.

INVESTOR RELATIONS AND COMMUNICATION

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

All shareholders have proper notice of the Annual General Meeting at which Directors and Committees Chairmen or members are available to answer questions on the business. In order to further promote effective communication, the Company maintains a website (www.cr-asia.com) to disseminate Company announcements and presentations and shareholder information and other relevant financial and non-financial information electronically on a timely basis.

SHAREHOLDERS' RIGHTS

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

To further enhance minority shareholders' rights, the Company will start to adopt the policy of voting by poll for all resolutions put forward at the forthcoming Annual General Meeting.

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

CORPORATE COMMUNICATIONS

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

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

A corporate intranet was set up to facilitate easy access by staff to corporate information in relation to policies, codes of practice and other staff communication. A monthly newsletter on customer service is circulated to all staff. Moreover, a knowledge sharing platform was established such that five knowledge sharing groups were formed to conduct regular knowledge sharing sessions with the objectives of sharing of best practices, ideas and lessons learned.

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

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Yeung Lap Bun, Richard – *Chief Executive Officer*

Mr. Yeung, aged 50, 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. He is also a director of Li & Fung (Retailing) Limited.

Li Kwok Ho, Bruno – *Chief Financial Officer*

Mr. Li, aged 57, joined Li & Fung Group in January 1991 as the Chief Financial Officer. In February 1993, he was appointed as the Retail Services Director of Li & Fung Retailing Group and took charge of all the centralised supporting services which comprised the areas of Finance and Accounting, Human Resource and Administration, Business Systems Development and Real Estate. He is also the Compliance Officer of the Company under Rule 5.19 of the GEM Listing Rules. Mr. Li graduated from the Chinese University of Hong Kong with a Bachelor of Science degree and obtained a postgraduate diploma in Accountancy from the University of Strathclyde in Scotland. He is a member of the Institute of Chartered Accountants of Scotland with more than 25 years of professional experience in finance and accounting. He is also a director of Li & Fung (Retailing) Limited.

NON-EXECUTIVE DIRECTORS

Dr. Fung Kwok King, Victor – *Chairman*

Dr. Fung, aged 61, brother of Dr. Fung Kwok Lun, William, is the Group Chairman of the Li & Fung Group of companies including publicly listed Li & Fung Limited, Integrated Distribution Services Group Limited and the Company. He is also a director of King Lun Holdings Limited, Li & Fung (1937) Limited and Li & Fung (Retailing) 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 an independent non-executive director of Bank of China (Hong Kong) Limited, PCCW Limited, Sun Hung Kai Properties Limited, Orient Overseas (International) Limited, CapitaLand Limited in Singapore and Baosteel Group Corporation in the People's Republic of China. In public service, Dr. Fung is Vice-Chairman of the International Chamber of Commerce as from January 2007. He is also Chairman of the Hong Kong Airport Authority, the Hong Kong University Council, the Greater Pearl River Delta Business Council and the Hong Kong - Japan Business Co-operation Committee. Dr. Fung is a member of Chinese People's Political Consultative Conference. He is also a member of the Executive Committee of the Commission on Strategic Development of the Hong Kong Government. From 1991 to 2000, Dr. Fung was Chairman of the Hong Kong Trade Development Council, and from 1996 to 2003, he was the Hong Kong representative on the APEC Business Advisory Council. In 2003, the Government awarded Dr. Fung the Gold Bauhinia Star for distinguished service to the community.

Dr. Fung Kwok Lun, William

Dr. Fung, OBE, JP, aged 58, brother of Dr. Fung Kwok King, Victor, is the Group Managing Director of Li & Fung Limited. He is also a director of King Lun Holdings Limited, Li & Fung (1937) Limited and Li & Fung (Retailing) Limited. Dr. Fung is a non-executive director of the Company since 2001. Dr. Fung has held key positions at major trade organisations. He is past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and the Hong Kong Committee for the Pacific Economic Cooperation Council. Currently, he is a member of the Hong Kong Trade Development Council. Dr. Fung graduated from Princeton University with a Bachelor of Science degree in engineering and holds a Master degree in Business Administration from the Harvard Graduate School of Business. He was awarded the degree of Doctor of Business Administration, *honoris causa* by the Hong Kong University of Science & Technology. Dr. Fung is also non-executive director of HSBC Holdings plc, CLP Holdings Limited, VTech Holdings Limited and Shui On Land Limited.

NON-EXECUTIVE DIRECTORS (continued)

Godfrey Ernest Scotchbrook

Mr. Scotchbrook, aged 60, prior to re-designation as non-executive director in August 2005, had been an independent non-executive director of the Company since November 2002. Mr. Scotchbrook presently serves as an independent director of Del Monte Pacific Limited (a company engaged in the production, marketing and distribution of premium branded food and beverage products) and a non-executive director of Boustead Singapore Limited (a company engaged in engineering services and geo-spatial technology) in Singapore. Mr. Scotchbrook was a founder of Scotchbrook Communications Ltd., a firm specializing in investor relations, issues management, corporate positioning and public affairs; and is a veteran in corporate governance. He is a Fellow of the Hong Kong Management Association and also of the British Chartered Institute of Public Relations.

Jeremy Paul Egerton Hobbins

Mr. Hobbins, aged 59, is the Group Managing Director of Li & Fung (Retailing) Limited (controlling shareholder of the Company) and its subsidiaries. He is also a director of various companies within the Li & Fung Group including Integrated Distribution Services Group Limited and Li & Fung (Gemini) Limited. Mr. Hobbins joined the Li & Fung Group in 1999 and was Deputy Chairman of Li & Fung (Distribution) Limited. Mr. Hobbins was the Chief Executive of Inchcape Marketing Services-Asia Pacific and was also the Chief Executive Officer of Inchcape Marketing Services Limited which was listed in Singapore, from 1997 to 1998. In addition, he served as a member of the Group Management Board of Inchcape plc and a director of Inchcape NRG, a business machines joint-venture with Ricoh. Previously, he was the Chief Executive Officer of Inchcape Berhad, prior to which he was the Chief Executive Officer of Inchcape Buying Services from 1993 to 1996. Before joining the Inchcape group, he was the President and Chief Executive Officer of the Campbell Soup Company, UK & Ireland, and previously was President of the Dairy Division of Ault Foods, Canada. He has also held senior positions at Procter & Gamble, Hutchison Whampoa and Cadbury Schweppes. He has completed Advanced Management Programmes at the London Business School, Imede and Insead.

Wong Yuk Nor, Louisa

Ms. Wong, aged 57, 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 55, is an independent non-executive director of the Company since January 2001. Dr. Ch'ien is Chairman of CDC Corporation and its subsidiary, China.com Inc. and Chairman of MTR Corporation Limited. Dr. Ch'ien serves on the boards of HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited, Inchape plc, VTech Holdings Limited and The Wharf (Holdings) Limited. In public service, Dr. Ch'ien is Chairman of the Hong Kong/European Union Business Cooperation Committee and is a Hong Kong member of the APEC Business Advisory Council. Dr. Ch'ien is an honorary President and past Chairman of the Federation of Hong Kong Industries. From 1992 to 1997, Dr. Ch'ien was a member of the Executive Council of Hong Kong, then under British Administration. He was appointed a member of the Executive Council of the Hong Kong Special Administrative Region on 1 July 1997 and served until June 2002. Dr. Ch'ien received a doctoral degree in Economics from the University of Pennsylvania, in 1978. He was appointed a Justice of the Peace in 1993 and a Commander in the Most Excellent Order of the British Empire in 1994. In 1999, he was awarded the Gold Bauhinia Star Medal.

Au Man Chung, Malcolm

Mr. Au, aged 57, is an independent non-executive director of the Company since January 2001. Mr. Au holds a Bachelor of Science degree in Chemical Engineering and a Master of Science degree in Food Science both from the University of Wisconsin, USA and a Master of Business Administration degree from the University of Toronto, Canada. Mr. Au is also a non-executive director of China-Hongkong Photo Products Holdings Ltd and Eu Yan Sang International, a listed company in Singapore.

Lo Kai Yiu, Anthony

Mr. Lo, aged 58, is an independent non-executive director of the Company since August 2005. Mr. Lo is Chairman and Co-Chief Executive of Shanghai Century Acquisition Corporation, a company listed on the American Stock Exchange. He has over 25 years of experience in banking, finance and investments. Mr. Lo also serves as an independent non-executive director of Hong Kong listed Playmates Holdings Limited, Tristate Holdings Limited and IDT International Limited. He is also a director of The Taiwan Fund, Inc., a company listed on the New York Stock Exchange. Since 1998 to May 2006, Mr. Lo was a member of the listing committee of The Stock Exchange of Hong Kong Limited. Mr. Lo is qualified as a chartered accountant with the Canadian Institute of Chartered Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

GROUP CHIEF COMPLIANCE OFFICER

Siu Kai Lau, James

Mr. Siu, aged 62, joined the Group in 2005. He first joined the Li & Fung Group in 1993 as Chief Financial Officer of the Li & Fung Limited Group until 1996. He is an Executive Director of Li & Fung (1937) Limited, the controlling shareholder of the Li & Fung Group of companies including publicly listed Li & Fung Limited and Integrated Distribution Services Group Limited of which he is also their Group Chief Compliance Officer. Prior to joining Li & Fung Group, Mr. Siu was the partner-in-charge (1981-1989) of the Hong Kong audit practice of Coopers & Lybrand (currently PricewaterhouseCoopers) specializing in advising corporate clients on mergers, acquisitions, finance and on public listings. His community work included serving as member of the Supervisory Board of the Hong Kong Housing Society and Chairman of its Audit Committee (2001-2006) and a member of the Professional Accountants in Business Committee of the Hong Kong Institute of Certified Public Accountants (2002-2006). Mr. Siu is a member of the Securities and Futures Commission Dual Filing Advisory Group and is also the Deputy Chairman of the Corporate Governance Committee of the Hong Kong Institute of Certified Public Accountants. He is a Fellow of both the Institute of Chartered Accountants in Australia and the Hong Kong Institute of Certified Public Accountants. He is also a Fellow member of the Hong Kong Institute of Directors. Mr. Siu holds a Bachelor of Economics degree from Australia.

SENIOR MANAGEMENT

Pak Chi Kin – *Managing Director*

Mr. Pak, aged 48, has over 10 years of experience in the food distribution Industry. He was recently promoted to the position of Managing Director and is responsible for overseeing the operations, marketing, supply chain management and business development of Hong Kong and Mainland China operation. Prior to joining the Group in May 1999, Mr. Pak spent 7 years in senior position at HAVI Food Services Group and was in charge of the distribution of food products and logistics services to McDonald's Restaurants. Graduated from the University of Hong Kong with a Bachelor degree of Science in Engineering, he also holds a Master degree of Science in Engineering from the University of Hong Kong. Mr. Pak is a member of the ERC Hong Kong facilitated by the Hong Kong GS1 Association.

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

Mr. Kan, aged 55, 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.

SENIOR MANAGEMENT (continued)

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

Mr. Tse, aged 46, joined the Group in June 1995. He is responsible for overseeing the buying, merchandising and marketing strategies of the Group in Hong Kong. He has over 20 years of experience in the retailing industry gained from his experience in PARKnSHOP, Uncle A and 7-Eleven. He holds a diploma in Management Studies from The Hong Kong Polytechnic University as well as a Master degree in Marketing Management from the Macquarie University of Australia. He is also an Associate member of the Hongkong Institute of Marketing.

Lai Chun Pang – *General Manager – Operations*

Mr Lai, aged 45, is responsible for overseeing daily operations of the Company in areas of supply chain & logistics, business development, site development and store operations. Prior to joining the Company in 1987, he spent over 6 years in retail operations and local distribution of imported sportswear. He has been in charge of store operations after joining the Company and was promoted to the position of General Manager in 2006. He holds a Bachelor degree of Arts with Honors in Business Studies and a Master degree of Arts in International Business Management from the City University of Hong Kong.

Hui Chi Ho, Sam – *Group Division Manager – Finance & Accounting*

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

Information for Investors

Listing Information	
Listing	Hong Kong Stock Exchange (GEM Board)
Stock code	8052
Key Dates	
7 March 2007	Announcement of 2006 Final Results
25 April to 2 May 2007 (both days inclusive)	Closure of Register of Shareholders
2 May 2007	Proposed Payment of 2006 Final Dividend
2 May 2007	Annual General Meeting
Share Information	
Board lot size	2,000 shares
Shares outstanding as at 31 December 2006	677,142,000 shares
Market capitalisation as at 31 December 2006	HK$2,105,912,000
Earnings per share for 2006	
Interim	HK4.8 cents
Full year	HK11.1 cents
Dividend per share for 2006	
Interim	HK1.5 cents
Final	HK5 cents
Full year	HK6.5 cents

Share Registrar & Transfer Offices

Principal:
Butterfield Fund Services (Cayman) Limited
P.O. Box 705
Butterfield House
Fort Street
George Town
Grand Cayman
Cayman Islands

Hong Kong Branch:
Abacus Share Registrars Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

Enquiries Contact

Mr. Bruno Li
Executive Director

Telephone	2991 6886
Fax	2632 8189
E-mail	investor@cr-asia.com

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

Website	www.cr-asia.com

Directors' Report

The Directors submit their report together with the audited accounts for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

An analysis of the Group's performance for the year by geographical segments is set out in note 5 to the accounts. No business activity analysis is presented as substantially all of the Group's revenue 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 55.

The Directors had declared an interim dividend of 1.5 HK cents per share, totalling HK$10,138,000, which was paid on 25 August 2006.

The Directors recommended the payment of a final dividend of 5 HK cents per share, totalling HK$36,200,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 23 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$255,000.

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in note 13 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 22 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2006 calculated under the Companies Law (2004 Revision) of the Cayman Islands, amounted to HK$190,487,000 (2005: HK$158,309,000).

PRE-EMPTIVE RIGHTS

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

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2006 are set out in note 15 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 104.

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 2006 were as follows:

Continuous contract employees

Options held at 1 January 2006	Options exercised during the year *(Note 1)*	Options lapsed during the year	Options expired during the year *(Note 2)*	Options held at 31 December 2006	Exercise price HK$	Grant date	Exercisable from	Exercisable until
100,000	(70,000)	–	(30,000)	–	0.92	30 December 2000	10 January 2002	9 January 2006
1,500,000	(1,500,000)	–	–	–	0.92	30 December 2000	10 January 2003	9 January 2006

Notes:

1. 1,570,000 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$2.65.

2. 30,000 options expired during the year following the expiry of the options.

SHARE OPTIONS (continued)

(b) Share Option Scheme

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

(i) Purpose of the Scheme

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

(ii) Qualifying participants

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

(iii) Maximum number of shares

The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes (including the Pre-IPO Share Option Plan in (a) above) must not in aggregate exceed 10% of the Shares in issue as at 6 January 2001 being 65,560,000 Shares, which represent approximately 9.055% of the issued share capital of the Company as at the date of this Report.

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

(iv) Option period

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

SHARE OPTIONS (continued)

(b) Share Option Scheme (continued)

(v) Amount payable on application or acceptance

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

(vi) Subscription price

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

(vii) The remaining life of the Scheme

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

SHARE OPTIONS (continued)

(b) Share Option Scheme (continued)

Details of the share options granted and remain outstanding as at 31 December 2006 were as follows:

(A) Continuous contract employees

Options held at 1 January 2006	Options granted during the year *(Note 2)*	Options exercised during the year *(Note 3)*	Options lapsed during the year *(Note 4)*	Options expired during the year *(Note 5)*	Options held at 31 December 2006	Exercise price HK$	Grant date	Exercisable from	Exercisable until
194,000	–	(138,000)	–	(56,000)	–	2.42	21 September 2001	21 September 2002	20 September 2006
348,000	–	(286,000)	(62,000)	–	–	2.42	21 September 2001	21 September 2003	20 September 2006
2,318,000	–	(642,000)	(62,000)	–	1,614,000	2.785	24 May 2002	24 May 2003	23 May 2007
530,000	–	(18,000)	(48,000)	–	464,000	2.785	24 May 2002	24 May 2004	23 May 2007
94,000	–	(44,000)	–	–	50,000	2.15	23 September 2002	23 September 2003	22 September 2007
38,000	–	(10,000)	–	–	28,000	2.15	23 September 2002	23 September 2004	22 September 2007
976,000	–	(140,000)	(10,000)	–	826,000	1.69	20 May 2003	20 May 2004	19 May 2008
522,000	–	(174,000)	–	–	348,000	1.69	20 May 2003	20 May 2005	19 May 2008
80,000	–	(50,000)	(10,000)	–	20,000	2.225	30 September 2003	30 September 2004	29 September 2008
144,000	–	(36,000)	–	–	108,000	2.225	30 September 2003	30 September 2005	29 September 2008
716,000	–	(174,000)	(30,000)	–	512,000	2.535	29 March 2004	29 March 2005	28 March 2009

SHARE OPTIONS (continued)

(b) Share Option Scheme (continued)

(A) Continuous contract employees (continued)

Options held at 1 January 2006	Options granted during the year *(Note 2)*	Options exercised during the year *(Note 3)*	Options lapsed during the year *(Note 4)*	Options expired during the year *(Note 5)*	Options held at 31 December 2006	Exercise price HK$	Grant date	Exercisable from	Exercisable until
118,000	–	(52,000)	(8,000)	–	58,000	2.535	29 March 2004	29 March 2006	28 March 2009
100,000	–	(8,000)	(8,000)	–	84,000	2.40	6 August 2004	6 August 2005	5 August 2009
316,000	–	–	(26,000)	–	290,000	2.40	6 August 2004	6 August 2006	5 August 2009
858,000	–	(48,000)	(52,000)	–	758,000	2.86	4 May 2005	4 May 2006	3 May 2010
468,000	–	–	(52,000)	–	416,000	2.86	4 May 2005	4 May 2007	3 May 2010
2,128,000	–	(74,000)	–	–	2,054,000	2.53	14 September 2005	14 September 2006	13 September 2010
272,000	–	–	(100,000)	–	172,000	2.53	14 September 2005	14 September 2007	13 September 2010
–	944,000	–	(36,000)	–	908,000	2.905	10 March 2006	10 March 2007	9 March 2011
–	644,000	–	(30,000)	–	614,000	2.905	10 March 2006	10 March 2008	9 March 2011
–	452,000	–	(12,000)	–	440,000	2.93	29 August 2006	29 August 2007	28 August 2011
–	192,000	–	–	–	192,000	2.93	29 August 2006	29 August 2008	28 August 2011

SHARE OPTIONS (continued)

(b) Share Option Scheme (continued)

(B) Directors

Options held at 1 January 2006	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options held at 31 December 2006	Exercise price HK$	Grant date	Exercisable from	Exercisable until
1,800,000 *(Note 1)*	–	–	–	1,800,000	2.785	24 May 2002	24 May 2003	23 May 2007

Notes:

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

(2) During the year, options were respectively granted on 10 March 2006 and 29 August 2006. The closing price of the Shares immediately before the date on which the options were granted was HK$2.9 on 9 March 2006 and HK$2.93 on 28 August 2006 respectively.

(3) 424,000 options were exercised at an exercise price of HK$2.42 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$2.89.

660,000 options were exercised at an exercise price of HK$2.785 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$3.38.

54,000 options were exercised at an exercise price of HK$2.15 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$3.35.

314,000 options were exercised at an exercise price of HK$1.69 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$3.04.

86,000 options were exercised at an exercise price of HK$2.225 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$3.04.

226,000 options were exercised at an exercise price of HK$2.535 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$3.16.

8,000 options were exercised at an exercise price of HK$2.40 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$3.55.

48,000 options were exercised at an exercise price of HK$2.86 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$3.29.

74,000 options were exercised at an exercise price of HK$2.53 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$3.41.

SHARE OPTIONS (continued)

(b) Share Option Scheme (continued)

Notes: (continued)

(4) 546,000 options lapsed during the year following the cessation of employment of certain grantees.

(5) 56,000 options expired during the year following the expiry of the options.

(6) The value of the options granted during the year is HK$1,719,000 based on the Black-Scholes Valuation model. The significant inputs into the model were share price of HK$2.9 and HK$2.93 at the grant dates, exercise prices shown above, standard deviation of expected share price returns of 30% (2005: 40%), expected life of options of 4.5 years (2005: 4.5 years), expected dividend paid out rate of 2% (2005: 2%) and annual risk-free interest rate of 4.3% (2005: 3.4%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years. The Black-Scholes Valuation model is developed to estimate the fair value of European share options. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

Save as disclosed above, as at 31 December 2006, none of the Directors, chief executives, management shareholders or substantial shareholders of the Company or their respective associates have been granted options under the Pre-IPO Share Option Plan and the Scheme.

DIRECTORS

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

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

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

* *Independent non-executive Directors*

DIRECTORS (continued)

In accordance with Article 87 of the Company's Articles of Association and the Code on Corporate Governance Practices, Dr. Ch'ien Kuo Fung, Raymond, Mr. Au Man Chung, Malcolm and Mr. Jeremy Paul Egerton Hobbins retire and being eligible, offer themselves for re-election.

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

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year except as disclosed under "Connected Transactions" stated below and note 27 "Related Party Transactions" to the accounts.

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 2006, the interests and short positions of each of the Directors, chief executives and their associates in the shares, underlying shares and debentures of the Company and certain of its major associated corporations *(Note 1)* (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as required to be recorded in the register maintained by the Company pursuant to section 352 of SFO or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealing by the Directors under the GEM Listing Rules and/or the Code of Conduct for dealings in securities adopted by the Company, were as follows:

The Company

Long positions in Shares and the underlying Shares of equity derivatives

Name of Directors	Number of (i) Shares	Number of (ii) underlying Shares	Nature of interests/Holding capacity	Approximate percentage of interests
Dr. Fung Kwok King, Victor	373,692,000	–	Corporate *(Note 2)*	55.19%
Dr. Fung Kwok Lun, William	373,692,000	–	Corporate *(Note 2)*	55.19%
Mr. Yeung Lap Bun, Richard	17,896,000	1,300,000 *(Note 3)*	Personal/ beneficiary	2.83%
Mr. Li Kwok Ho, Bruno	2,676,000	250,000 *(Note 4)*	Personal/ beneficiary	0.43%
Ms. Wong Yuk Nor, Louisa	1,338,000	250,000 *(Note 5)*	Personal/ beneficiary	0.23%
Dr. Ch'ien Kuo Fung, Raymond	1,000,000	–	Personal/ beneficiary	0.15%
Mr. Jeremy Paul Egerton Hobbins	180,000	–	Personal/ beneficiary	0.03%

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

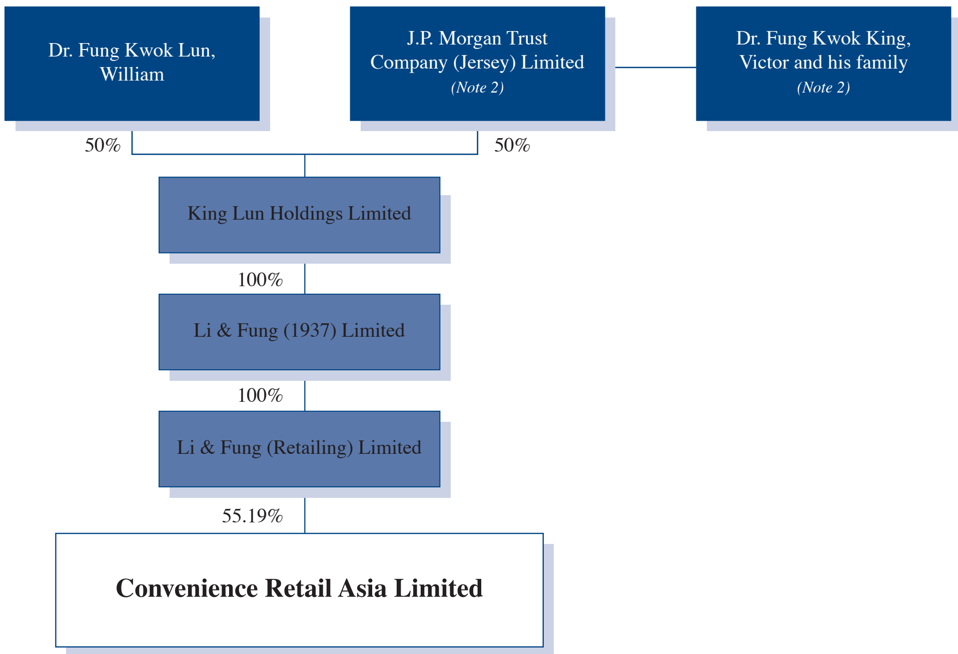
Major associated corporations

Long positions in shares and the underlying shares of equity derivatives

Name of Directors	Name of associated corporations	Class of shares	Number of (i) shares	Number of (ii) underlying shares	Nature of interests/ Holding capacity	Approximate percentage of interests
Dr. Fung Kwok King, Victor	Li & Fung (Gemini) Limited	Ordinary shares	5,222,807	–	Corporate *(Note 6)*	
			602,631	–	Corporate *(Note 2 & 7)*	84.80%
	Li & Fung (Distribution) Limited	Full voting ordinary shares	13,800,000	–	Corporate *(Note 8)*	100%
	Integrated Distribution Services Group Limited	Ordinary shares	157,960,917	–	Corporate *(Note 9)*	
			2,405,509	–	Personal/ beneficiary	51.90%
Dr. Fung Kwok Lun, William	Li & Fung (Gemini) Limited	Ordinary shares	5,222,807	–	Corporate *(Note 6)*	76.02%
	Li & Fung (Distribution) Limited	Full voting ordinary shares	13,800,000	–	Corporate *(Note 8)*	100%
	Integrated Distribution Services Group Limited	Ordinary shares	157,960,917	–	Corporate *(Note 9)*	51.12%
Mr. Jeremy Paul Egerton Hobbins	Li & Fung (Gemini) Limited	Ordinary shares	462,018	–	Corporate *(Note 10)*	6.73%
	Integrated Distribution Services Group Limited	Ordinary shares	1,202,754	–	Personal/ beneficiary	0.39%
Mr. Li Kwok Ho, Bruno	Integrated Distribution Services Group Limited	Ordinary shares	4,000	–	Other *(Note 11)*	0.00%

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

As at 31 December 2006, the interests of Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William in Shares of the Company are summarised in the following chart:



Notes:

1. Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William, by virtue of their interests in King Lun Holdings Limited ("King Lun") and the Company are deemed to be interested in the shares and underlying shares of certain associated corporations of the Company under SFO. A waiver from full compliance from Rule 18.15 of the GEM Listing Rules for the disclosure of Directors' interests in the shares and underlying shares of the associated corporations has been granted by the Stock Exchange on 2 February 2007. Accordingly, the companies under the section headed "Interests and Short Positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations" are only the major associated corporations of the Company and are not intended to be exhaustive.

2. King Lun through its indirect wholly owned subsidiary, Li & Fung (Retailing) Limited ("LFR") (a wholly owned subsidiary of Li & Fung (1937) Limited ("LF (1937)") held 373,692,000 Shares in the Company. 1,332,840 shares in King Lun, representing 50% of its issued share capital, are owned by J.P. Morgan Trust Company (Jersey) Limited, the trustee of a trust established for the benefit of the family members of Dr. Fung Kwok King, Victor. The remaining 50% of King Lun is owned by Dr. Fung Kwok Lun, William.

3. On 24 May 2002, Mr. Yeung Lap Bun, Richard was granted share options to subscribe for 1,300,000 Shares pursuant to the Share Option Scheme of the Company. The options are exercisable at a subscription price of HK$2.785 per Share during the period from 24 May 2003 to 23 May 2007. No relevant share options have been exercised.

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

Notes: (continued)

4. On 24 May 2002, Mr. Li Kwok Ho, Bruno was granted share options to subscribe for 250,000 Shares pursuant to the Share Option Scheme of the Company. The options are exercisable at a subscription price of HK$2.785 per Share during the period from 24 May 2003 to 23 May 2007. No relevant share options have been exercised.

5. On 24 May 2002, Ms. Wong Yuk Nor, Louisa was granted share options to subscribe for 250,000 Shares pursuant to the Share Option Scheme of the Company. The options are exercisable at a subscription price of HK$2.785 per Share during the period from 24 May 2003 to 23 May 2007. No relevant share options have been exercised.

6. King Lun through its wholly owned subsidiary, LF (1937) held 5,222,807 shares in Li & Fung (Gemini) Limited ("LFG"). Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun and LF (1937) as set out in note (2) above.

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

8. Out of the total 13,800,000 shares, LFG holds 6,800,000 shares and LF (1937) holds 7,000,000 shares. Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun and LF (1937) and indirect interests in LFG as set out in notes (2) and (6) above.

9. Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun, LF (1937), LFG and Li & Fung (Distribution) Limited as set out in notes (2), (6) and (8) above.

10. 462,018 shares in LFG are held by Martinville Holdings Limited which is owned by Mr. Jeremy Paul Egerton Hobbins.

11. 4,000 shares in Integrated Distribution Services Group Limited are jointly held by Mr. Li Kwok Ho, Bruno and his wife, Sandra Maria Li Ng.

Save as disclosed above, as at 31 December 2006, 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 2006, 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)*	55.19%
Commonwealth Bank of Australia	60,000,000	Corporate *(Note 2)*	8.86%
Aberdeen Asset Management Plc and its Associates	68,050,000	Other *(Note 3)*	10.05%
Arisaig Greater China Fund Limited ("Arisaig China")	68,176,000	Corporate	10.07%
Arisaig Partners (Mauritius) Limited ("Arisaig Partners")	68,176,000	Other *(Note 4)*	10.07%
Cooper Lindsay William Ernest ("Mr. Cooper")	68,176,000	Corporate *(Note 5)*	10.07%

Notes :

1. These shares are held by Li & Fung (Retailing) Limited ("LFR"). King Lun Holdings Limited ("King Lun") indirectly owns 100% interests in LFR through its wholly owned subsidiary, Li & Fung (1937) Limited ("LF (1937)"). All of King Lun, LFR and LF (1937) are taken to be interested in the shares. Please refer to Note (2) in the above section headed "Interests and Short Positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations".

2. These shares are indirectly held by Commonwealth Bank of Australia through a chain of 100% owned companies, namely Colonial Holding Company Ltd, Commonwealth Insurance Holdings Ltd, Colonial First State Group Ltd, First State Investments (UK Holdings) Ltd, SI Holdings Ltd, First State Investment Management (UK) Ltd and First State Investments International Ltd.

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

4. These shares are held by Arisaig China of which Arisaig Partners is the fund manager.

5. These shares are held by Arisaig China. Arisaig Partners, which is indirectly owned as to 33.33% by Mr. Cooper through a chain of companies, namely Madelene Ltd. (100%), Arisaig Partners (Holdings) Ltd. (33.33%) and Arisaig Partners (BVI) Limited (100%), is the fund manager of Arisaig China.

Save as disclosed above, as at 31 December 2006, the Company had not been notified of any substantial shareholders' interests or short positions which are required to be kept under section 336 of SFO.

DIRECTORS' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases

– the largest supplier	17%
– five largest suppliers combined	48%

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

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

CONNECTED TRANSACTIONS

During the year, the Group had various transactions with related parties (details are set out in note 27 to the accounts on pages 101 and 102). The following transactions are expected to continue on an on-going basis and will constitute "continuing connected transactions (exempt from independent shareholders' approval requirements)" of the Company:

		HK$'000
1.	Net purchases of products from IDS (Hong Kong) Limited *(Note 1)*	6,091
2.	The Circle K Convenience Stores (HK) Limited ("Circle K (HK)") lease *(Note 2)*	1,405
3.	The Web-Logistic (HK) Limited ("Web-Logistic (HK)") lease *(Note 3)*	859

CONNECTED TRANSACTIONS (continued)

Notes:

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

2. This refers to the lease payment from Circle K (HK) to IDS (Hong Kong) Limited under a lease agreement dated 12 May 2004 (the "Circle K Lease") (details of which were disclosed in the announcement dated 12 May 2004) for a portion of 5th Floor, LiFung Centre, 2 On Ping Street, Siu Lek Yuen, Shatin, New Territories, Hong Kong with a gross floor area of 20,723 sq.ft. Such premises are used as an office-cum-workshop.

3. This refers to the lease payment from Web-Logistic (HK) to IDS (Hong Kong) Limited under a lease agreement dated 12 May 2004 (the "Web-Logistic Lease") (details of which were disclosed in the announcement dated 12 May 2004) for a portion of 5th Floor, LiFung Centre, 2 On Ping Street, Siu Lek Yuen, Shatin, New Territories, Hong Kong with a gross floor area of 12,667 sq.ft. Such premises are used as an office-cum-workshop.

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

On 7 November 2006, Circle K Convenience Stores PRC Limited ("CKPRC"), a wholly-owned subsidiary of the Company, entered into a conditional Sale and Purchase Agreement with one of the minority shareholders of Convenience Retail Southern China Limited ("CRSC"), a subsidiary of the Company, to acquire an additional of 8.5% equity interest in CRSC at a consideration of RMB5,100,000 (approximately HK$5,050,000). Upon completion of the transaction, CKPRC's equity interest in CRSC will be increased to 73.5%. As of the date of this report, the transaction has not yet completed subject to the approval from the relevant regulatory body in the Chinese Mainland. Details of the transaction were disclosed in the announcement dated 9 November 2006.

MANAGEMENT CONTRACTS

Save as disclosed above, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS

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

AUDITOR

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, 7 March 2007

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

To the shareholders of Convenience Retail Asia Limited
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated accounts of Convenience Retail Asia Limited (the "company") set out on pages 55 to 103, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the accounts

The directors of the company are responsible for the preparation and the true and fair presentation of these consolidated accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated accounts based on our audit and to report solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the company and the group as at 31 December 2006 and of the group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 7 March 2007

Consolidated Profit and Loss Account

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Revenue	5	**2,231,217**	1,995,206
Cost of sales	6	**(1,678,018)**	(1,509,403)
Gross profit		**553,199**	485,803
Other income	5	**207,014**	187,901
Store expenses	6	**(551,693)**	(488,364)
Distribution costs	6	**(39,399)**	(34,625)
Administrative expenses	6	**(83,606)**	(69,053)
Profit before income tax		**85,515**	81,662
Income tax expenses	7	**(16,078)**	(14,048)
Profit for the year		**69,437**	67,614
Profit attributable to:			
Shareholders of the Company	8 & 23	**75,054**	73,578
Minority interests		**(5,617)**	(5,964)
		69,437	67,614
Dividends	9	**46,338**	40,483
Earnings per share for profit attributable to the shareholders of the Company			
– Basic earnings per share	10	**HK11.1 cents**	HK10.9 cents
– Diluted earnings per share	10	**HK11.1 cents**	HK10.9 cents

Consolidated Balance Sheet

As at 31 December 2006

	Note	**2006**	2005
		HK$'000	HK$'000
Non-current assets			
Fixed assets	*13*	**99,093**	89,827
Lease premium for land	*14*	**15,284**	15,567
Available-for-sale financial assets	*16*	**22,570**	–
Rental deposits		**28,639**	25,523
Bank deposits	*20*	**120,000**	120,000
Deferred tax assets	*17*	**404**	1,361
		285,990	252,278
Current assets			
Inventories		**82,308**	79,065
Amount due from immediate holding company	*27*	**48**	–
Rental deposits		**14,786**	11,680
Trade receivables	*18*	**24,108**	26,647
Other receivables, deposits and prepayments		**49,112**	32,469
Other financial assets	*19*	**7,142**	–
Cash and cash equivalents	*20*	**514,785**	477,310
		692,289	627,171
Current liabilities			
Amount due to immediate holding company		**–**	177
Trade payables	*21*	**357,199**	321,936
Other payables and accruals		**90,586**	66,224
Taxation payable		**1,135**	1,665
		448,920	390,002
Net current assets		**243,369**	237,169
Total assets less current liabilities		**529,359**	489,447

	Note	**2006**	2005
		HK$'000	HK$'000
Financed by:			
Share capital	*22*	**67,714**	67,367
Reserves	*23*	**425,116**	386,738
Proposed final dividend	*23*	**36,200**	30,392
Shareholders' funds		**529,030**	484,497
Minority interests		**(8,173)**	(2,912)
		520,857	481,585
Non-current liabilities			
Long service payment liabilities	*24*	**8,091**	7,862
Deferred tax liabilities	*17*	**411**	–
		529,359	489,447

On behalf of the Board

Fung Kwok King, Victor
Director

Yeung Lap Bun, Richard
Director

Balance Sheet

As at 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Investments in and loans to subsidiaries	*15*	**25,069**	35,769
Bank deposits		**120,000**	120,000
		145,069	155,769
Current assets			
Amount due from immediate holding company		**–**	21
Amounts due from subsidiaries	*15*	**112,966**	65,351
Other receivables, deposits and prepayments		**10,173**	2,774
Cash and cash equivalents		**420,907**	421,580
		544,046	489,726
Current liabilities			
Amount due to immediate holding company		**43**	–
Amount due to a subsidiary	*15*	**419,832**	418,281
Other payables and accruals		**10,847**	1,538
Taxation payable		**192**	–
		430,914	419,819
Net current assets		**113,132**	69,907
Total assets less current liabilities		**258,201**	225,676
Financed by:			
Share capital	*22*	**67,714**	67,367
Reserves	*23*	**154,287**	127,917
Proposed final dividend	*23*	**36,200**	30,392
		258,201	225,676

On behalf of the Board

Fung Kwok King, Victor	**Yeung Lap Bun, Richard**
Director	*Director*

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Cash flows from operating activities			
Cash generated from operations	25	**143,616**	145,680
Hong Kong profits tax paid		**(15,239)**	(17,547)
Net cash generated from operating activities		**128,377**	128,133
Cash flows from investing activities			
Purchase of fixed assets		**(49,830)**	(52,780)
Proceeds from disposal of fixed assets		**521**	2
Purchase of available-for-sale financial assets		**(21,755)**	–
Purchase of other financial assets		**(4,518)**	–
Increase in non-current bank deposits		**–**	(70,000)
Interest received		**18,816**	14,727
Net cash used in investing activities		**(56,766)**	(108,051)
Cash flows from financing activities			
Proceeds from issuance of shares		**6,035**	1,969
Capital contribution from a minority shareholder		**–**	9,598
Dividends paid		**(40,538)**	(35,310)
Net cash used in financing activities		**(34,503)**	(23,743)
Increase/(decrease) in cash and cash equivalents		**37,108**	(3,661)
Cash and cash equivalents at 1 January		**477,310**	481,360
Effect of foreign exchange rate changes		**367**	(389)
Cash and cash equivalents at 31 December		**514,785**	477,310

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to shareholders of the Company							Minority interests	Total equity
	Share capital	Share premium	Merger reserve	Capital reserve	Employee share-based compensation reserve	Exchange reserve	Retained earnings		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005	67,202	117,560	177,087	13,433	956	–	66,267	(6,613)	435,892
Issue of shares	165	1,804	–	–	–	–	–	–	1,969
Employee share option benefit	–	93	–	–	1,510	–	29	–	1,632
Exchange differences	–	–	–	–	–	123	–	67	190
Profit/(loss) for the year	–	–	–	–	–	–	73,578	(5,964)	67,614
Dividends	–	–	–	–	–	–	(35,310)	–	(35,310)
Capital contribution from a minority shareholder	–	–	–	–	–	–	–	9,598	9,598
At 31 December 2005	67,367	119,457	177,087	13,433	2,466	123	104,564	(2,912)	481,585
At 1 January 2006	67,367	119,457	177,087	13,433	2,466	123	104,564	(2,912)	481,585
Issue of shares	347	5,688	–	–	–	–	–	–	6,035
Employee share option benefit	–	411	–	–	2,180	–	69	–	2,660
Exchange differences	–	–	–	–	–	1,322	–	356	1,678
Profit/(loss) for the year	–	–	–	–	–	–	75,054	(5,617)	69,437
Dividends	–	–	–	–	–	–	(40,538)	–	(40,538)
At 31 December 2006	67,714	125,556	177,087	13,433	4,646	1,445	139,149	(8,173)	520,857

1. GENERAL INFORMATION

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

The Company is a limited liability company incorporated in Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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

These consolidated accounts are presented in thousands of units of Hong Kong dollars (HK$'000). These consolidated accounts have been approved for issue by the Board of Directors on 7 March 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and under historical cost convention as modified by the revaluation of available-for-sale financial assets and financial assets (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

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

In 2006, the Group adopted the revised standards of HKFRS below, which are relevant to its operations.

HKAS 19 (Amendment)	Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

The adoption of the above standards did not result in substantial changes to the Group's accounts. The changes in the Group's accounting policies are summarised as below:

– HKAS 19 (Amendment) introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the extent of disclosures presented in the accounts.

– HKAS 21 (Amendment) changes the net investment definition and permits inter-company loans denominated in any currency to be part of a net investment in a foreign operation. Exchange differences arising from these inter-company loans are taken to exchange reserve in the consolidated accounts. The adoption of this amendment does not have any significant impacts to the accounts.

The following new/revised standards and interpretations of HKFRS are effective in 2006 but not relevant for the Group's operations:

HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 1 (Amendment) and HKFRS 6 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

The Group has not early adopted the following new/revised standards and interpretations of HKFRS that have been issued but are not yet effective. The adoption of such new/revised standards and interpretations will have no material impact on the Group's accounts and will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

(b) Consolidation

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

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

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

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

In the Company's balance sheet, the 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.

(c) Segment reporting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the profit and loss account, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Fixed assets

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

Properties and leasehold improvements are depreciated on a straight-line basis over the periods of the leases or their expected useful lives 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.

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

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

(f) Impairment of investments in subsidiaries and non-financial assets

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

(g) Financial assets

The Group classifies its investments as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified as this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) **Financial assets** (continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet *(note 2 (j))*.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the profit and loss account within other income in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit and loss account as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account as part of other income. Dividends on available-for-sale equity instruments are recognised in the profit and loss account as part of other income when the Group's right to receive payments is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial assets (continued)

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

(h) Operating leases

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

(i) Inventories

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

(j) Trade and other receivables

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

(k) Cash and cash equivalents

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Share capital

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

(m) Provisions

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

(n) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Profit sharing and bonus plans

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

(iii) Pension obligations

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Employee benefits (continued)

(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 by using the projected unit credit method by a qualified actuary. The cost of providing the long service payment liabilities is charged to the profit and loss account so as to spread the costs over the service lives of employees.

The long service payment liabilities are discounted to determine the present value and reduced by entitlements accrued under the Group's defined contribution retirement scheme that is attributable to contributions made by the Group. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation 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.

(v) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity employee share-based compensation reserve over the remaining vesting period.

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

(o) Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Revenue recognition

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

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

(ii) Supplier rebate and promotion fees are recognised when the rights to receive payments are established in accordance with the terms of agreements with the vendors.

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

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

(q) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk

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

(i) Foreign exchange risk

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

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

(ii) Credit risk

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

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk (continued)

(iii) Liquidity risk

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

(iv) Interest rate risk

The Group has significant interest-bearing assets, mainly represent cash in hand and deposits held with banks, and are exposed to changes in market interest rates. The risk is managed through the maintenance of a proper portfolio of short-term and long-term deposits.

(b) Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Valuation techniques, such as estimated discounted cash flows and option pricing models, are used to determine fair value for financial instruments.

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Employee benefits – share-based payments

The determination of the fair value of the share options granted requires estimates in determining the expected volatility of the share price, the dividends expected on the shares and the risk-free interest rate for the life of the option as stated in note 22. Where the outcome of the number of options that are exercisable is different, such difference will impact the profit and loss account in the subsequent remaining vesting period of the relevant share options.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(b) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group uses discounted cash flow analysis and option pricing models for available-for-sale financial assets and other financial instruments that are not traded in active markets.

5. REVENUE, OTHER INCOME 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	
	2006	2005
	HK$'000	HK$'000
Revenue		
Merchandise sales revenue	**2,231,217**	1,995,206
Other income		
Supplier rebate and promotion fees	**148,409**	143,848
Service items and miscellaneous income	**37,309**	29,326
Interest income	**18,816**	14,727
Fair value gain of financial assets at fair value through profit or loss	**1,665**	–
Exchange gain	**815**	–
	207,014	187,901

5. REVENUE, OTHER INCOME AND SEGMENT INFORMATION (continued)

Primary reporting format – geographical segments

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

	Hong Kong	Chinese Mainland	Group
	2006	2006	2006
	HK$'000	HK$'000	HK$'000
Revenue	2,136,919	94,298	2,231,217
Other income	176,050	9,668	185,718
	2,312,969	103,966	2,416,935
Segment results	89,725	(25,506)	64,219
Interest income			18,816
Fair value gain of financial assets at fair value through profit or loss			1,665
Exchange gain			815
Profit before income tax			85,515
Income tax expenses			(16,078)
Profit for the year			69,437
Segment assets	355,422	81,690	437,112
Unallocated assets			541,167
Total assets			978,279
Segment liabilities	432,816	23,060	455,876
Unallocated liabilities			1,546
Total liabilities			457,422
Capital expenditure	35,973	13,857	49,830
Depreciation	29,694	9,557	39,251
Amortisation	–	427	427

5. REVENUE, OTHER INCOME AND SEGMENT INFORMATION (continued)

Primary reporting format – geographical segments (continued)

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

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

5. REVENUE, OTHER INCOME AND SEGMENT INFORMATION (continued)

Primary reporting format – geographical segments (continued)

Segment liabilities comprise operating liabilities but exclude taxation payable and deferred taxation.

Capital expenditure comprises additions to fixed assets *(note 13)*.

There are no sales between the geographical segments.

No business activity analysis is presented for the years ended 31 December 2006 and 2005 as substantially all the Group's revenue and contribution to results were derived from the operation of a chain of convenience stores in Hong Kong and the Chinese Mainland.

6. EXPENSES BY NATURE

	Group	
	2006	2005
	HK$'000	HK$'000
Amortisation of franchise licence	**–**	19
Amortisation of lease premium for land	**427**	430
Auditor's remuneration		
Charge for the current year	**779**	691
Over provision in prior year	**–**	(16)
Changes in inventories	**1,658,726**	1,490,745
Depreciation of owned fixed assets	**39,251**	42,768
Employee benefit expense	**289,825**	249,068
Loss on disposal of fixed assets	**1,693**	1,853
Operating leases rental for land and buildings	**178,157**	151,659
Other expenses	**183,858**	164,228
Total cost of sales, store expenses, distribution costs and administrative expenses	**2,352,716**	2,101,445

7. INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. No provision for overseas profits tax has been made as the Group has no overseas estimated assessable profit for the year ended 31 December 2006 (2005: Nil).

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

	2006	2005
	HK$'000	HK$'000
Current income tax – Hong Kong profits tax	**14,710**	14,823
Deferred income tax *(note 17)*	**1,368**	(775)
	16,078	14,048

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

	2006	2005
	HK$'000	HK$'000
Profit before income tax	**85,515**	81,662
Calculated at a taxation rate of 17.5% (2005: 17.5%)	**14,966**	14,291
Effect of different taxation rates in other jurisdiction	**(3,586)**	(2,858)
Income not subject to taxation	**(4,013)**	(3,059)
Expenses not deductible for tax purposes	**1,419**	433
Tax losses not recognised	**8,187**	6,090
Effect of previously unrecognised tax losses	**(111)**	(958)
Effect of previously unrecognised temporary differences	**(138)**	109
Over provision in prior year	**(646)**	–
	16,078	14,048

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of HK$64,368,000 (2005: HK$38,962,000).

9. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Interim dividend, paid, of 1.5 HK cents (2005: 1.5 HK cents) per share	**10,138**	10,091
Final dividend, proposed, of 5 HK cents (2005: 4.5 HK cents) per share	**36,200**	30,392
	46,338	40,483

At a meeting held on 7 March 2007, the Directors proposed a final dividend of 5 HK cents per share. This proposed dividend is not reflected as a dividend payable in these accounts.

10. EARNINGS PER SHARE

The calculation of the Group's basic and diluted earnings per share is based on the consolidated profit attributable to shareholders of the Company of HK$75,054,000 (2005: HK$73,578,000).

The basic earnings per share is based on the weighted average number of 675,870,911 (2005: 672,741,375) shares in issue during the year.

The diluted earnings per share is based on 677,496,577 (2005: 675,108,756) shares which is the weighted average number of 675,870,911 (2005: 672,741,375) shares in issue during the year plus the weighted average of 1,625,666 (2005: 2,367,381) shares deemed to be issued at no consideration if all outstanding options had been exercised.

11. EMPLOYEE BENEFIT EXPENSE

	Group	
	2006 HK$'000	2005 HK$'000
Wages and salaries	**272,936**	234,916
Unutilised annual leave	**326**	779
Employee share option benefit	**2,660**	1,632
Pension costs – defined contribution plan *(note c)*	**13,604**	11,442
Long service payment costs *(note 24)*	**299**	299
	289,825	249,068

11. EMPLOYEE BENEFIT EXPENSE (continued)

Notes:

(a) The employee benefit expense includes directors' and senior management's emoluments *(note 12)*.

(b) Forfeited contributions totalling HK$49,000 (2005: HK$101,000) were utilised during the year leaving nil amount available at the year-end to reduce future contributions.

(c) Contributions totalling HK$2,468,000 (2005: HK$1,945,000) were payable to the independently administered fund at the year-end.

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2006 is set out below:

Name of Director	**Fees**	**Salary**	**Discretionary bonuses**	**Other benefits** *(note i)*	**Employer's contribution to pension scheme**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Dr. Fung Kwok King, Victor	90	–	–	–	–	90
Dr. Fung Kwok Lun, William	50	–	–	–	–	50
Mr. Jeremy Paul Egerton Hobbins	70	–	–	–	–	70
Mr. Yeung Lap Bun, Richard	50	2,400	3,717	169	12	6,348
Mr. Li Kwok Ho, Bruno	50	600	–	–	12	662
Ms. Wong Yuk Nor, Louisa	50	–	–	–	–	50
Dr. Ch'ien Kuo Fung, Raymond	110	–	–	–	–	110
Mr. Au Man Chung, Malcolm	90	–	–	–	–	90
Mr. Godfrey Ernest Scotchbrook	70	–	–	–	–	70
Mr. Lo Kai Yiu, Anthony *(note ii)*	70	–	–	–	–	70

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

(a) Directors' emoluments (continued)

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

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

Notes:

(i) Other benefits include leave pay, share option, insurance premium and club membership.

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

In addition to the Directors' emoluments disclosed above, certain Directors of the Company had emoluments receivable from the immediate holding company, which totals HK$8,323,000 (2005: HK$8,187,000), 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.

No Director waived or agreed to waive any of their emoluments in respect of the years ended 31 December 2006 and 2005.

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one (2005: one) Director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2005: four) individuals during the year are as follows:

	2006 HK$'000	2005 HK$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	**4,834**	5,621
Discretionary bonuses	**1,854**	1,308
Pension costs – defined contribution scheme	**45**	33
	6,733	6,962

The emoluments of the employees fell within the following bands:

	Number of individuals	
	2006	2005
HK$1,000,001 – HK$1,500,000	**2**	2
HK$1,500,001 – HK$2,000,000	**1**	2
HK$2,000,001 – HK$2,500,000	**1**	–

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

13. FIXED ASSETS

Group

	Properties HK$'000	Leasehold improvements HK$'000	Equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2005					
Cost	732	54,628	190,044	4,834	250,238
Accumulated depreciation	(33)	(38,544)	(127,143)	(3,179)	(168,899)
Net book amount	699	16,084	62,901	1,655	81,339
Year ended 31 December 2005					
Opening net book amount	699	16,084	62,901	1,655	81,339
Exchange differences	6	111	188	26	331
Additions	5	16,567	35,274	934	52,780
Disposals	–	(168)	(1,687)	–	(1,855)
Depreciation	(24)	(10,352)	(31,793)	(599)	(42,768)
Closing net book amount	686	22,242	64,883	2,016	89,827
At 31 December 2005					
Cost	743	65,491	213,327	5,379	284,940
Accumulated depreciation	(57)	(43,249)	(148,444)	(3,363)	(195,113)
Net book amount	686	22,242	64,883	2,016	89,827
Year ended 31 December 2006					
Opening net book amount	686	22,242	64,883	2,016	89,827
Exchange differences	9	418	444	30	901
Additions	–	9,716	39,304	810	49,830
Disposals	–	(528)	(1,555)	(131)	(2,214)
Depreciation	(27)	(9,955)	(28,535)	(734)	(39,251)
Closing net book amount	668	21,893	74,541	1,991	99,093
At 31 December 2006					
Cost	754	73,851	207,474	5,291	287,370
Accumulated depreciation	(86)	(51,958)	(132,933)	(3,300)	(188,277)
Net book amount	668	21,893	74,541	1,991	99,093

14. LEASE PREMIUM FOR LAND

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

	Group	
	2006	2005
	HK$'000	HK$'000
Net book value at 1 January	**15,567**	15,872
Exchange differences	**144**	125
Amortisation	**(427)**	(430)
Net book value at 31 December	**15,284**	15,567
Outside Hong Kong, held on:		
Leases of over 50 years	**726**	739
Leases of 10 to 50 years	**14,558**	14,828
	15,284	15,567

15. INVESTMENTS IN AND LOANS TO SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Investment at cost:		
Unlisted shares	**6,769**	6,769
Loans to a subsidiary	**18,300**	29,000
	25,069	35,769

Loans to a subsidiary represent loans of HK$18,300,000 (2005: HK$29,000,000) which are interest bearing at 2% (2005: 2%) per annum, and repayable on 18 August 2008.

As at 31 December 2006, the outstanding balances with the subsidiaries are unsecured, interest free and repayable on demand.

15. INVESTMENTS IN AND LOANS TO SUBSIDIARIES (continued)

The following is a list of the subsidiaries of the Company as at 31 December 2006:

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%
Convenience Retail Asia (Netherlands) Limited	British Virgin Islands, limited liability company	Investment holding in Netherlands	1 ordinary share of US$1	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	Lease-holder in Hong Kong	10,000 ordinary shares of HK$10 each	100%
Circle K Convenience Stores PRC (BVI) Limited	British Virgin Islands, limited liability company	Inactive	1 ordinary shares of US$1 each	100%
Circle K Convenience Stores PRC Limited	Hong Kong, limited liability company	Investment holding in PRC	2 ordinary shares of HK$1 each	100%
Circle K PRC Properties Limited	Hong Kong, limited liability company	Property holding in PRC	2 ordinary shares of HK$1 each	100%
Convenience Retail Asia Cooperatie U.A.	Netherlands, cooperative	Investment holding in Netherlands	Membership contribution of EUR1,000	100%

15. INVESTMENTS IN AND LOANS TO SUBSIDIARIES (continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Interest held
Indirectly held: (continued)				
Convenience Retail Asia B.V.	Netherlands, limited liability company	Investment holding in Netherlands	180 ordinary shares of EUR100 each	100%
Convenience Retail Dongguan Limited 東莞利亞便利店有限公司*	PRC, limited liability company	Convenience stores operator and lease-holder in PRC	Registered capital of RMB30,000,000	100%
Convenience Retail Shenzhen Limited 深圳利亞便利店有限公司*	PRC, limited liability company	Convenience stores operator and lease-holder in PRC	Registered capital of RMB20,000,000	100%
Convenience Retail Southern China Limited	Hong Kong, limited liability company	Dormant	2 ordinary shares of HK$1 each	100%
Convenience Retail Southern China Limited 利亞華南便利店有限公司*	PRC, limited liability company	Convenience stores operator and lease-holder in PRC	Registered capital of RMB60,000,000 *(Note)*	65%
Web-Logistic (HK) Limited	Hong Kong, limited liability company	Logistic service provider in Hong Kong	15,600,000 ordinary shares of HK$1 each	100%

* *The legal name of the company is in Chinese.*

Note:

At 31 December 2006, the paid-up capital of Convenience Retail Southern China Limited ("CRSC") amounted to RMB54,900,000 (2005: RMB54,900,000). In accordance with the Co-operative Agreement dated 20 December 2001, one of the minority shareholders (the "minority shareholder") has binding obligation to inject additional capital of RMB5,100,000 into CRSC before 14 October 2005.

On 7 November 2006, Circle K Convenience Stores PRC Limited ("CKPRC"), a wholly-owned subsidiary of the Company, entered into a conditional Sale and Purchase Agreement with the minority shareholder of CRSC to acquire an additional 8.5% of equity interest in CRSC at a consideration of RMB5,100,000 (approximately HK$5,050,000). Upon completion of the transaction, CKPRC's equity interest in CRSC will be increased to 73.5%. As of the date of this report, the transaction has not yet completed subject to the approval from the relevant regulatory body in the Chinese Mainland.

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2006	2005
	HK$'000	HK$'000
Unlisted investments		
Investments in Macau *(note a)*	**1,895**	–
Investments in Korea *(note b)*	**20,675**	–
	22,570	–

Notes:

(a) During the year, the Group has acquired 19.5% equity interest in Circle K Amazens Retalhistas Macau, Limited and contributed a shareholders' loan of MOP1,931,000 (approximately HK$1,876,000). The shareholders' loan is unsecured, interest free and repayable on demand.

(b) During the year, the Group has acquired approximately 2.5% equity interest in Korea Retail Holdings B.V. Limited ("KRH") and contributed to shareholders' loans of EUR1,931,000 (approximately HK$19,766,000) and US$44,000 (approximately HK$340,000). The shareholders' loans of EUR1,931,000 and US$44,000 bear interest at 7.875% and the applicable rate of LIBOR per annum, respectively, and are repayable on demand. KRH has a wholly-owned subsidiary, Buytheway Inc., which is a company incorporated in the Republic of Korea and is principally engaged in the operation of convenience retail chain in South Korea. In connection with the acquisition, the Group is granted certain call options from the seller to acquire an additional of approximately 30.5% equity interest in KRH within 2 years from 10 November 2006 *(see note 19)*.

17. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

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

	Group	
	2006	2005
	HK$'000	HK$'000
At 1 January	**(1,361)**	(586)
Deferred taxation charged/(credited) to the consolidated profit and loss account *(note 7)*	**1,368**	(775)
At 31 December	**7**	(1,361)

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

17. 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 assets	**Tax losses**		**Others**		**Total**	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**(1,281)**	(1,655)	**(164)**	(99)	**(1,445)**	(1,754)
Charged/(credited) to the consolidated profit and loss account	**825**	374	**69**	(65)	**894**	309
At 31 December	**(456)**	(1,281)	**(95)**	(164)	**(551)**	(1,445)

	Group					
Deferred tax liabilities	**Accelerated tax depreciation**		**Others**		**Total**	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**38**	1,168	**46**	–	**84**	1,168
Charged/(credited) to the consolidated profit and loss account	**500**	(1,130)	**(26)**	46	**474**	(1,084)
At 31 December	**538**	38	**20**	46	**558**	84

17. DEFERRED TAXATION (continued)

	Group	
	2006	2005
	HK$'000	HK$'000
Deferred tax assets		
– Deferred tax assets to be recovered after more than 12 months	**(7)**	(261)
– Deferred tax assets to be recovered within 12 months	**(544)**	(1,184)
	(551)	(1,445)
Deferred tax liabilities		
– Deferred tax liabilities to be settled after more than 12 months	**19**	46
– Deferred tax liabilities to be settled within 12 months	**539**	38
	558	84

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

	Group	
	2006	2005
	HK$'000	HK$'000
Deferred tax assets	**(404)**	(1,361)
Deferred tax liabilities	**411**	–

Deferred income tax assets are recognised for tax loss carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of the subsidiaries in the PRC amounting to HK$24,765,000 (2005: HK$16,336,000) in respect of losses amounting to HK$76,497,000 (2005: HK$49,503,000) that can be carried forward against future taxable income. The tax losses can be carried forward for five years immediately after the respective accounting year.

18. TRADE RECEIVABLES

Majority of the Group's revenue are retail cash sales. The Group's credit terms on trade receivable on income from suppliers mainly range from 30 days to 60 days. Trade receivables are non-interest bearing. The carrying amounts of trade receivables approximate their fair values. At 31 December 2006, the ageing analysis of trade receivables was as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
0-30 days	**20,943**	23,168
31-60 days	**1,351**	2,491
61-90 days	**1,124**	923
Over 90 days	**690**	65
	24,108	26,647

19. OTHER FINANCIAL ASSETS

Other financial assets represent the fair value of the call options granted to the Group to acquire an additional of approximately 30.5% equity interest in KRH within 2 years from 10 November 2006.

20. BANK BALANCES AND CASH

	Group	
	2006	2005
	HK$'000	HK$'000
Cash at bank and in hand	**68,022**	56,610
Bank deposits	**566,763**	540,700
Total bank balances and cash	**634,785**	597,310
Non-current bank deposits	**(120,000)**	(120,000)
Cash and cash equivalents	**514,785**	477,310

The effective interest on short-term bank deposits of HK$514,785,000 (2005: HK$477,310,000) was 3.7% (2005: 1.9%) per annum, and these deposits have an average maturity of 4 days.

The cash and bank balances are mainly denominated in Hong Kong dollars, except for certain balances of HK$13,695,000 (2005: HK$15,087,000) which are kept in the Chinese Mainland. The remittance of funds out of the Chinese Mainland is subject to rules and regulations of foreign exchange control promulgated by the Chinese Mainland government.

21. TRADE PAYABLES

At 31 December 2006, the ageing analysis of the trade payables was as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
0-30 days	**173,012**	152,425
31-60 days	**99,804**	93,438
61-90 days	**51,370**	42,256
Over 90 days	**33,013**	33,817
	357,199	321,936

22. SHARE CAPITAL

	2006		2005	
	Shares of HK$0.10 each		Shares of HK$0.10 each	
	No. of shares	**HK$'000**	No. of shares	HK$'000
Authorised:				
At 31 December	**2,000,000,000**	**200,000**	2,000,000,000	200,000
Issued and fully paid:				
At 1 January	**673,668,000**	**67,367**	672,018,000	67,202
Issuance of shares *(note a)*	**3,474,000**	**347**	1,650,000	165
At 31 December	**677,142,000**	**67,714**	673,668,000	67,367

Note:

(a) During the year, 1,600,000 (2005: 1,200,000) and 1,874,000 (2005: 450,000) shares (the "Shares") were allotted and issued pursuant to the exercise of share options by the employees of the Company in accordance with terms of the Pre-IPO Share Option Plan and Share Option Scheme respectively.

22. SHARE CAPITAL (continued)

Share options

(i) Pre-IPO Share Option Plan

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

Details of the share options outstanding as at 31 December 2006 which have been granted under the Pre-IPO Share Option Plan were as follows:

Grant date	Options held at 1 January 2006	Options exercised during the year	Options lapsed during the year	Options expired during the year	Options held at 31 December 2006	Exercise price HK$	Exercisable from	Exercisable until
30 December 2000	100,000	(70,000)	–	(30,000)	–	0.92	10 January 2002	9 January 2006
30 December 2000	1,500,000	(1,500,000)	–	–	–	0.92	10 January 2003	9 January 2006

(ii) Share Option Scheme

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

22. SHARE CAPITAL (continued)

Share options (continued)

(ii) Share Option Scheme (continued)

Details of the share options granted and outstanding as at 31 December 2006 were as follows:

Grant date	Options held at 1 January 2006	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options expired during the year	Options held at 31 December 2006	Exercise price HK$	Exercisable from	Exercisable until
21 September 2001	194,000	–	(138,000)	–	(56,000)	–	2.42	21 September 2002	20 September 2006
21 September 2001	348,000	–	(286,000)	(62,000)	–	–	2.42	21 September 2003	20 September 2006
24 May 2002	4,118,000	–	(642,000)	(62,000)	–	3,414,000	2.785	24 May 2003	23 May 2007
24 May 2002	530,000	–	(18,000)	(48,000)	–	464,000	2.785	24 May 2004	23 May 2007
23 September 2002	94,000	–	(44,000)	–	–	50,000	2.15	23 September 2003	22 September 2007
23 September 2002	38,000	–	(10,000)	–	–	28,000	2.15	23 September 2004	22 September 2007
20 May 2003	976,000	–	(140,000)	(10,000)	–	826,000	1.69	20 May 2004	19 May 2008
20 May 2003	522,000	–	(174,000)	–	–	348,000	1.69	20 May 2005	19 May 2008
30 September 2003	80,000	–	(50,000)	(10,000)	–	20,000	2.225	30 September 2004	29 September 2008
30 September 2003	144,000	–	(36,000)	–	–	108,000	2.225	30 September 2005	29 September 2008

22. SHARE CAPITAL (continued)

Share options (continued)

(ii) Share Option Scheme (continued)

Grant date	Options held at 1 January 2006	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options expired during the year	Options held at 31 December 2006	Exercise price HK$	Exercisable from	Exercisable until
29 March 2004	716,000	–	(174,000)	(30,000)	–	512,000	2.535	29 March 2005	28 March 2009
29 March 2004	118,000	–	(52,000)	(8,000)	–	58,000	2.535	29 March 2006	28 March 2009
6 August 2004	100,000	–	(8,000)	(8,000)	–	84,000	2.40	6 August 2005	5 August 2009
6 August 2004	316,000	–	–	(26,000)	–	290,000	2.40	6 August 2006	5 August 2009
4 May 2005	858,000	–	(48,000)	(52,000)	–	758,000	2.86	4 May 2006	3 May 2010
4 May 2005	468,000	–	–	(52,000)	–	416,000	2.86	4 May 2007	3 May 2010
14 September 2005	2,128,000	–	(74,000)	–	–	2,054,000	2.53	14 September 2006	13 September 2010
14 September 2005	272,000	–	–	(100,000)	–	172,000	2.53	14 September 2007	13 September 2010
10 March 2006	–	944,000	–	(36,000)	–	908,000	2.905	10 March 2007	9 March 2011
10 March 2006	–	644,000	–	(30,000)	–	614,000	2.905	10 March 2008	9 March 2011
29 August 2006	–	452,000	–	(12,000)	–	440,000	2.93	29 August 2007	28 August 2011
29 August 2006	–	192,000	–	–	–	192,000	2.93	29 August 2008	28 August 2011

22. SHARE CAPITAL (continued)

Share options (continued)

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

	2006		2005	
	Options	**Weighted average exercise price HK$**	Options	Weighted average exercise price HK$
At 1 January	**5,642,000**	**2.51**	2,250,000	2.24
Granted	**2,232,000**	**2.91**	3,804,000	2.65
Lapsed	**(354,000)**	**2.70**	(240,000)	2.55
Exercised	**(566,000)**	**2.28**	(172,000)	1.98
At 31 December	**6,954,000**	**2.65**	5,642,000	2.51
Exercisable	**4,212,000**	**2.50**	1,482,000	2.20

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.17 (2005: HK$2.62). The options outstanding at 31 December 2006 and 2005 had a weighted average remaining contractual life of 3.51 and 4.06 years respectively.

22. SHARE CAPITAL (continued)

Share options (continued)

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

Expiry date	Exercise price HK$	**2006 Options**	2005 Options
20 May 2008	1.69	**348,000**	522,000
30 September 2008	2.225	**108,000**	144,000
29 March 2009	2.535	**570,000**	834,000
6 August 2009	2.40	**374,000**	416,000
4 May 2010	2.86	**1,174,000**	1,326,000
14 September 2010	2.53	**2,226,000**	2,400,000
10 March 2011	2.905	**1,522,000**	–
29 August 2011	2.93	**632,000**	–
		6,954,000	5,642,000

The fair value of options granted are determined by using the Black-Scholes valuation model. During the year, the weighted average fair value of options granted was HK$0.77 (2005: HK$0.82) per option. The significant inputs into the models were as follows:

	2006	2005
Expected volatility	**30%**	40%
Expected life	**4.5 years**	4.5 years
Risk free rate	**4.3%**	3.4%
Expected dividends	**2%**	2%

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

23. RESERVES

(a) Group

	Share premium HK$'000	Merger reserve HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2005	117,560	177,087	13,433	956	–	66,267	375,303
Issue of new shares	1,804	–	–	–	–	–	1,804
Employee share option benefit	93	–	–	1,510	–	29	1,632
Exchange differences	–	–	–	–	123	–	123
Profit attributable to shareholders of the Company	–	–	–	–	–	73,578	73,578
Dividends	–	–	–	–	–	(35,310)	(35,310)
At 31 December 2005	119,457	177,087	13,433	2,466	123	104,564	417,130
Representing:							
Reserves							386,738
2005 final dividend proposed							30,392
							417,130
At 1 January 2006	119,457	177,087	13,433	2,466	123	104,564	417,130
Issue of new shares	5,688	–	–	–	–	–	5,688
Employee share option benefit	411	–	–	2,180	–	69	2,660
Exchange differences	–	–	–	–	1,322	–	1,322
Profit attributable to shareholders of the Company	–	–	–	–	–	75,054	75,054
Dividends	–	–	–	–	–	(40,538)	(40,538)
At 31 December 2006	125,556	177,087	13,433	4,646	1,445	139,149	461,316
Representing:							
Reserves							425,116
2006 final dividend proposed							36,200
							461,316

23. RESERVES (continued)

(b) Company

	Share premium HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2005	117,560	12,792	956	19,913	151,221
Issue of new shares	1,804	–	–	–	1,804
Employee share option benefit	93	–	1,510	29	1,632
Profit attributable to shareholders of the Company	–	–	–	38,962	38,962
Dividends	–	–	–	(35,310)	(35,310)
At 31 December 2005	119,457	12,792	2,466	23,594	158,309
Representing:					
Reserves					127,917
2005 final dividend proposed					30,392
					158,309
At 1 January 2006	119,457	12,792	2,466	23,594	158,309
Issue of new shares	5,688	–	–	–	5,688
Employee share option benefit	411	–	2,180	69	2,660
Profit attributable to shareholders of the Company	–	–	–	64,368	64,368
Dividends	–	–	–	(40,538)	(40,538)
At 31 December 2006	125,556	12,792	4,646	47,493	190,487
Representing:					
Reserves					154,287
2006 final dividend proposed					36,200
					190,487

24. LONG SERVICE PAYMENT LIABILITIES

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

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

	Group	
	2006	2005
	HK$'000	HK$'000
Present value of unfunded obligations	**8,919**	7,241
Net unrecognised actuarial (losses)/gains	**(828)**	621
Liability in the consolidated balance sheet	**8,091**	7,862

Movements in the liability recognised in the consolidated balance sheet:

	Group	
	2006	2005
	HK$'000	HK$'000
At 1 January	**7,862**	7,721
Expenses recognised in the consolidated profit and loss account		
– as shown below	**299**	299
Benefits paid	**(70)**	(158)
At 31 December	**8,091**	7,862

24. LONG SERVICE PAYMENT LIABILITIES (continued)

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

	Group	
	2006	2005
	HK$'000	HK$'000
Current service cost	**25**	10
Interest cost	**271**	286
Net actuarial losses recognised	**3**	3
Total, included in employee benefit expense *(note 11)*	**299**	299

Of the total charge, HK$223,000 (2005: HK$218,000), HK$18,000 (2005: HK$20,000) and HK$58,000 (2005: HK$61,000) were included, respectively, in store expenses, distribution costs and administrative expenses.

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

	2006	2005
Discount rate	**3.75%**	4%
Long term rate of salary increases		
– Full time staff	**3%**	2%
– Part time staff	**2.5%**	2%
Long term rate of increases to mandatory provident fund relevant income and long service payments maximum amount/wages	**2.5%**	2%

25. CASH GENERATED FROM OPERATIONS

	2006 HK$'000	2005 HK$'000
Profit for the year	**69,437**	67,614
Adjustments for		
– Income tax expenses	**16,078**	14,048
– Interest income	**(18,816)**	(14,727)
– Depreciation of owned fixed assets	**39,251**	42,768
– Employee share option benefit	**2,660**	1,632
– Amortisation of lease premium for land	**427**	430
– Loss on disposal of fixed assets	**1,693**	1,853
– Long service payment costs	**229**	141
– Fair value gain of financial assets at fair value through profit or loss	**(1,665)**	–
– Foreign exchange gain	**(550)**	–
– Amortisation of franchise licence	**–**	19
	108,744	113,778
Changes in working capital		
– Inventories	**(3,243)**	(11,704)
– Trade receivables, rental deposits, other receivables, deposits and prepayments	**(20,326)**	(14,801)
– Amount due to immediate holding company	**(225)**	(499)
– Trade payables, other payables and accruals	**58,666**	58,783
– Effect of foreign exchange movement	**–**	123
	143,616	145,680

26. COMMITMENTS

(a) Capital commitments

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

	Group	
	2006	2005
	HK$'000	HK$'000
Contracted but not provided for	**2,291**	6,173
Authorised but not contracted for	**10,099**	7,962
	12,390	14,135

(b) Operating leases commitments

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

	Group	
	2006	2005
	HK$'000	HK$'000
Not later than one year	**162,307**	139,947
Later than one year and not later than five years	**146,257**	144,499
Later than five years	**7,896**	752
	316,460	285,198

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

26. COMMITMENTS (continued)

(c) In 2005, a wholly-owned subsidiary of the Company entered into an agreement ("the Agreement") for making a capital contribution of RMB4,000,000 (approximately HK$3,850,000) to Dongguan Sunhigh Trading Co. Ltd. ("DG Sun-High"). DG Sun-High is a limited liability company established in the People's Republic of China ("PRC"), engaging in the provision of franchising business to a chain of convenience stores in Dongguan. Completion of the Agreement is subject to certain conditions including, inter alia, the conversion of DG Sun-High into a sino-foreign joint venture and other necessary approvals by the relevant PRC government authorities, which is not yet completed as of the date of approval of these accounts. The capital contribution of RMB4,000,000 represents 60% interest in the enlarged share capital of DG Sun-High upon conversion of its status into a sino-foreign joint venture.

27. RELATED PARTY TRANSACTIONS

The Group is controlled by Li & Fung (Retailing) Limited (incorporated in Hong Kong), which owns 55.2% of the Company's shares. The remaining 44.8% of the shares are widely held.

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

(a) Immediate holding company

	Note	**2006 HK$'000**	2005 HK$'000
Management fee and reimbursement of office and administrative expenses	*(i)*	**17,869**	15,909
Rental payable	*(ii)*	**856**	884

(b) Fellow subsidiaries

		2006 HK$'000	2005 HK$'000
Rental payable	*(ii)*	**4,101**	4,297
Net purchases	*(iii)*	**6,253**	6,778

27. RELATED PARTY TRANSACTIONS (continued)

(c) Key management personnel compensation

	2006 HK$'000	2005 HK$'000
Fees	**700**	436
Discretionary bonuses	**5,571**	4,817
Salaries, share options and other allowances	**8,003**	8,785
Pension costs – defined contribution scheme	**69**	57
	14,343	14,095

(d) Year-end balances arising from related party transactions

	2006 HK$'000	2005 HK$'000
Amounts due from/(to):		
– Immediate holding company	**48**	(177)
– Fellow subsidiaries	**(2,478)**	(2,554)

The outstanding amounts with the related parties are unsecured, interest free and repayable on demand.

(e) The Company provides corporate guarantee to certain banks for the banking facilities of a subsidiary of HK$50,888,000 (2005: HK$50,888,000). As of 31 December 2006, the banking facilities were not utilised.

Notes:

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

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

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

28. EVENTS AFTER THE BALANCE SHEET DATE

Acquisition of Saint Honore Holdings Limited ("Saint Honore")

The Group acquired 100% interest in Saint Honore for a total consideration of approximately HK$648,345,000 on 22 February 2007. Saint Honore was a company listed on the Stock Exchange of Hong Kong Limited and the listing of its shares had been withdrawn upon completion of the acquisition. Saint Honore is principally engaged in the manufacture of bakery products and operation of retail chain of bakeries.

The purchase consideration is comprised of:

	HK$'000
Cash paid	494,181
Issuance of 46,637,974 Shares at HK$3.1 per Share	144,578
Direct costs relating to the acquisition	9,586
	648,345

For the payment of cash consideration, the Group had drawn a one month revolving bank loan of HK$80,000,000.

Up to the date of approval of these accounts, there is insufficient financial information available to the Group to identify and determine the fair value to be assigned to the identifiable assets, liabilities and contingent liabilities assumed for the purpose of allocation of purchase price and calculation of goodwill.

29. ULTIMATE HOLDING COMPANY

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

Five Year Financial Summary

The following table summarise the results, assets and liabilities of the Group for the five years ended 31 December 2006.

	2006 HK$'000	2005 HK$'000	2004 HK$'000 (Restated)	2003 HK$'000 (Restated)	2002 HK$'000 (Restated)
Revenue	**2,231,217**	1,995,206	1,736,491	1,515,839	1,383,573
Profit attributable to shareholders of the Company	**75,054**	73,578	66,276	60,512	60,379
Total assets	**978,279**	879,449	779,120	688,231	607,656
Total liabilities	**(457,422)**	(397,864)	(343,228)	(288,631)	(262,018)
Minority interests	**8,173**	2,912	6,613	1,560	(297)
Surplus on shareholders' funds	**529,030**	484,497	442,505	401,160	345,341

Note:

2002-2004 figures have been restated on the adoption of new/revised accounting standards. Certain comparatives have been reclassified to conform with current year presentation.