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 2007

利豐

Member of the Li & Fung Group

OUR VISION :

Convenience Retail Asia Limited

is committed to be the

preferred and fastest-growing

convenience store chain in Asia.

A multi-media brand-building campaign with the slogan "Always Something New!" was launched by Circle K Hong Kong in the third quarter of 2007 featuring the popular talk-show host Sammy as the spokesman.

Contents

Characteristics of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

This annual report (the "Report"), for which the Directors of Convenience Retail Asia Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to Convenience Retail Asia Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this 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	Li Sau Ping, Maria (ACIS)
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	JSM (formerly known as 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

	2007 HK$'000	2006 HK$'000	Change %
• Revenue	**2,916,734**	2,231,217	+30.7%
• Profit attributable to shareholders of the Company	**86,867**	75,054	+15.7%
• Earnings per share	**HK12.08 cents**	HK11.10 cents	+8.8%
• Dividend per share			
– Final	**HK5.5 cents**	HK5 cents	+10%
– Full year	**HK7.2 cents**	HK6.5 cents	+10.8%

OPERATION HIGHLIGHTS

- Effective advertising and promotional activities, coupled with the integration of Saint Honore, resulted in strong growth in turnover and profit.
- The integration of the Saint Honore operations was successfully completed.
- The Group operated a total of 469 stores in the Pearl River Delta including 372 Circle K stores and 97 Saint Honore stores as of 31 December 2007.
- Net cash position of HK$442.8 million as of 31 December 2007.

NUMBER OF OUTLETS AS OF 31 DECEMBER 2007

Circle K Convenience Stores		
Hong Kong		270
Guangzhou		63
Dongguan		9
Shenzhen		4
Subtotal		346
Franchised Circle K Stores		
Macau		16
Zhuhai		10
Subtotal		26
Total number of Circle K Outlets		**372**
Saint Honore Group		
Hong Kong	– Cake Shop	66
	– Bread Boutique	15
Subtotal		81
Macau	– Cake Shop	7
Guangzhou	– Cake Shop	9
Subtotal		16
Total number of Saint Honore Outlets		**97**
Total number of Stores under Convenience Retail Asia		**469**

Chairman's Statement

Dr. Fung Kwok King, Victor
Chairman

FINANCIAL OVERVIEW

I am pleased to report that Convenience Retail Asia Limited, together with its subsidiaries (the "Group"), continued to register satisfactory growth in turnover and profit as a result of the very healthy performances of the Circle K business and the integration of the Saint Honore operation.

The Group's turnover increased by 30.7% when compared to the corresponding periods in 2006, to HK$2,916.7 million. Net profit attributable to shareholders increased by 15.7% to HK$86.9 million. Basic earnings per share increased by 8.8% from 11.10 HK cents to 12.08 HK cents. The financial position of the Group remains strong with a cash reserve of HK$442.8 million without any bank borrowings.

REVIEW OF THE HONG KONG RETAIL MARKET

In 2007, retail sales in Hong Kong went from strength to strength amid a combination of favourable market factors: robust consumer confidence as a result of the buoyant labour market, rising employment income and lower interest rates. The overall upward trend of the stock and property markets also created a wealth effect, which in-turn spurred general consumption. Rising inbound tourism and record-breaking total tourist expenditure also contributed to the increase in retail sales.

REVIEW OF THE HONG KONG RETAIL MARKET (continued)

Total retail sales in 2007 increased by 12.8 %[1] in value and 10.1%[1] in volume over 2006. Growth in overall retail sales accelerated in the second half of the year, as six consecutive months of double digit year-on-year growth in volume were registered. For 2007 as a whole, GDP recorded a growth of 6.3%[2] in real terms over 2006, another positive indicator of the growth momentum of the overall Hong Kong economy.

On a less positive note, overall consumer prices rose by 3.8%[3] in December 2007 compared to a year earlier, with large year-on-year increases in food prices recorded. Looking ahead, a combination of sustained economic growth, rising food and oil prices, the weakening US dollar and the appreciation of Renminbi will continue to exert pressure on prices. The only factor helping to mitigate these price pressures will be the sustained increase in labour productivity.

Among the key market trends that will continue to pose challenges to the Group's operations in Hong Kong are the ongoing increases in retail rental, electricity, raw material and labour costs. As leases come up for renewal, the Group will try to maintain a reasonable level of rental increases, implement energy saving programmes and conduct regular cost/pricing reviews to mitigate rising operational costs.

A labour shortage is becoming more and more evident as overall unemployment decreased to 3.4%[4] in November 2007 – January 2008, the lowest level in almost ten years. Total employment hit a historical high of about 3.55 million[4]. One of the Group's solutions for this labour shortage was to recruit staff from Tin Shui Wai by offering transportation allowance as an incentive to work in the Central, Wanchai and Causeway Bay areas, where the labour shortage is most severe.

COMPANY INITIATIVES FOR HONG KONG OPERATIONS

In the third quarter of 2007, major management initiatives were implemented to enhance the Group's competitiveness in the market.

1 *Provisional Statistics of Retail Sales for December 2007 and for the whole year of 2007, published by Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 31 January 2008.*

2 *Gross Domestic Product for the Fourth Quarter 2007 and the whole year of 2007, published by Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 27 February 2008.*

3 *Consumer Price Indices for December 2007, published by Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 22 January 2008.*

4 *Unemployment and Underemployment Statistics for November 2007 – January 2008, published by Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 19 February 2008.*

COMPANY INITIATIVES FOR HONG KONG OPERATIONS (continued)

The most notable and rewarding effort was the launch of a thematic television campaign, which was signed off with the slogan "Always Something New!". This was followed by the consecutive scheduling of innovative promotional activities in support of the theme, eye-catching point-of-sale displays and enhanced category offering. The high visibility of the thematic campaign, combined with the immediate consumer response to the promotional activities, resulted in healthy growth in comparable store sales and raised the profile of the Circle K brand.

Circle K Hong Kong's management team and Li & Fung Retailing's operation support group welcomed Saint Honore's management team to the Convenience Retail Asia Group in a formal meeting to kick off the integration process.

Another of the Group's major achievements in 2007 was the successful acquisition and integration of Saint Honore. This enabled the Group to enjoy the maximum synergy of both businesses, which complement each other with their respective core competencies. The two businesses have also built a solid foundation for further growth through product quality upgrades, product innovation and aggressive network expansion. Opportunities for cost saving, cross-selling and resource sharing were also thoroughly explored to maximise business growth and margin opportunities.

REVIEW OF THE RETAIL MARKET ON THE CHINESE MAINLAND

Together with the rest of the Chinese Mainland, the retail market in the Guangdong province enjoyed accelerated growth in 2007. A total increase of 16.2%[5] was reported over the first 11 months of 2007, 0.5%[5] higher than the increase reported in the same period in 2006.

Price inflation has become a reality of life with food prices increasing by 8.8%[5] during the first 11 months of 2007 compared with the same period a year earlier. Specific food categories such as cooking oil, meat and eggs registered significant increases while fuel and raw material costs also escalated.

5 *Retail Sales Statistics from January to November 2007, published by Statistics Bureau of Guangdong Province on 14 December 2007.*

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

The booming retail market also brought with it major challenges, notably the inflated costs of operation in the form of escalating retail rental rates, as well as rising wages due to labour shortage and the increasing trend of minimal wage and social security costs.

The Group faced increased competition as major players started to invest considerable resources in upgrading store presentation and improving food offerings. With the relatively low density of convenience stores in Guangzhou, these aggressive activities did not constitute any immediate threat to the Group's operations but tended to narrow the gap in consumer perception of the brand differences among convenience store chains. Newcomers such as Family Mart embarked on another phase of store-openings supported by promotional activities to build brand awareness and expand its customer base. The first C-store in Shenzhen also opened in January 2008.

REVIEW OF THE GUANGZHOU OPERATIONS

In 2007, the Group celebrated the fifth anniversary of the Circle K chain's entry in Guangzhou with a consumer promotion in the last quarter, which was well supported by vendors.

During the last quarter of 2007, the Group also undertook major initiatives to simplify the management structure in Southern China by consolidating the store operation teams for Guangzhou, Dongguan and Shenzhen under one management team headquartered in Guangzhou. This was intended to improve management efficiency, maximise buying synergy and reduce office overheads.

Another significant breakthrough was achieved with the merging of the Circle K and the Saint Honore operations in Guangzhou. The Saint Honore brand in Guangzhou enjoys prestigious positioning and brand perception with product offerings commanding a premium price. Even with a relatively short history in Guangzhou and only nine stores, the Saint Honore chain has been profitable. The two chains will be operated separately to maintain brand integrity and continue targeting different customer groups, but management, administrative and support resources will be fully integrated.

OUTSIDE THE PEARL RIVER DELTA

After a comprehensive evaluation of investment opportunities, the Group opted to focus on further expansion on the Chinese Mainland. As a result, the Group decided not to exercise the option to acquire a further 30.5% equity interest of Buytheway Inc. in South Korea, which expired in November 2007. The Group's 2.5% equity interest in Buytheway Inc. was sold back to its majority shareholder in December 2007.

CORPORATE GOVERNANCE

The Group's commitment to maintaining the highest standards of corporate governance remains unwavering. It will continue to uphold a culture which fosters principles of transparency, accountability and independence.

The Group is in compliance with the Code on Corporate Governance Practices as implemented by The Stock Exchange of Hong Kong Limited.

OUTLOOK FOR 2008

The Group maintains conservative optimism about the sustainability of the robust economic trends reported in Hong Kong and on the Chinese Mainland. Factors that may negatively impact on the overall retail market environment include a rising inflation rate, increasing labour shortages, escalating operational costs, adjustments in the equity market and the possibility of a pandemic outbreak.

An interesting trend according to the 2007 sales analysis was the propensity of consumers to trade up to more premium products as a result of increasing disposable income. In the convenience store sector this was particularly evident in the impulse purchase product categories, including packaged drinks, snack and confectionery, alcoholic drinks and tobacco. This emerging trend will undoubtedly offer opportunities for the Group's category managers to further upgrade the product range and improve margins.

Another encouraging market trend was the affluent consumers' ready acceptance of new products and innovative promotions, which also contributed to the Group's significant sales increases in 2007. Having positioned Circle K's brand as "Always Something New!", the Group is ready to substantiate that positioning in all aspects of customer interface, and most importantly in product offerings. The effectiveness of such a strategy was proven by the substantial confectionery sales growth recorded after the implementation of direct sourcing from Japan which facilitated the constant rotation of new products. In addition to opening more stores, the growth in comparable store sales and margin improvements will significantly contribute to the Group's overall business volume growth.

In order to optimise the business potential offered by the acquisition of Saint Honore, the Group intends to rejuvenate the Saint Honore brand image in Hong Kong by dedicating considerable resources to upgrade overall product quality, enhance the product range, and improve store design and product presentation. Given the fragmentation of the bakery markets in Hong Kong and Guangzhou, the Group envisages that there will be room for network expansion and business growth for Saint Honore.

The consolidated operation team in Guangzhou will spearhead business expansion in Southern China. With the franchise business licence already in hand, one of the key initiatives in 2008 will be the implementation of the franchising model which has been thoroughly tested and is now ready for implementation.

OUTLOOK FOR 2008 (continued)

In addition to organically growing the current business operations, the Group intends to embark on a more aggressive deployment of the cash reserve by actively seeking new investment opportunities in the form of acquisitions, joint ventures or strategic alliance that will offer operational synergy.

The Group was pleased and honoured to be selected as a "Caring Company" by the Hong Kong Council of Social Service for the fifth consecutive year, an award that recognises private companies which demonstrate good corporate citizenship.

On behalf of the Board, I would like to take this opportunity to thank the management team for their dedication and hard work, which has enabled the Group to achieve its 2007 business goals. As the Group is set to roll out the next three-year plan in 2008, we look forward to an even more outstanding performance from Circle K's and Saint Honore's management teams in consolidating the brand positionings and enhancing the competitiveness of the two chains in the market place, in order to set the stage for another phase of aggressive growth and business expansion.

Fung Kwok King, Victor
Chairman

Hong Kong, 12 March 2008

SM

聖安娜餅屋
SAINT HONORE CAKE SHOP LTD.

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 2007. The Group's turnover for the year and the fourth quarter increased to HK$2,916.7 million and HK$782.4 million respectively, representing a growth of 30.7% and 38.2% when compared to the corresponding periods in 2006.

The turnover growth was attributed to the addition of new stores in Hong Kong and Southern China, the increase in turnover of comparable stores (stores in existence throughout 2006 and 2007) and the consolidation of the Saint Honore operations. In 2007, the annual turnover of comparable stores increased by 2.9% and 14.7% in Hong Kong and Southern China respectively when compared to 2006.

Gross margin and other income (excluding interest income) increased from 33.2% to 36.5% of turnover for the year and from 34.7% to 36.7% of turnover for the fourth quarter when compared to 2006. The increase was due to a change in the sales mix of higher margin products such as packaged beverages, in-store bakery, confectionery and the integration of the Saint Honore bakery business.

Compared with 2006, store expenses, distribution costs and administrative expenses as a percentage of sales increased as a result of the integration of the Saint Honore operations, which had a higher operating cost structure than the Circle K operations.

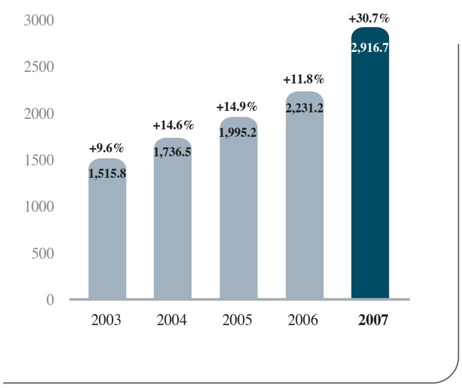
Net profit attributable to shareholders increased by 15.7% and 10.5% to HK$86.9 million and HK$21.5 million for the year and the fourth quarter when compared to 2006. Basic earnings per share increased by 8.8% from 11.10 HK cents to 12.08 HK cents for the year.

FINANCIAL REVIEW (continued)

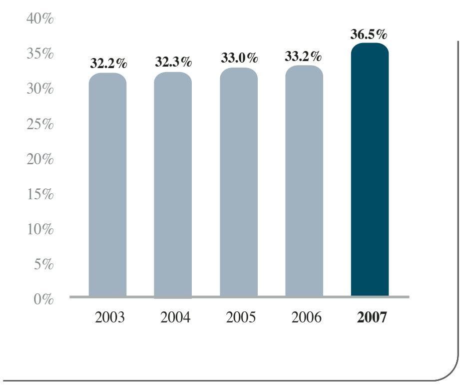
The Group continued to maintain a strong financial position with net cash of HK$442.8 million without any bank borrowings. The Hong Kong business generated a free cash flow of approximately HK$184.9 million in 2007.

The Group had a limited amount of foreign exchange exposure in Renminbi relating to its business operations on 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 acquisition projects.

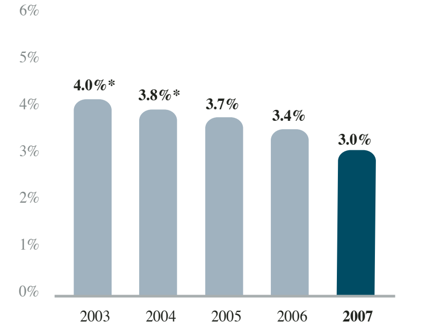
Turnover
(HK$'Million)



Gross Margin and Other Income
(excluding interest income)

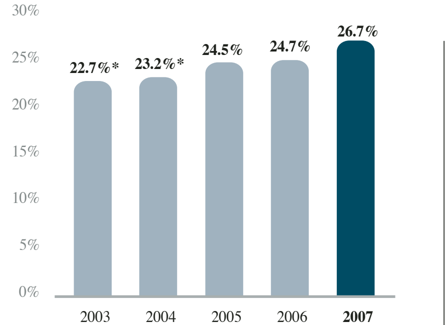


Net Margin



* Restated

Store Operating Expenses as % of Sales

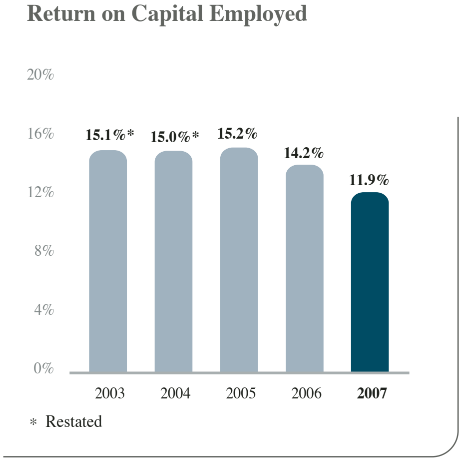


* Restated

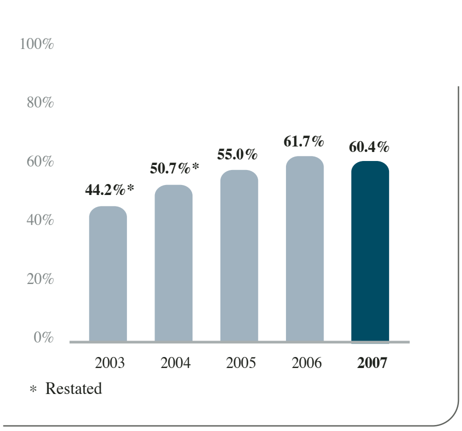
FINANCIAL REVIEW (continued)

Earnings per Share and Dividend per Share

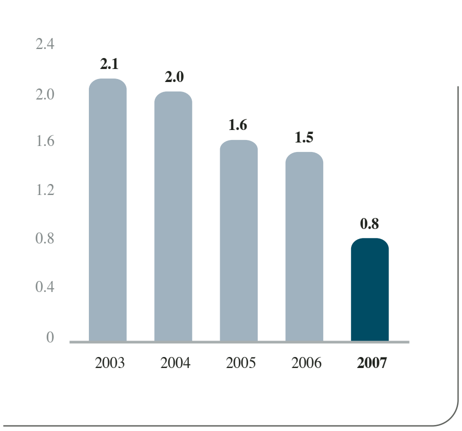
Return on Capital Employed



Dividend Payout



Current Ratio



OPERATION REVIEW – HONG KONG

As of 31 December 2007, the Group operated a total of 270 company-owned-and-managed Circle K stores in Hong Kong compared to 250 stores at the end of 2006, with a net gain of 20 stores during the year.

To increase competitiveness in a high store density market, the Group mass customised its store models, enabling stores with different profiles and product mixes to open within close proximity of each other e.g. one would focus on the media category, another on steamed food and a third on on-site bakery, while core convenience store categories would become the common product offerings for all. This mass customising and store clustering tactic not only offered better locational convenience to customers but also minimised cannibalisation and increased the competitiveness of the Circle K brand as a whole.

EMPLOYEES

As of 31 December 2007, the Group had a total of 5,900 employees, with 3,800 based in Hong Kong and 2,100 in Guangzhou, Dongguan, Shenzhen and Macau. Part-time staff accounted for about 27% of the total headcount.

Throughout the year, a series of new training programmes and refresher courses were developed and implemented. The main objectives of these courses were promoting product knowledge and enhancing language skill. The training programmes covered diverse subjects, including phone cards, on-line games, soft-serve ice-cream, as well as English and Putonghua languages. A total of 30 classes were conducted for over 2,000 frontline staff.

The “Buddy Scheme” introduced in 2006 as a mentor programme for newly joined frontline staff continued its successful implementation. By the end of the year 209 “Buddies” had been selected from the store operations team. The “Buddy Scheme” has been a proven and effective way to improve staff retention and build team spirit. Since the introduction of the “Buddy Scheme” the turnover rate of part-time staff has steadily improved.

MARKETING AND PROMOTION

In November 2007, the launch of the "Mario" promotion which offered free paper clip premiums featuring icons from the Nintendo video game, received a tremendous consumer response and the paper clip premiums became very popular. As the sixth innovative promotion supporting the "Always Something New!" advertising platform, the "Mario" promotion generated record sales and created a high level of interest on the Internet among the core target customer group of young adults.

The advertising theme - "Always Something New" was supported by a new range of exclusive snack products directly imported by Circle K Hong Kong from Japan and available in the local market for the first time.

Other innovative consumer promotions launched during the year also served as effective image boosters. A notable example was the "OK Fun" promotion for the magazine category. The unconventional promotion offered virtual incentives via a multi-media platform with a free online pass given away with every magazine purchased at Circle K during the promotion period. The Group won the Gold Award for the "Best Ubiquitous Networking" campaign at the Hong Kong Information and Communication Technology Awards in 2007 for this promotion.

CATEGORY MANAGEMENT

One of the stellar sales performers in 2007 was the heavily promoted Japanese snack and confectionery category. Through direct sourcing, Circle K created a competitive edge in the novelty, exclusivity and diversity of these products.

Another category that enjoyed robust year-on-year growth was the Halloween product category, which positioned Circle K as the chain for fun and trendy festive products. Thematic displays of the Halloween promotions at the stores added novelty to the shopping experience. On Halloween day, all Circle K stores gave away free candies in honour of the "trick or treat" tradition, further enhancing the shopping experience.

Innovation and greater convenience for shoppers was introduced by partnering with the EPS Company (Hong Kong) Limited for the launch of EasyCash and adding other bill payment services.

Overall initiatives in category management supporting the advertising theme of "Always Something New!" led to increasing sales and the growth of new categories.

A set of 18 collectable paper clips from the new Super Mario Brothers became Circle K Hong Kong's most popular premium promotion ever and generated double-digit comparable store sales growth during the promotion period in the last quarter of 2007.

SERVICE EXCELLENCE

The Group continued to promote a "learning culture" by organising three skill set examinations for staff annually. Over a thousand skill set badges were given out in 2007, meaning that on average one new skill set was acquired for every two staff.

The skill set examination programme, together with the intensive training provided for each skill set and the voluntary participation of frontline staff, effectively helped to maintain a high standard of service excellence.

SUPPLY CHAIN MANAGEMENT AND LOGISTICS

During the fourth quarter of 2007, the Group introduced a data-access system in the Call Centre to support store services hotline that enabled the quality of data analysis to be further upgraded. The system facilitated and streamlined communication between store operational staff and the call centre.

Preparations were made for the launch of Phase One of the Warehouse Management System in the first half of 2008, which will upgrade the existing system that has been in place since 2001.

The Group allocated considerable resources to optimise the synergy between the Circle K and the Saint Honore supply chain management. Comprehensive and detailed studies of the different stages of the Saint Honore supply chain, from manufacturing centres to customers, were conducted with improvements being made on a continuous basis.

COMPETITION

In December 2007 a new convenience store by the name of "V>ango" was opened in North Point, owned and operated by China Resources Vanguard, a subsidiary of the China Resources Co. Ltd. They offered similar product range to that of Circle K, including hot snacks such as fish balls and cup drinks. There are currently three V>ango stores in Island East located at sites with relatively low traffic density. Due to the small number of stores and their geographical distance from existing Circle K Stores, this new development has not posed any immediate threat to the Group's operation in Hong Kong.

OPERATION REVIEW – GUANGZHOU

Against a backdrop of strong consumer confidence and increasing disposable income, the Group's comparable store sales in Guangzhou registered healthy growth of 15%. However price inflation also surged to a level that generated some concern and may eventually impact the consumer mood.

In the last quarter of 2007, the Group's Guangzhou office underwent an important organisational restructure by integrating the operational teams in Guangzhou, Shenzhen and Dongguan into one regional operation. A new Business Head was appointed to lead the operation, while responsibilities for functional heads were expanded to cover all three cities. There were many strategic benefits of this initiative, including operational synergy, reducing overhead and streamlining reporting procedures.

The combined operation will be responsible for a total of 63 Circle K stores in Guangzhou, nine in Dongguan and four in Shenzhen. The integration of the Saint Honore chain in Guangzhou added an additional nine bakery stores to the store network, resulting in a total of 85 stores and more feasible economies of scale.

In order to pave the way for a more aggressive store opening programme in 2008, the Group plans to roll out the franchising model and is currently in the process of finalising the legal and financial arrangements.

Mass customising stores to meet local consumer demand with a tailor-made product mix and pricing strategy for specific customer groups was another key initiative undertaken by the management team during the year. The implementation of this initiative produced favourable results, turning around underperforming stores and improving the success rate for new store openings.

For the second consecutive year, the Circle K chain in Guangzhou was chosen as one of the "PRC Consumers' Most Favourable Hong Kong Brands" through an independent poll organised by the China Enterprise Reputation and Credibility Association (Overseas) Limited.

The Moomin premium promotion was another well received redemption programme run by Circle K Guangzhou in the second quarter of 2007. It ensured repeated purchases with a stamp collection mechanism.

THE SAINT HONORE OPERATION

The integration of the Saint Honore business in Hong Kong was completed in the third quarter after the Saint Honore management team physically relocated to the Group's head office in July.

In the last quarter a new electronic point-of-sale system was introduced in the Saint Honore chain resulting in marked improvements in service efficiency and sales data processing. The timely system upgrade facilitated quick-response management decisions and provided a solid technology platform for future business expansion.

In preparation for future business growth, high priority was given to product quality upgrades and new product development that will continue to be key management initiatives in 2008.

The notable escalation in food and raw material costs, especially in wheat flour, eggs and dairy products started to exert pressure on the profit margin which is likely to be sustained in the coming months.

Loyalty programmes launched in 2007 contributed significantly to incremental sales, including the joint promotion with Hang Seng Credit Card and other strategic partners. Sales generated by these programmes accounted for a significant part of the total sales turnover. In 2008 Saint Honore will continue to build on this effective marketing strategy to expand the loyal customer base.

On the operational front an overall review of the Saint Honore chain discovered ample opportunities to adapt and upgrade individual store models in accordance with the profile of specific target customer groups in the different catchment areas. The review recommended mass customisation with multi-tier pricing and a store specific product mix. New store-front designs, interior decoration and product display shelves are being tested before being implemented chain-wide.

A new Saint Honore Cake Shop opened in August 2007 at Metroplaza, Kwai Fong, Hong Kong. Due to the high awareness of the Saint Honore brand, new stores' sales performances generally picked up quickly, especially those situated in high traffic density store sites.

CORPORATE RESPONSIBILITY AND SUSTAINABILITY INITIATIVES

The Group took part in HEIFER International Hong Kong's "Race to Feed 2007" charity event in October 2007, held on the Central Lawn of Victoria Park. The event raised funds for the Heifer charity projects on the Chinese Mainland.

The Group is pleased to report that the team representing Circle K Convenience Stores (HK) Limited was the Overall Champion as well as the winner of the Heifer Hope Award. The double win and active staff participation in this meaningful event was not only an excellent way for the Group to fulfill its social responsibilities but also a terrific opportunity to build team spirit and boost morale.

The Group continued to support the "No Plastic Bag Day" campaign organised by the Green Student Council by increasing the frequency to a weekly basis i.e. every Tuesday. Messages to discourage the usage of plastic bags were duly displayed at all Circle K stores. The frontline staff was well briefed to avoid plastic bag usage as much as possible and only provide bags upon customer request. In fact, the average number of items per transaction is only about two to three at the Circle K stores, so the consumption of plastic bags has been decreasing consistently across the chain.

The Group participated in a Job-Shadowing event in January 2008, an event hosted by the Li & Fung (1906) Foundation and organised by Junior Achievement Hong Kong to offer students the opportunity to "shadow" a mentor by spending a day in the office together. The arrangement enabled students to gain on-the-job working experience and to relate their classroom learning to the working environment.

The team from Circle K Hong Kong participated in the "Race to Feed" charity event with great enthusiasm. The event was organised by Heifer International Hong Kong on the Central Lawn, Victoria Park.

FUTURE PROSPECTS

Riding on favourable retail market trends, the Group will focus on the following strategies for future business growth. Firstly, new products, strong brand building initiatives, innovative promotions and loyalty programmes will be introduced continually to maximise comparable stores sales growth. Secondly, an aggressive store opening programme will be commenced to achieve better economies of scale, especially in Guangzhou where the inception of the franchising programme will serve as the catalyst. Thirdly, acquisition opportunities will be pursued to achieve a rapid expansion in the Chinese Mainland market.

In view of growing government and public concern about food safety, the Group will maintain a high degree of vigilance over the manufacturing process, storage system and supply chain management of food products to ensure that the strictest hygiene standards are being observed at all times.

According to new Government regulations, plastic bags will no longer be given away without charge from June 2008 in Guangzhou and January 2009 in Hong Kong. The Group will be taking appropriate measures to ensure full compliance with the new regulations without affecting the quality of customer service. The Group has already devoted consistent efforts at store level to reduce plastic bag consumption with reminder messages displayed on the electronic point-of-sale monitor screen. Judging from the decreasing plastic bag consumption trend, these educational efforts are producing results at the Circle K stores.

On another environmental issues, the Group has been conscientiously reducing electricity consumption by using energy saving LED lights rather than traditional lighting.

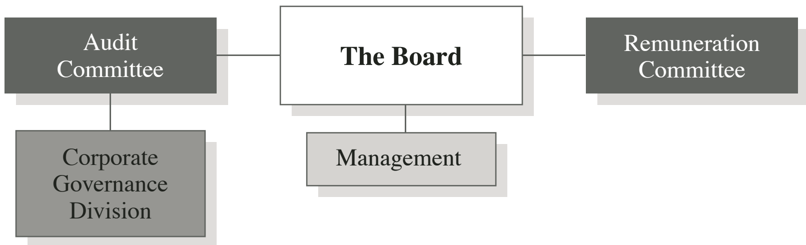
In Hong Kong, category management initiatives will focus on core categories with the potential for future growth including media, snack and confectionery. These are also categories which have proven to be very responsive to marketing and promotional activities.

In Guangzhou, Hot & In food services and packaged drinks will be the main generator of sales and profit. The Group believes that there will be continuous improvement in the quality and range of food services products with the support of the Saint Honore food production team.

As of 31 December 2007, there were 76 company-owned-and-managed Circle K stores in Southern China, together with 26 franchised Circle K stores in Macau and Zhuhai – a total of 102 Circle K stores outside Hong Kong. Including the 270 Circle K stores in Hong Kong, the Group operates a total of 372 Circle K stores in the Pearl River Delta. With the addition of the Saint Honore Chain, which currently has a total of 97 outlets in Hong Kong, Macau and Guangzhou, the Group operated a total of 469 stores as at the end of 2007. The Group aims to add not less than 100 outlets to this established network in 2008.

Corporate Governance Report

The Board of Directors 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 structured to ensure it is of a high calibre and has a balance of skills, experience and knowledge desirable for effective leadership of the Group. The Board is composed of the non-executive Chairman, two executive Directors including the Chief Executive Officer, and seven non-executive Directors (of whom three are independent) whose biographical details and relevant relationships are set out in the Directors and Senior Management Profile section on pages 34 to 39.

In order to reinforce independence, accountability and responsibility, the role of the Chairman is separate from that of the Chief Executive Officer with their respective responsibilities clearly established and defined by the Board in writing. The 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 businesses, including the implementation of major strategies and initiatives adopted by the Board.

The non-executive Directors, who offer diverse industry expertise and do not involve in the day-to-day management of the Group, serve the important functions of advising the management on strategy development, ensuring high standards of financial and other mandatory corporate reporting, and 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 in accordance with Rule 5.09 of the GEM Listing Rules.

The Board is responsible for the appointment, re-appointment and removal of Directors. The Chairman, in consultation with other Board members, nominates an individual for a new appointment as the Company's Director, in particular for independent non-executive Director. Under the guidelines on appointment and re-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. No new Director was appointed during the year ended 31 December 2007.

THE BOARD (continued)

The Board held four meetings in 2007 (with an average attendance rate of 90%) 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 re-appointment, 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 Chairman in consultation with members of the Board. Agenda and accompanying board papers are sent to all Directors with sufficient time to allow them to prepare before the meeting. All Directors are kept informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations. All members of the Board have full access to the Company Secretary for assistance.

Written procedures are 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 2007.

The Board has established two committees with specified responsibilities as described later in this report. 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 budgets, implementation of adequate system of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations) are delegated to the management team.

The Board also recognises the importance of independent reporting of the corporate compliance function. The Group Chief Compliance Officer, as appointed by the Board, attends all Board and committee meetings to advise on corporate compliance matters covering risk management and compliance issues relating to mergers and acquisitions, secretarial, accounting and financial reporting.

All non-executive Directors (including the Chairman) are appointed for a term of three years subject to termination by not less than three months' prior notice in writing by either party to the other. In addition, all non-executive Directors are required to retire from office by rotation and are subject to re-election by shareholders at annual general meeting at least once every three years in compliance with the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules. The Chairman has in the past voluntarily retired from office and offered for re-election at annual general meeting. For this year, he will also voluntarily retire by rotation and offer himself for re-election.

The Company has arranged for appropriate liability insurance to indemnify its Directors for their liabilities 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 2007 are set out in the following table:

	No. of meetings **attended**/held		
Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Non-executive Directors:			
Dr. Fung Kwok King, Victor *(Group Chairman and Chairman of Remuneration Committee)*	**2**/4	–	**1**/1
Dr. Fung Kwok Lun, William	**4**/4	–	–
Mr. Godfrey Ernest Scotchbrook	**4**/4	**4**/4	–
Mr. Jeremy Paul Egerton Hobbins	**4**/4	**3**/4	–
Ms. Wong Yuk Nor, Louisa	**4**/4	–	–
Independent non-executive Directors:			
Dr. Ch'ien Kuo Fung, Raymond *(Chairman of Audit Committee)*	**3**/4	**4**/4	**1**/1
Mr. Au Man Chung, Malcolm	**3**/4	**3**/4	**1**/1
Mr. Lo Kai Yiu, Anthony	**4**/4	**4**/4	–
Executive Directors:			
Mr. Yeung Lap Bun, Richard *(Chief Executive Officer)*	**4**/4	–	–
Mr. Li Kwok Ho, Bruno *(Chief Financial Officer)*	**4**/4	–	–
Average attendance rate	90%	90%	100%
Dates of meeting	7 March 2007 2 May 2007 2 August 2007 1 November 2007	7 March 2007 2 May 2007 2 August 2007 1 November 2007	2 May 2007

BOARD COMMITTEES

The Board has established the Audit Committee and Remuneration Committee (all chaired by non-executive Directors) with defined 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 contained in Appendix 15 of the GEM Listing Rules. 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, corporate governance and risk management matters and to make recommendations to the Board. Its current members include:

Dr. Ch'ien Kuo Fung, Raymond* – *Committee Chairman*
Mr. Au Man Chung, Malcolm*
Mr. Lo Kai Yiu, Anthony*
Mr. Godfrey Ernest Scotchbrook+
Mr. Jeremy Paul Egerton Hobbins+

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

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 2007 (with an average attendance rate of 90%) to review with senior management and the Company's internal (Corporate Governance Division) and external auditors the Group's significant internal control 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, the 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 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 the Group Chief Compliance Officer. No incident of fraud or misconduct that has material effect on the Company's accounts and overall operations was noted in 2007.

BOARD COMMITTEES (continued)

External Auditor's Independence

In order to further enhance independent reporting by 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 on the provision of non-audit services by the external auditor has been in place since 2005 which includes prohibition of specified non-audit services to be performed by the external auditor. Other non-audit services, with fees above a threshold and are considered not to affect the independence of the external auditor, require prior approval of the Audit Committee. The nature and ratio of annual external audit fees and non-audit services fees (including review of interim report and tax services) for 2007 amounted to HK$1,832,000 and HK$394,000 respectively have been endorsed by the Audit Committee. A policy restricting the employment of employees or former employees of the external auditor at senior executive or financial positions within the Group is also in place.

Prior to the commencement of the audit of the Company's accounts for the year ended 31 December 2007, the Audit Committee obtained written confirmation from the external auditor on their independence as required by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee is satisfied with the review of audit fees and scope, process and effectiveness, independence and objectivity of the external auditor, PricewaterhouseCoopers ("PwC"), and has recommended to the Board the re-appointment of PwC as the Company's external auditor for the financial year ending 31 December 2008 at the forthcoming annual general meeting.

Remuneration Committee

The Remuneration Committee was established in January 2005 and its current members include:

Dr. Fung Kwok King, Victor[+] – *Committee Chairman*
Dr. Ch'ien Kuo Fung, Raymond[*]
Mr. Au Man Chung, Malcolm[*]

[+] *Non-executive Director*
[*] *Independent non-executive Director*

The Remuneration Committee is responsible for the review of the Group's remuneration and human resources policy and the approval of the remuneration policy for all executive Directors and senior management, including the allocation of share options to employees under the Company's Share Option Scheme.

The Remuneration Committee met once in 2007 with an attendance rate of 100% to review the grant of share options to employees. Written resolutions were also signed by members of the Remuneration Committee during the year in relation to the grant of share options to employees and the allotment of shares upon exercise of options.

BOARD COMMITTEES (continued)

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 with 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

The Group places great emphasis on staff's ethical standards and integrity in all aspects of its operations. 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. All Directors and staff are expected to share the same responsibilities to comply with the Code at all times. For ease of reference and as a constant reminder to all staff, a copy of the guidelines is posted on 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 which are of no less exacting terms than those set out in the GEM Listing Rules. No incident of non-compliance was noted by the Company in 2007.

DIRECTORS' INTERESTS

Details of Directors' interests in the shares of the Company and certain major associated corporations are set out in the Directors' Report on pages 49 to 51.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for the accounts and the responsibilities of the external auditor to the shareholders are set out on pages 55 and 56 respectively.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board recognises the importance of internal controls to safeguard shareholders' interests and investments and the Group's assets, as well as to manage business risks. The Board assumes the overall responsibility for reviewing the adequacy and effectiveness of the Group's system of internal controls and risk management through the Audit Committee. Such system aims to provide reasonable but not absolute assurance against material misstatement, loss or fraud. The Board has delegated to executive management the implementation and on-going monitoring of such system of internal controls covering 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 controls 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 established to centralise the function and control exercised over 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 Corporate Compliance Group (comprising Corporate Governance Division ("CGD") and Corporate Secretarial Division), under the supervision of the Group Chief Compliance Officer, in conjunction with our external legal advisors regularly reviews the adherence to relevant laws and regulations, listing rules compliance, public disclosure requirements and our standards of compliance practices.

The staff of CGD (Internal Audit) independently review the controls and evaluate their adequacy, effectiveness and compliance. In addition, CGD staff visit the Group's offices in Hong Kong and the Chinese Mainland on a regular basis to help embedding the compliance culture in the Group's business practices by performing on-site reviews.

The Audit Committee approved a Three-Year Audit Plan that is linked to the Group's Three-Year Business Plan. The Audit Plan is based on a risk assessment methodology and covers the Group's major operations over a three-year period. The scope of the audit review covers all material controls including financial, operational and compliance controls, as well as risk management policies and procedures. Summary of major findings and recommendations is reported to the Audit Committee on a quarterly basis. The implementation of all agreed recommendations is being followed up on a three-month basis.

INTERNAL CONTROL AND RISK MANAGEMENT (continued)

Based on the assessments made by senior management, CGD (Internal Audit) and the external auditor in 2007, and up to the date of approval of the Company's 2007 annual report and accounts, the Audit Committee is satisfied that:

- the internal controls and accounting systems of the Group have been in place and functioning effectively 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 complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2007.

INVESTOR RELATIONS AND COMMUNICATION

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

As a channel to further promote effective communication, the Company maintains a website (www.cr-asia.com) to disseminate announcements, shareholder information and other relevant financial and non-financial information electronically on a timely basis.

The Board confirmed that there were no significant changes in the Company's Articles of Association during 2007 which affected the Company's operations and reporting practices.

Key calendar events for shareholders' attention and share information including market capitalisation as at 31 December 2007 are set out in the Information for Investors section on page 40.

INVESTOR RELATIONS AND COMMUNICATION (continued)

Annual General Meeting

The annual general meeting ("AGM") provides an opportunity for communication between the Board and the shareholders of the Company. All shareholders have proper notice of the AGM at which Directors and chairmen or members of the committees are available to answer questions on the business.

The most recent AGM of the Company was held on 2 May 2007 at the Auditorium, 12th Floor, LiFung Centre, 2 On Ping Street, Siu Lek Yuen, Shatin, New Territories, Hong Kong. The notice of AGM, the Company's annual report and the circular containing information on the proposed resolutions were sent to shareholders more than 21 days prior to the meeting. Separate resolutions were proposed in respect of each substantially separate issue. A member of the Audit Committee and the chairman of the Remuneration Committee were available to answer questions from shareholders. At the meeting, voting by way of a poll was demanded by the chairman of the meeting for all the proposed resolutions set out in the notice.

The major items discussed and the percentage of votes cast in favour of the resolutions relating to those items are set out below:

- Receipt and adoption of audited consolidated accounts and reports of the Directors and the auditor for the year ended 31 December 2006 (99.53%).

- Declaration of a final dividend of 5 HK cents per share (99.53%).

- Re-election of Dr. Ch'ien Kuo Fung, Raymond, Mr. Au Man Chung, Malcolm and Mr. Jeremy Paul Egerton Hobbins as Directors (99.53% in respect of each individual resolution).

- Re-appointment of PwC as auditor and authorisation of the Directors to fix their remuneration (99.53%).

- General mandate to the Directors to issue new shares (86.70%).

- General mandate to the Directors to repurchase shares (99.53%).

- Extension of the general mandate to issue new shares by adding the number of shares repurchased (86.95%).

The results of the poll were published on the Company's website and the GEM website on the business day following the AGM.

SHAREHOLDERS' RIGHTS

Under the Company's Articles of Association, on the written requisition of shareholder(s) holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, the Board shall convene an extraordinary general meeting for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of the requisition.

Any proposal to be tabled at shareholders' meetings of the Company for consideration can be put forward in writing to the Board or the Company Secretary at the Company's principal place of business in Hong Kong. The detailed procedures vary depending on whether the proposal constitutes an ordinary resolution or a special resolution or whether the proposal relates to the election of an individual other than a Director of the Company as a Director.

To further enhance minority shareholders' rights, the Company has adopted the policy of voting by poll for all resolutions put forward at each annual general meeting.

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

CORPORATE COMMUNICATIONS

Policy Committee Meetings are held monthly 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 has been established 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.

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.

HUMAN RESOURCES AND WORKPLACE SAFETY

The Group recognises that human capital is a key asset to its sustained growth and profitability. The Group is guided by the underlying principles of its corporate values and adopts an equal opportunity policy without any form of discrimination on grounds such as race, marital status, sex, age and disability in connection with all human resources matters. This covers selection and recruitment practices, training and development, appraisal and promotion, compensation and benefits, redundancy and dismissal, and lastly, retirement.

The Group is fully committed to investing in the growth and development of its people, especially in their leadership skills. A series of leadership training programmes were launched during the year to improve the communication and coaching skills of the Group's store managers. The Group's human resources development initiatives are designed to nurture staff to their fullest potential to ensure that the Group continues to grow, even in the most challenging business environment. The Group implements a policy of sponsoring its staff to attend job-related training and self-improvement programmes. Management development programmes are also in place for senior employees.

In addition to these development initiatives, the Group offers its staff competitive remuneration schemes. Discretionary bonuses and share options are also granted to eligible staff based on individual and Group performance.

Circle K Hong Kong and Saint Honore Hong Kong are signatories of the workplace safety and hygiene charter and are 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.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Yeung Lap Bun, Richard – *Chief Executive Officer*

Mr. Yeung, aged 51, 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 ten 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 58, 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 26 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 62, 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 and Orient Overseas (International) Limited in Hong Kong, CapitaLand Limited in Singapore and Baosteel Group Corporation in the People's Republic of China. Dr. Fung was an independent non-executive director of PCCW Limited between October 2000 and May 2007 and Sun Hung Kai Properties Limited between May 1999 and December 2007. In public service, Dr. Fung is Vice-Chairman of the International Chamber of Commerce 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 Hong Kong Government awarded Dr. Fung the Gold Bauhinia Star for distinguished service to the community.

Dr. Fung Kwok Lun, William

Dr. Fung, OBE, JP, aged 59, brother of Dr. Fung Kwok King, Victor, is the Group Managing Director of Li & Fung Limited and a non-executive director of Integrated Distribution Services Group Limited of the Li & Fung Group. 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 and an independent non-executive director of CLP Holdings Limited, VTech Holdings Limited and Shui On Land Limited.

NON-EXECUTIVE DIRECTORS (continued)

Godfrey Ernest Scotchbrook

Mr. Scotchbrook, aged 61, 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 specialising in investor relations, issues management, corporate positioning and public affairs; and is a veteran in corporate governance. He is a Fellow of the Hong Kong Management Association and also of the British Chartered Institute of Public Relations.

Jeremy Paul Egerton Hobbins

Mr. Hobbins, aged 60, is a director of various companies within the Li & Fung Group including Integrated Distribution Services Group 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 58, 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 56, 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., MTR Corporation Limited and Hang Seng Bank Limited. Dr. Ch'ien serves on the boards of 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 and became a Trustee of the University in 2006. 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 58, 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 59, 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 26 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 63, joined the Group in 2005 as Group Chief Compliance Officer. He first joined the Li & Fung Limited Group in 1993 as Chief Financial Officer until 1996 when he became its Chief Compliance Officer. 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 respective Group Chief Compliance Officers. Prior to joining Li & Fung Group, Mr. Siu was the partner-in-charge (1981 – 1989) of the Hong Kong audit practice of Coopers & Lybrand (currently PricewaterhouseCoopers) specialising in advising corporate clients on mergers, acquisitions, finance and on public listings. His 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 (the "HKICPA") (2002 – 2006). Mr. Siu is a member of the Securities and Futures Commission Dual Filing Advisory Group and was the Deputy Chairman of the Corporate Governance Committee of the HKICPA (2007). He is a Fellow of both the Institute of Chartered Accountants in Australia and the HKICPA. 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 49, has over ten years of experience in the food distribution industry. He was promoted to the position of Managing Director in July 2006 and is currently responsible for overseeing the operations, marketing, supply chain management and business development of Hong Kong and the Chinese Mainland. Prior to joining the Group in May 1999, Mr. Pak spent seven years in senior position at HAVI Food Services Group and was in charge of the distribution of food products and logistics services to McDonald's Restaurants. Graduated from the University of Hong Kong with a Bachelor degree of Science in Engineering, he also holds a Master degree of Science in Engineering from the University of Hong Kong. Mr. Pak is a member of the ECR Hong Kong facilitated by the Hong Kong GSI Association.

Chan Wong Man Li, Carrina – *Managing Director, Saint Honore Cake Shop, Hong Kong and Macau*

Mrs. Chan, aged 45, is responsible for the Saint Honore Cake Shop operations in Hong Kong and Macau. Mrs. Chan holds a Master degree in Business Administration jointly conferred by the J.L. Kellogg Graduate School of Management, Northwestern University in the United States and the Hong Kong University of Science and Technology. Mrs. Chan also holds a Bachelor degree in Administrative Studies from the Trent University in Canada. Mrs. Chan joined Saint Honore group in 1986 and was promoted to the position of Managing Director in 1996.

SENIOR MANAGEMENT (continued)

Kan Wing Chuen, Raphael – *Managing Director, Saint Honore Food Manufacturing*

Mr. Kan, aged 56, has over 25 years of experience in manufacturing and logistics management with multinationals and local companies in Hong Kong and Southern China. Previously the General Manager of Convenience Retail Southern China, he was transferred to the position of Managing Director of Saint Honore Food Manufacturing in March 2007 and is currently responsible for managing the manufacturing functions of Saint Honore group including two factories in Hong Kong, one in Shenzhen, one in Guangzhou and one in Macau. 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.

Tse Yiu Hon, Wallace – *Assistant General Manager, Convenience Retail Southern China*

Mr. Tse, aged 47, joined the Group in June 1995. He used to be the Divisional Manager of Buying and Marketing for Circle K Hong Kong until his promotion in October 2007 to the position of Assistant General Manager of Convenience Retail Southern China. He now heads the Circle K and Saint Honore operations in Southern China. He has over 20 years of experience in the retailing industry gained from his experience in PARKnSHOP 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 Hong Kong Institute of Marketing.

Lai Chun Pang – *General Manager – Operations*

Mr. Lai, aged 46, is responsible for overseeing daily operations of Circle K in areas of supply chain and logistics, business development, site development and store operations. Prior to joining the Group in 1987, he spent over six years in retail operations and local distribution of imported sportswear. He has been in charge of store operations after joining the Group and was promoted to the position of General Manager in 2006. He holds a Bachelor degree of Arts with Honours 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 Financial Controller – Finance & Accounting*

Mr. Hui, aged 33, has extensive experience in finance and accounting in the retailing industry. Prior to joining the Group in July 2004, he was the manager of PricewaterhouseCoopers, and was responsible for providing assurance and business advisory services to a wide range of well established wholesaling and retailing clients. Mr. Hui graduated from the Hong Kong University of Science and Technology with a Bachelor degree in Business Administration majoring in Accounting. He is a member of the Hong Kong Institute of Certified Public Accountants. He is also a member of CFA Institute.

Information for Investors

Listing Information

Listing	Hong Kong Stock Exchange (GEM Board)
Stock code	8052

Key Dates

12 March 2008	Announcement of 2007 Final Results
2 to 7 May 2008 (both days inclusive)	Closure of Register of Shareholders
7 May 2008	Annual General Meeting
8 May 2008	Despatch of 2007 Final Dividend warrants

Share Information

Board lot size	2,000 shares
Shares outstanding as at 31 December 2007	729,071,974 shares
Market capitalisation as at 31 December 2007	HK$2,442,391,113
Earnings per share for 2007	
Interim	HK5.29 cents
Full year	HK12.08 cents
Dividend per share for 2007	
Interim	HK1.7 cents
Final	HK5.5 cents
Full year	HK7.2 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:
Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen’s Road East
Hong Kong

Enquiries Contact

Mr. Li Kwok Ho, Bruno
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 2007.

PRINCIPAL ACTIVITIES ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the operation of chains of convenience stores and bakeries under the tradename of Circle K and Saint Honore respectively in Hong Kong and the Chinese Mainland.

An analysis of the Group's performance for the year by business segments and by geographical segments is set out in note 5 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 57.

The Directors had declared an interim dividend of 1.7 HK cents per share, totalling HK$12,384,000, which was paid on 24 August 2007.

The Directors recommended the payment of a final dividend of 5.5 HK cents per share, totalling HK$40,111,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 24 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$86,000.

FIXED ASSETS

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

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 23 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2007 calculated under the Companies Law (2004 Revision) of the Cayman Islands, amounted to HK$351,417,000 (2006 (Restated): HK$192,926,000).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association 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 2007 are set out in note 17 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 112.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

SHARE OPTIONS

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 concerning the share option schemes of listed issuers on the Stock Exchange. A summary of the major terms of the Scheme is 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 or supplier of goods or services to the Group or any Affiliate or any employee of the business alliance, joint venture partner 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) must not in aggregate exceed 10% of the shares in issue as at 6 January 2001 being 65,560,000 shares, which represent approximately 8.989% 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.

SHARE OPTIONS (continued)

(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 ten years from the commencement date (the "Commencement Date"). The Commencement Date is deemed to have taken effect from the date on which that option was offered to the qualifying participants.

(v) *Amount payable on application or acceptance*

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

(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 ten years commencing on 6 January 2001 to offer the grant of an option to any qualifying participants.

SHARE OPTIONS (continued)

Details of the share options granted and remain outstanding as at 31 December 2007 are as follows:

(A) Continuous contract employees

Options held at 1 January 2007	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 2007	Exercise price HK$	Grant date	Exercisable from	Exercisable until
1,614,000	–	(1,484,000)	–	(130,000)	–	2.785	24 May 2002	24 May 2003	23 May 2007
464,000	–	(454,000)	–	(10,000)	–	2.785	24 May 2002	24 May 2004	23 May 2007
50,000	–	(40,000)	–	(10,000)	–	2.15	23 September 2002	23 September 2003	22 September 2007
28,000	–	(28,000)	–	–	–	2.15	23 September 2002	23 September 2004	22 September 2007
826,000	–	(298,000)	(20,000)	–	508,000	1.69	20 May 2003	20 May 2004	19 May 2008
348,000	–	(40,000)	–	–	308,000	1.69	20 May 2003	20 May 2005	19 May 2008
20,000	–	(10,000)	–	–	10,000	2.225	30 September 2003	30 September 2004	29 September 2008
108,000	–	(54,000)	–	–	54,000	2.225	30 September 2003	30 September 2005	29 September 2008
512,000	–	(188,000)	–	–	324,000	2.535	29 March 2004	29 March 2005	28 March 2009
58,000	–	(10,000)	–	–	48,000	2.535	29 March 2004	29 March 2006	28 March 2009
84,000	–	(8,000)	–	–	76,000	2.40	6 August 2004	6 August 2005	5 August 2009

SHARE OPTIONS (continued)

(A) Continuous contract employees (continued)

Options held at 1 January 2007	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 2007	Exercise price HK$	Grant date	Exercisable from	Exercisable until
290,000	–	–	–	–	290,000	2.40	6 August 2004	6 August 2006	5 August 2009
758,000	–	(278,000)	–	–	480,000	2.86	4 May 2005	4 May 2006	3 May 2010
416,000	–	(54,000)	–	–	362,000	2.86	4 May 2005	4 May 2007	3 May 2010
2,054,000	–	(400,000)	–	–	1,654,000	2.53	14 September 2005	14 September 2006	13 September 2010
172,000	–	(24,000)	(8,000)	–	140,000	2.53	14 September 2005	14 September 2007	13 September 2010
908,000	–	(104,000)	(10,000)	–	794,000	2.905	10 March 2006	10 March 2007	9 March 2011
614,000	–	–	(38,000)	–	576,000	2.905	10 March 2006	10 March 2008	9 March 2011
440,000	–	(6,000)	–	–	434,000	2.93	29 August 2006	29 August 2007	28 August 2011
192,000	–	–	(12,000)	–	180,000	2.93	29 August 2006	29 August 2008	28 August 2011
–	1,212,000	–	(40,000)	–	1,172,000	3.00	30 March 2007	30 March 2008	29 March 2012
–	484,000	–	(130,000)	–	354,000	3.00	30 March 2007	30 March 2009	29 March 2012
–	2,800,000	–	(160,000)	–	2,640,000	3.39	3 May 2007	3 May 2009	2 May 2012

SHARE OPTIONS (continued)

(A) Continuous contract employees (continued)

Options held at 1 January 2007	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 2007	Exercise price HK$	Grant date	Exercisable from	Exercisable until
–	2,800,000	–	(160,000)	–	2,640,000	3.39	3 May 2007	3 May 2010	2 May 2013
–	2,800,000	–	(160,000)	–	2,640,000	3.39	3 May 2007	3 May 2011	2 May 2014
–	540,000	–	–	–	540,000	3.46	19 November 2007	19 November 2009	18 November 2012
–	740,000	–	–	–	740,000	3.46	19 November 2007	19 November 2010	18 November 2013
–	740,000	–	–	–	740,000	3.46	19 November 2007	19 November 2011	18 November 2014

(B) Directors

Options held at 1 January 2007	Options granted during the year *(Note 2)*	Options exercised during the year *(Note 3)*	Options lapsed during the year	Options expired during the year	Options held at 31 December 2007	Exercise price HK$	Grant date	Exercisable from	Exercisable until
1,800,000	–	(1,800,000)	–	–	–	2.785	24 May 2002	24 May 2003	23 May 2007
–	800,000 *(Note 1)*	–	–	–	800,000	3.39	3 May 2007	3 May 2009	2 May 2012
–	800,000 *(Note 1)*	–	–	–	800,000	3.39	3 May 2007	3 May 2010	2 May 2013
–	800,000 *(Note 1)*	–	–	–	800,000	3.39	3 May 2007	3 May 2011	2 May 2014

SHARE OPTIONS (continued)

Notes:

1. 1,200,000, 600,000 and 600,000 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 granted on 30 March 2007, 3 May 2007 and 19 November 2007. The closing price of the shares immediately before the date on which the options were granted was HK$2.87 on 29 March 2007, HK$3.35 on 2 May 2007 and HK$3.40 on 16 November 2007 respectively.

3. 5,280,000 options were exercised during the year. The weighted average closing market price per share immediately before the dates on which the options were exercised was HK$3.54.

4. 738,000 options lapsed during the year following the cessation of employment of certain grantees.

5. 150,000 options expired during the year following the expiry of the options.

6. The value of the options granted during the year is HK$13,655,000 based on the Black-Scholes Valuation model. The significant inputs into the model were share price of HK$3.00, HK$3.39 and HK$3.40 at the grant dates, exercise prices shown above, standard deviation of expected share price returns of 30% (2006: 30%), expected life of options of 5.4 years (2006: 4.5 years), expected dividend paid out rate of 2% (2006: 2%) and annual risk-free interest rate of 4.1% (2006: 4.3%). 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 2007, none of the Directors, chief executives, management shareholders or substantial shareholders of the Company or their respective associates have been granted options under the Scheme. In addition, during the year, no option has been outstanding, granted, exercised or lapsed under the pre-IPO share option plan.

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, Mr. Yeung Lap Bun, Richard, Mr. Li Kwok Ho, Bruno and Ms. Wong Yuk Nor, Louisa will retire at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

In the spirit of good corporate governance practices, Dr. Fung Kwok King, Victor, Chairman of the Board, has confirmed to the Board of Directors of the Company that he will voluntarily retire from his office and being eligible, offers himself for re-election at the forthcoming annual general meeting notwithstanding that he is not required to do so by the Articles of Association.

All non-executive Directors were appointed for a term of three years subject to termination by not less than three months' prior notice in writing by either party to the other. In addition, all non-executive Directors are required to retire from office by rotation and are subject to re-election by shareholders at annual general meeting at least once every three years in compliance with the Code on Corporate Governance Practices.

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 to the other.

Save as disclosed, none of the Directors has entered into any service contracts with the Company or 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 30 "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 2007, the interests and short positions of each of the Directors, chief executives and their associates in the shares, underlying shares and debentures of the Company and certain of its major associated corporations *(Note 1)* (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as required to be recorded in the register maintained by the Company pursuant to section 352 of SFO or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealing by the Directors under the GEM Listing Rules and/or the Code of Conduct for dealings in securities adopted by the Company, were as follows:

The Company

Long positions in shares and the underlying shares of equity derivatives

	Number of			
Name of Directors	**(i) shares**	**(ii) underlying shares**	**Nature of interests/ Holding capacity**	**Approximate percentage of interests**
Dr. Fung Kwok King, Victor	373,692,000	–	Corporate *(Note 2)*	51.26%
Dr. Fung Kwok Lun, William	373,692,000	–	Corporate *(Note 2)*	51.26%
Mr. Yeung Lap Bun, Richard	19,196,000	1,200,000 *(Note 3)*	Personal/ beneficiary	2.80%
Mr. Li Kwok Ho, Bruno	2,676,000	600,000 *(Note 4)*	Personal/ beneficiary	0.45%
Ms. Wong Yuk Nor, Louisa	1,588,000	600,000 *(Note 5)*	Personal/ beneficiary	0.30%
Dr. Ch'ien Kuo Fung, Raymond	1,000,000	–	Personal/ beneficiary	0.14%
Mr. Jeremy Paul Egerton Hobbins	180,000	–	Personal/ beneficiary	0.02%

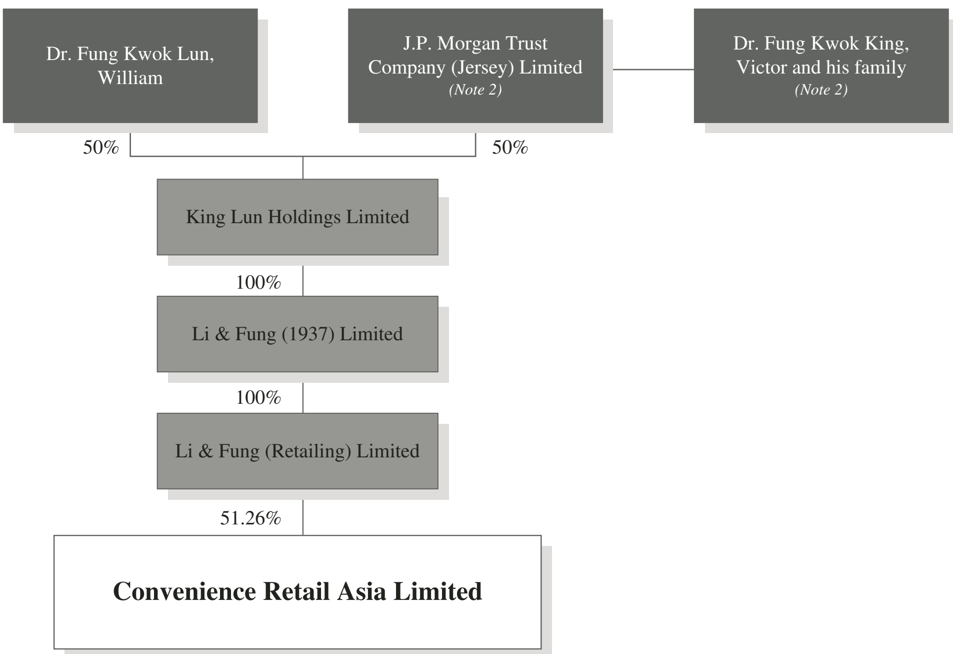
INTERESTS AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND CERTAIN MAJOR ASSOCIATED CORPORATIONS (continued)

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 (Distribution) Limited	Full voting ordinary shares	13,800,000	–	Corporate *(Note 6)*	100%
	LiFung Trinity Limited	Ordinary share	1	–	Corporate *(Note 7)*	100%
Dr. Fung Kwok Lun, William	Li & Fung (Distribution) Limited	Full voting ordinary shares	13,800,000	–	Corporate *(Note 6)*	100%
	LiFung Trinity Limited	Ordinary share	1	–	Corporate *(Note 7)*	100%

As at 31 December 2007, 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:



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

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 31 January 2008. 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. 50% of the issued share capital of King Lun is 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% is owned by Dr. Fung Kwok Lun, William.

3. On 3 May 2007, Mr. Yeung Lap Bun, Richard was granted share options pursuant to the Share Option Scheme of the Company to subscribe for a total of 1,200,000 shares at an exercise price of HK$3.39 per share. The options are to be vested in Mr. Yeung Lap Bun, Richard in three equal lots in relation to the performance year 2007, 2008 and 2009 respectively. Subject to confirmation of vesting, the options in relation to the performance year 2007 would be exercisable during the period from 3 May 2009 to 2 May 2012. The remaining two lots of options in relation to the performance year 2008 and 2009 would be exercisable during the respective period of 3 May 2010 to 2 May 2013 and 3 May 2011 to 2 May 2014.

4. On 3 May 2007, Mr. Li Kwok Ho, Bruno was granted share options pursuant to the Share Option Scheme of the Company to subscribe for a total of 600,000 shares at an exercise price of HK$3.39 per share. The options are to be vested in Mr. Li Kwok Ho, Bruno in three equal lots in relation to the performance year 2007, 2008 and 2009 respectively. Subject to confirmation of vesting, the options in relation to the performance year 2007 would be exercisable during the period from 3 May 2009 to 2 May 2012. The remaining two lots of options in relation to the performance year 2008 and 2009 would be exercisable during the respective period of 3 May 2010 to 2 May 2013 and 3 May 2011 to 2 May 2014.

5. On 3 May 2007, Ms. Wong Yuk Nor, Louisa was granted share options pursuant to the Share Option Scheme of the Company to subscribe for a total of 600,000 shares at an exercise price of HK$3.39 per share. The options are to be vested in Ms. Wong Yuk Nor, Louisa in three equal lots in relation to the performance year 2007, 2008 and 2009 respectively. Subject to confirmation of vesting, the options in relation to the performance year 2007 would be exercisable during the period from 3 May 2009 to 2 May 2012. The remaining two lots of options in relation to the performance year 2008 and 2009 would be exercisable during the respective period of 3 May 2010 to 2 May 2013 and 3 May 2011 to 2 May 2014.

6. King Lun through its wholly owned subsidiary, LF (1937) held 13,800,000 shares in Li & Fung (Distribution) Limited. 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. King Lun through its indirect wholly owned subsidiary, LFR (a wholly owned subsidiary of LF (1937)) held 1 share in LiFung Trinity Limited. 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 LFR as set out in Note 2 above.

Save as disclosed above, as at 31 December 2007, 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 2007, 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 of shareholders	Number of shares	Nature of interests/ Holding capacity	Approximate percentage of interests
King Lun Holdings Limited	373,692,000	Corporate *(Note 1)*	51.26%
Commonwealth Bank of Australia	54,712,000	Corporate *(Note 2)*	7.50%
Aberdeen Asset Management Plc and its Associates	55,916,000	Other *(Note 3)*	7.67%
Arisaig Greater China Fund Limited ("Arisaig China")	68,176,000	Other	9.35%
Arisaig Partners (Mauritius) Limited ("Arisaig Partners")	68,176,000	Other *(Note 4)*	9.35%
Cooper Lindsay William Ernest ("Mr. Cooper")	68,176,000	Corporate *(Note 5)*	9.35%

Notes:

1. These shares were held by LFR. King Lun indirectly owns 100% interests in LFR through its wholly owned subsidiary, LF (1937). All of King Lun, LFR and LF (1937) are taken to be interested in the shares pursuant to SFO. 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 were 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") held the shares on behalf of accounts managed by the Aberdeen Group.

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

5. These shares were 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 2007, 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:

– the largest supplier	16%
– five largest suppliers combined	47%

None of the Directors, their associates or any shareholders (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 30 to the accounts on pages 110 and 111). 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 ("IDS (HK)") *(Note 1)*	7,981
2.	The Circle K Convenience Stores (HK) Limited ("Circle K (HK)") lease *(Note 2)*	2,293
3.	The Circle K (HK) licence *(Note 3)*	154
4.	The Web-Logistic (HK) Limited lease *(Note 4)*	201

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 (HK), an indirect subsidiary of LF (1937), on its standard terms of business pursuant to the agreement dated 10 December 2004 (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 (HK) under a lease agreement dated 12 May 2004 and renewed on 30 March 2007 (the "Circle K Lease") (details of which were disclosed in the announcements dated 12 May 2004 and 30 March 2007) for a portion of 5th Floor, LiFung Centre, 2 On Ping Street, Siu Lek Yuen, Shatin, New Territories, Hong Kong. Such premises are used as an office-cum-workshop.

3. This refers to the licence fee payment from Circle K (HK) to IDS (HK) under a licence agreement dated 30 March 2007 (details of which were disclosed in the announcement dated 30 March 2007) for the right to use the loading bay and unloading bay, staging area and one car parking space on the Ground Floor of LiFung Centre, 2 On Ping Street, Siu Lek Yuen, Shatin, New Territories, Hong Kong.

4. This refers to the lease payment from Web-Logistic (HK) Limited to IDS (HK) under a lease agreement dated 12 May 2004 (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. Such premises are used as an office-cum-workshop. The lease was renewed on 30 March 2007 and was included in the Circle K Lease in Note 2 above with effect from 26 March 2007.

In addition, Saint Honore Holdings Limited, a subsidiary of the Company since 22 February 2007, entered into a supply agreement dated 30 March 2007 (details of which were disclosed in the announcement dated 30 March 2007) with Hong Kong Catering Management Limited, in which the former directors of Saint Honore Holdings Limited are interested, for the supply of festive products, bakery products, cakes and other food products. For the year ended 31 December 2007, the total amount received under the agreement was HK$6,859,000. Such agreement constituted connected transaction (exempt from independent shareholders' approval requirements) of the Company.

The independent non-executive Directors confirmed that the above transactions have been entered into on normal commercial terms no less favourable to the Group than terms available from independent third parties and each of these transactions has been entered into in the ordinary course of business of the Group, and is fair and reasonable to the Company and in the interests of the shareholders of the Company as a whole.

MANAGEMENT CONTRACTS

Save as disclosed above, no contracts 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 gives 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 2007, 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, 12 March 2008

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

Independent auditor's report
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 57 to 111, which comprise the consolidated and Company balance sheets as at 31 December 2007, 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 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, 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 2007 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, 12 March 2008

Consolidated Profit and Loss Account

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Revenue	5	**2,916,734**	2,231,217
Cost of sales	6	**(2,059,908)**	(1,678,018)
Gross profit		**856,826**	553,199
Other income	5	**215,351**	207,014
Store expenses	6	**(778,793)**	(551,693)
Distribution costs	6	**(67,163)**	(39,399)
Administrative expenses	6	**(120,347)**	(83,606)
Operating profit		**105,874**	85,515
Finance costs	7	**(745)**	–
Profit before income tax		**105,129**	85,515
Income tax expenses	8	**(23,583)**	(16,078)
Profit for the year		**81,546**	69,437
Profit attributable to:			
Shareholders of the Company	9 & 24	**86,867**	75,054
Minority interests		**(5,321)**	(5,617)
		81,546	69,437
Dividends	10	**52,495**	46,338
Earnings per share for profit attributable to the shareholders of the Company			
– Basic earnings per share	11	**HK12.08 cents**	HK11.10 cents
– Diluted earnings per share	11	**HK12.04 cents**	HK11.08 cents

Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Fixed assets	*14*	**241,355**	99,093
Lease premium for land	*15*	**180,680**	15,284
Intangible assets	*16*	**357,465**	–
Available-for-sale financial assets	*18*	**1,895**	22,570
Rental deposits		**37,244**	28,639
Bank deposits	*21*	**50,000**	120,000
Deferred tax assets	*19*	**3,613**	404
		872,252	285,990
Current assets			
Inventories		**110,450**	82,308
Amount due from immediate holding company	*30*	**227**	48
Rental deposits		**25,797**	14,786
Trade receivables	*20*	**30,688**	24,108
Other receivables, deposits and prepayments		**53,048**	49,112
Other financial assets	*18*	**–**	7,142
Taxation recoverable		**2,091**	–
Cash and cash equivalents	*21*	**392,844**	514,785
		615,145	692,289
Current liabilities			
Trade payables	*22*	**455,352**	357,199
Other payables and accruals		**140,660**	90,586
Taxation payable		**10,935**	1,135
Cake coupons		**127,613**	–
		734,560	448,920
Net current (liabilities)/assets		**(119,415)**	243,369
Total assets less current liabilities		**752,837**	529,359

	Note	2007 HK$'000	2006 HK$'000
Financed by:			
Share capital	*23*	**72,907**	67,714
Reserves	*24*	**614,584**	425,116
Proposed final dividend	*24*	**40,111**	36,200
Shareholders' funds		**727,602**	529,030
Minority interests		**(7,954)**	(8,173)
		719,648	520,857
Non-current liabilities			
Long service payment liabilities	*25*	**14,180**	8,091
Deferred tax liabilities	*19*	**19,009**	411
		752,837	529,359

On behalf of the Board

Fung Kwok King, Victor
Director

Yeung Lap Bun, Richard
Director

Balance Sheet

As at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000 (Restated)
Non-current assets			
Investments in and loans to subsidiaries	*17*	**673,538**	27,508
Bank deposits		**50,000**	120,000
		723,538	147,508
Current assets			
Amount due from immediate holding company		**384**	–
Amounts due from subsidiaries	*17*	**118,783**	112,966
Other receivables, deposits and prepayments		**1,306**	10,173
Cash and cash equivalents		**202,664**	420,907
		323,137	544,046
Current liabilities			
Amount due to immediate holding company		**–**	43
Amount due to subsidiaries	*17*	**619,865**	419,832
Other payables and accruals		**2,294**	10,847
Taxation payable		**192**	192
		622,351	430,914
Net current (liabilities)/assets		**(299,214)**	113,132
Total assets less current liabilities		**424,324**	260,640
Financed by:			
Share capital	*23*	**72,907**	67,714
Reserves	*24*	**311,306**	156,726
Proposed final dividend	*24*	**40,111**	36,200
		424,324	260,640

On behalf of the Board

Fung Kwok King, Victor
Director

Yeung Lap Bun, Richard
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Cash generated from operations	*26*	**230,363**	143,616
Hong Kong profits tax paid		**(16,485)**	(15,239)
Overseas income tax paid		**(1,890)**	–
Net cash generated from operating activities		**211,988**	128,377
Cash flows from investing activities			
Acquisition of subsidiaries	*29*	**(348,063)**	–
Purchase of fixed assets		**(64,204)**	(49,830)
Proceeds from disposal of fixed assets		**491**	521
Proceeds from disposal/(purchase) of financial assets		**34,916**	(26,273)
Decrease in non-current bank deposits		**70,000**	–
Interest received		**7,292**	18,816
Net cash used in investing activities		**(299,568)**	(56,766)
Cash flows from financing activities			
Proceeds from issuance of shares		**14,166**	6,035
Drawdown of bank loans		**80,000**	–
Repayment of bank loans		**(80,000)**	–
Interest paid		**(745)**	–
Dividends paid		**(48,600)**	(40,538)
Net cash used in financing activities		**(35,179)**	(34,503)
(Decrease)/increase in cash and cash equivalents		**(122,759)**	37,108
Cash and cash equivalents at 1 January		**514,785**	477,310
Effect of foreign exchange rate changes		**818**	367
Cash and cash equivalents at 31 December		**392,844**	514,785

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	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 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
At 1 January 2007	67,714	125,556	177,087	13,433	4,646	1,445	139,149	(8,173)	520,857
Issue of shares	529	13,637	–	–	–	–	–	–	14,166
Acquisition of subsidiaries *(note 29)*	4,664	139,914	–	–	–	–	–	–	144,578
Employee share option benefit	–	928	–	–	3,006	–	8	–	3,942
Exchange differences	–	–	–	–	–	2,831	–	457	3,288
Acquisition of additional interest in subsidiary *(note 28)*	–	–	–	–	–	–	(5,212)	5,083	(129)
Profit/(loss) for the year	–	–	–	–	–	–	86,867	(5,321)	81,546
Dividends	–	–	–	–	–	–	(48,600)	–	(48,600)
At 31 December 2007	72,907	280,035	177,087	13,433	7,652	4,276	172,212	(7,954)	719,648

1. GENERAL INFORMATION

Convenience Retail Asia Limited (the "Company") and its subsidiaries (collectively the "Group") are principally engaged in the operation of chains of convenience stores and bakeries under the trademark of Circle K and Saint Honore respectively 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 12 March 2008.

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.

Moreover, the Group adopted the following new/revised standards of HKFRS, which are relevant to its operations and these standards have no significant impact to the accounts:

Standard and amendment effective in 2007

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures

Interpretation not yet effective and early adopted in 2007

HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

HK(IFRIC)-Int 11 provides guidance on whether share-based transactions involving treasury shares or involving Group's entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. The interpretation has been applied retrospectively. In the Company's stand-alone accounts, the adoption of the interpretation has increased both investments in subsidiaries and retained earnings of the Company by HK$2,439,000 in 2006 and has increased both amounts due from subsidiaries and net profit of the Company by HK$3,510,000 in 2007. The adoption of this interpretation does not have any impact on the Group's consolidated accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

The following new interpretations of HKFRS are mandatory for accounting policies beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

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	Re-assessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The Group has not early adopted the following new/revised standards and interpretations of HKFRS that have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008. The adoption of such new/revised standards and interpretations will have no material impact on the accounts and will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HK(IFRIC) – Int 13	Customer Loyalty Programmes

(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.

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

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

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation (continued)

(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.

(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.

Freehold land is stated at cost without amortisation. Properties and leasehold improvements are depreciated on a straight-line basis over the periods of the leases of 3 years to 43 years 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 $^{1}/_{3}$%
Motor vehicles	16 $^{2}/_{3}$% to 25%

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Trademarks

Acquired trademarks have an infinite useful life and are carried at historic cost without amortisation. Trademarks are tested annually for impairment and carried at cost less accumulated impairment losses.

(g) 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).

(h) 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)

(h) 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)

(h) 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.

(i) Inventories

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

(j) Trade and other receivables

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

(k) Cash and cash equivalents

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

(l) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method.

(m) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Current and deferred income tax (continued)

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.

(n) 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.

(o) 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)

(o) 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. 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.

(p) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) 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. Payments that are related to cake coupons not yet redeemed by the customers are deferred and shown as cake coupons in the balance sheet. Cake coupons surrendered in exchange for products or upon expiry during the period are recognised as revenue in the profit and loss account using the weighted average cake coupon sale value.

(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.

(r) 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.

(s) 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 factors

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 is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. In general, all sales and purchases transactions of the Group are denominated in the functional currency of the operations to which they relate.

The currencies giving rise to this risk are primarily European Dollars and United States Dollars arising from the shareholders' loans of Korea Retail Holdings B.V. Limited ("KRH"). The shareholders' loans of KRH are fully redeemed in 2007 and the foreign exchange risk impact is insignificant to the Group.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(ii) Credit risk

The credit risk of the Group mainly arises from cash and cash equivalents, trade receivables, rental deposits, other receivables and amount due from immediate holding company. The carrying amounts of these balances represent the maximum exposure to credit risk in relation to financial assets and the Group regularly monitored the level of these balances.

The majority of the Group's trade receivables are supplier rebate and promotion fees. The Group mitigates its exposure to risk relating to trade receivables by performing regular reviews of the aging profile of trade receivables. The Group has no significant concentrations of credit risk, with exposure spread over a number of suppliers.

Retail sales are usually paid in cash. Cash at bank and bank deposits are placed with renowned financial institutions registered in Hong Kong and the Chinese Mainland. Rental deposits are placed with various landlords in Hong Kong and the Chinese Mainland and are due upon the expiry of the tenancy agreements and handover of the leased premises. The Group did not experience any default by the landlords.

(iii) Liquidity risk

The Group is exposed to liquidity risk of being unable to raise sufficient funds to meet its financial obligations when they fall due. To manage liquidity risk, the Group monitors and maintains a level of cash and cash equivalents and banking facilities considered to be adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. All of the Group's financial liabilities, including trade payables of HK$455,352,000 (2006: HK$357,199,000) and other payables and accruals of HK$140,660,000 (2006: HK$90,586,000) are contractually maturing within one year.

(iv) Interest rate risk

The Group has significant interest-bearing assets, mainly represent cash at bank and bank deposits, and are exposed to changes in market interest rates. It is the Group's policy to maintain surplus cash with an appropriate portfolio of short-term and long-term deposits.

If the interest rates had been increased/decreased by 10% and all other variables were held constant, the Group's net profit would increase/decrease by HK$538,000 and HK$1,326,000 for the year ended 31 December 2007 and 2006 respectively.

3. **FINANCIAL RISK MANAGEMENT** (continued)

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the total shareholders' equity as shown in the consolidated balance sheet. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. The Group's strategy is to maintain a solid capital base to support the operations and development of its business in the long term.

(c) 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. Estimated discounted cash flows 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 23. 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.

(b) Estimated impairment of intangible assets

The Group tests annually whether goodwill and trademarks have suffered any impairment, in accordance with the accounting policy stated in note 2(f). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates *(note 16)*.

5. REVENUE, OTHER INCOME AND SEGMENT INFORMATION

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

	Group	
	2007	2006
	HK$'000	HK$'000
Revenue		
Merchandise sales revenue	**2,455,820**	2,231,217
Bakery sales revenue	**460,914**	–
	2,916,734	2,231,217
Other income		
Supplier rebate and promotion fees	**163,439**	148,409
Service items and miscellaneous income	**44,620**	37,309
Interest income	**7,292**	18,816
Fair value gain of financial assets at fair value through profit or loss	**–**	1,665
Exchange gain	**–**	815
	215,351	207,014

With the acquisition of Saint Honore *(note 29)*, the Group is organised into two main business segments:

(a) Convenience Store – operation of chain of convenience stores under the trademark of Circle K
(b) Bakery – operation of chain of bakeries under the trademark of Saint Honore and Bread Boutique

The Group's two business segments operate in two geographical areas, namely Hong Kong and others, and Chinese Mainland.

In prior year, the Group presented its geographical segments as its primary reporting format. Since Bakery now qualifies as a separate business segment, the Group has determined to present its business segments as the primary reporting format and geographical segment as the secondary reporting format.

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

Primary reporting format – business segments

	2007			2006
	Convenience Store HK$'000	**Bakery HK$'000**	**Group HK$'000**	Convenience Store HK$'000
Total segment revenue	**2,455,820**	**491,802**	**2,947,622**	2,231,217
Inter-segment revenue	**–**	**(30,888)**	**(30,888)**	–
Revenue	**2,455,820**	**460,914**	**2,916,734**	2,231,217
Other income	**207,099**	**960**	**208,059**	188,198
	2,662,919	**461,874**	**3,124,793**	2,419,415
Segment results	**72,861**	**25,721**	**98,582**	66,699
Interest income			**7,292**	18,816
Finance costs			**(745)**	–
Profit before income tax			**105,129**	85,515
Income tax expenses			**(23,583)**	(16,078)
Profit for the year			**81,546**	69,437
Segment assets	**531,498**	**750,195**	**1,281,693**	437,112
Unallocated assets			**205,704**	541,167
Total assets			**1,487,397**	978,279
Segment liabilities	**528,971**	**208,834**	**737,805**	455,876
Unallocated liabilities			**29,944**	1,546
Total liabilities			**767,749**	457,422
Capital expenditure	**44,104**	**686,858**	**730,962**	49,830
Depreciation	**42,569**	**20,633**	**63,202**	39,251
Amortisation	**434**	**3,048**	**3,482**	427

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

Primary reporting format – business segments (continued)

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

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

Capital expenditure comprises additions to fixed assets *(note 14)* and additions resulting from acquisitions through business combinations *(note 29)*.

Secondary reporting format – geographical segments

	2007 **HK$'000**	2006 HK$'000
Revenue and other income		
Hong Kong and others	**2,968,335**	2,315,449
Chinese Mainland	**163,019**	103,966
	3,131,354	2,419,415
Inter-segment revenue	**(6,561)**	–
	3,124,793	2,419,415

	2007 **HK$'000**	2006 HK$'000
Segment results		
Hong Kong and others	**125,961**	92,205
Chinese Mainland	**(27,379)**	(25,506)
	98,582	66,699

Revenue and other income and segment results are allocated based on the geographical area in which the customers are located.

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

Secondary reporting format – geographical segments (continued)

	2007	2006
	HK$'000	HK$'000
Total assets		
Hong Kong and others	**1,172,796**	355,422
Chinese Mainland	**108,897**	81,690
	1,281,693	437,112
Unallocated assets	**205,704**	541,167
	1,487,397	978,279

	2007	2006
	HK$'000	HK$'000
Capital expenditure		
Hong Kong and others	**714,703**	35,973
Chinese Mainland	**16,259**	13,857
	730,962	49,830

Total assets and capital expenditure are allocated based on where the business is operated.

6. EXPENSES BY NATURE

	Group	
	2007	2006
	HK$'000	HK$'000
Amortisation of lease premium for land	**3,482**	427
Auditor's remuneration		
Charge for the year	**1,832**	779
Over provision in prior year	**(57)**	–
Changes in inventories	**2,024,853**	1,658,726
Depreciation of owned fixed assets	**63,202**	39,251
Employee benefit expense *(note 12)*	**458,670**	289,825
Loss on disposal of fixed assets	**1,510**	1,693
Operating leases rental for land and buildings		
Minimum lease payment	**248,486**	177,127
Contingent lease payment	**3,192**	1,030
Other expenses	**221,041**	183,858
Total costs of sales, store expenses, distribution costs and administrative expenses	**3,026,211**	2,352,716

7. FINANCE COSTS

	2007	2006
	HK$'000	HK$'000
Interest expenses on bank loans	**745**	–

8. INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates prevailing in the countries in which the Group operates (2006: Nil).

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

	2007	2006
	HK$'000	HK$'000
Current income tax		
– Hong Kong profits tax	**23,724**	14,710
– Overseas profits tax	**2,018**	–
Deferred income tax *(note 19)*	**(2,159)**	1,368
	23,583	16,078

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:

	2007	2006
	HK$'000	HK$'000
Profit before income tax	**105,129**	85,515
Calculated at a taxation rate of 17.5% (2006: 17.5%)	**18,399**	14,966
Effect of different taxation rates in other jurisdiction	**(4,164)**	(3,586)
Income not subject to taxation	**(1,820)**	(4,013)
Expenses not deductible for tax purposes	**2,649**	1,419
Tax losses not recognised	**10,254**	8,187
Effect of previously unrecognised tax losses	**(55)**	(111)
Effect of previously unrecognised temporary differences	**(946)**	(138)
Over provision in prior year	**(734)**	(646)
	23,583	16,078

9. 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$49,598,000 (2006 (Restated): HK$66,306,000).

10. DIVIDENDS

	2007 **HK$'000**	2006 HK$'000
Interim dividend, paid, of 1.7 HK cents (2006: 1.5 HK cents) per share	**12,384**	10,138
Final dividend, proposed, of 5.5 HK cents (2006: 5 HK cents) per share	**40,111**	36,200
	52,495	46,338

At a meeting held on 12 March 2008, the Directors proposed a final dividend of 5.5 HK cents per share. This proposed dividend is not reflected as a dividend payable in these accounts.

11. 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$86,867,000 (2006: HK$75,054,000).

The basic earnings per share is based on the weighted average number of 718,874,082 (2006: 675,870,911) shares in issue during the year.

The diluted earnings per share is based on 721,225,803 (2006: 677,496,577) shares which is the weighted average number of 718,874,082 (2006: 675,870,911) shares in issue during the year plus the weighted average of 2,351,721 (2006: 1,625,666) shares deemed to be issued at no consideration if all outstanding options granted by the Company had been exercised.

12. EMPLOYEE BENEFIT EXPENSE

	Group	
	2007	2006
	HK$'000	HK$'000
Wages and salaries	**436,029**	272,936
Unutilised annual leave	**65**	326
Employee share option benefit	**3,943**	2,660
Pension costs – defined contribution plan *(note c)*	**17,884**	13,604
Long service payment costs *(note 25)*	**749**	299
	458,670	289,825

Notes:

(a) The employee benefit expense includes directors' and senior management's emoluments *(note 13)*.

(b) Forfeited contributions totalling HK$452,000 (2006: HK$49,000) were utilised during the year leaving nil amount available at the year-end to reduce future contributions.

(c) Contributions totalling HK$3,769,000 (2006: HK$2,468,000) were payable to the independently administered fund at the year-end.

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2007 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits *(note)*	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	5,007	440	12	7,909
Mr. Li Kwok Ho, Bruno	50	600	–	140	12	802
Ms. Wong Yuk Nor, Louisa	50	–	–	140	–	190
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	70	–	–	–	–	70

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

(a) Directors' emoluments (continued)

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)*	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	70	–	–	–	–	70

Note:

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

In addition to the Directors' emoluments disclosed above, certain Directors of the Company had emoluments receivable from the immediate holding company, which totals HK$5,412,000 (2006: HK$8,323,000), 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 2007 and 2006.

13. 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 (2006: one) Director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2006: four) individuals during the year are as follows:

	2007	2006
	HK$'000	HK$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	**5,810**	4,834
Discretionary bonuses	**2,021**	1,854
Pension costs – defined contribution scheme	**45**	45
	7,876	6,733

The emoluments of the employees fell within the following bands:

	Number of individuals	
	2007	2006
HK$1,000,001 – HK$1,500,000	**1**	2
HK$1,500,001 – HK$2,000,000	**1**	1
HK$2,000,001 – HK$2,500,000	**1**	1
HK$2,500,001 – HK$3,000,000	**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.

14. FIXED ASSETS

Group

	Freehold land and properties HK$'000	Leasehold improvements HK$'000	Equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2006					
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
Additions	–	9,716	39,304	810	49,830
Disposals	–	(528)	(1,555)	(131)	(2,214)
Depreciation	(27)	(9,955)	(28,535)	(734)	(39,251)
Exchange differences	9	418	444	30	901
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
Year ended 31 December 2007					
Opening net book amount	668	21,893	74,541	1,991	99,093
Acquisition of subsidiaries *(note 29)*	74,046	24,010	36,073	6,450	140,579
Additions	–	20,212	42,287	1,705	64,204
Disposals	–	(667)	(1,173)	(161)	(2,001)
Depreciation	(1,648)	(19,483)	(39,609)	(2,462)	(63,202)
Exchange differences	379	1,118	1,137	48	2,682
Closing net book amount	73,445	47,083	113,256	7,571	241,355
At 31 December 2007					
Cost	87,706	204,340	370,564	22,405	685,015
Accumulated depreciation	(14,261)	(157,257)	(257,308)	(14,834)	(443,660)
Net book amount	73,445	47,083	113,256	7,571	241,355

As at 31 December 2007, freehold land of HK$11,561,000 is located outside Hong Kong.

15. LEASE PREMIUM FOR LAND

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

	Group	
	2007	2006
	HK$'000	HK$'000
Net book value at 1 January	**15,284**	15,567
Acquisition of subsidiaries *(note 29)*	**168,714**	–
Amortisation	**(3,482)**	(427)
Exchange differences	**164**	144
Net book value at 31 December	**180,680**	15,284
In Hong Kong, held on:		
Leases of over 50 years	**41,196**	–
Leases of 10 to 50 years	**97,671**	–
Outside Hong Kong, held on:		
Leases of over 50 years	**713**	726
Leases of 10 to 50 years	**41,100**	14,558
	180,680	15,284

16. INTANGIBLE ASSETS

	Goodwill	Group Trademarks	Total
	HK$'000	HK$'000	HK$'000
At 31 December 2007			
Acquisition of subsidiaries *(note 29)*	247,465	110,000	357,465

(a) Impairment test for Trademarks

Trademarks represent the power of Saint Honore brand which delivers an earning stream and generates value for the Company.

The valuation of the trademarks is determined by estimating the value of royalties which the Company is exempted from by virtue of the fact that it owns the trademarks. A bakery business royalty rate is multiplied by the net revenues expected to be generated by the trademarks and then capitalised at a discount rate at which the trademarks operates.

(b) Impairment tests for Goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment, bakery business.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the bakery business in which the CGU operates.

(c) The key assumptions used for value-in-use calculations are as follows:

	Trademarks	Goodwill
Gross margin *(note i)*	–	50%
Growth rate *(note ii)*	2%	2%
Discount rate *(note iii)*	9%	9%

Notes:

(i) Management determined budgeted gross margin based on past performance and its expectations for the market development.

(ii) The weighted average growth rates used are lower than the average growth rate of past 5 years and are used to extrapolate cash flow beyond the budget period.

(iii) The discount rates used are pre-tax discount rate applied to the cash flow projections and reflect specific risks relating to the relevant segments.

17. INVESTMENTS IN AND LOANS TO SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	HK$'000
		(Restated)
Investment at cost:		
Unlisted shares	**654,538**	9,208
Loan to subsidiary	**19,000**	18,300
	673,538	27,508

Loan to subsidiary represents loan of HK$19,000,000 (2006: HK$18,300,000) which is interest bearing at 2% (2006: 2%) per annum, and repayable on 7 October 2010.

As at 31 December 2007, the outstanding balances with the subsidiaries are unsecured, interest free and repayable on demand.

The following is a list of the subsidiaries of the Company as at 31 December 2007:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered 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%
Saint Honore Holdings Limited	Bermuda, limited liability company	Investment holding in Hong Kong	1,000,000 ordinary shares of HK$0.1 each	100%

17. 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/ registered capital	Interest held
Indirectly held:				
Bliset Investment Limited	Hong Kong, limited liability company	Property investment in Hong Kong	100 ordinary shares of HK$1 each 102 non-voting deferred shares of HK$1 each	100%
Bodega Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
Bread Boutique Limited	Hong Kong, limited liability company	Bakery chain operator and lease-holder in Hong Kong	3,000,000 ordinary shares of HK$1 each	100%
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 share of US$1 each	100%
Circle K Convenience Stores PRC Limited	Hong Kong, limited liability company	Investment holding in PRC	2 ordinary shares of HK$1 each	100%
Circle K PRC Properties Limited	Hong Kong, limited liability company	Property holding in PRC	2 ordinary shares of HK$1 each	100%

17. 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/ registered capital	Interest held
Indirectly held: (continued)				
Convenience Retail Asia Cooperatie U.A.	Netherlands, cooperative	Investment holding in Netherlands	Membership contribution of EUR1,000	100%
Convenience Retail Asia B.V.	Netherlands, limited liability company	Investment holding in Netherlands	180 ordinary shares of EUR100 each	100%
Convenience Retail Asia (Netherlands) Limited	British Virgin Islands, limited liability company	Investment holding in Netherlands	1 ordinary share of US$1 each	100%
Convenience Retail Dongguan Limited 東莞利亞便利店有限公司*	PRC, limited liability company	Convenience stores operator and lease-holder in PRC	Registered capital of RMB44,100,000	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)*	73.5%
City Producer Limited	Hong Kong, limited liability company	Dormant	10,000 ordinary shares of HK$1 each	100%
Easywin Limited	British Virgin Islands, limited liability company	Trademark holder in Hong Kong	1 ordinary share of US$1 each	100%
Eltham Agents Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	10 ordinary shares of US$1 each	100%

17. 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/ registered capital	Interest held
Indirectly held: (continued)				
Everfit Agents Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
Evergain Consultants Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
Gold Tree Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
Golden Mindset Company Limited	Hong Kong, limited liability company	Marketing of festive and bakery products in Hong Kong	2 ordinary shares of HK$1 each	100%
Great Moment Investment Limited	Hong Kong, limited liability company	Property investment in Hong Kong	2 ordinary shares of HK$1 each	100%
Green Rich Enterprises Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of HK$1 each	100%
Kingdom Wise Limited	Hong Kong, limited liability company	Property investment in Hong Kong	2 ordinary shares of HK$1 each	100%
Saint Honore Cake Shop Limited	Hong Kong, limited liability company	Bakery chain operator and lease-holder in Hong Kong	5 ordinary shares of HK$10 each 345,005 non-voting deferred shares of HK$10 each	100%
Saint Honore Cake Shop (Macau) Limited Pastelarias Santa Ana (Macau) Limitada#	Macau, limited liability company	Bakery chain operator and lease-holder in Macau	Quota capital of MOP100,000	100%

17. 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/ registered capital	Interest held
Indirectly held: (continued)				
Saint Honore Cake Shop (Shenzhen) Investment Limited	Hong Kong, limited liability company	Dormant	2 ordinary shares of of HK$1 each	100%
Saint Honore Cake Shop (Shenzhen) Limited 聖安娜餅屋(深圳)有限公司*	PRC, limited liability company	Operating food factory in PRC	Registered capital of HK$18,610,000	100%
Silver Wave Agents Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
Strong Glory Limited	Hong Kong, limited liability company	Investment holding in PRC	2 ordinary shares of HK$1 each	100%
Uni-Leptics Limited	Hong Kong, limited liability company	Property investment in Hong Kong	2 ordinary shares of HK$1 each	100%
Web-Logistic (HK) Limited	Hong Kong, limited liability company	Inactive	15,600,000 ordinary shares of HK$1 each	100%
夢工場美食(廣州)有限公司*	PRC, limited liability company	Bakery chain operator and lease-holder in PRC	Registered capital of US$400,000	100%

* *The legal name of the company is in Chinese.*
\# *The legal name of the company is in Portuguese.*

Note:

On 10 December 2007, the Group agreed with the minority shareholder of Convenience Retail Southern China Limited ("CRSC") to acquire an additional 25% of equity interest in CRSC. Upon completion of the transaction, the Group's equity interest in CRSC will be increased to 98.5%. As of the date of this report, the transaction has not yet completed, and is subject to the approval from the relevant regulatory body in the Chinese Mainland.

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS AND OTHER FINANCIAL ASSETS

	Group	
	2007	2006
	HK$'000	HK$'000
Available-for-sale financial assets		
Unlisted investments in Macau *(note a)*	**1,895**	1,895
Unlisted investments in Korea *(note b(i))*	**–**	20,675
	1,895	22,570
Other financial assets *(note b(ii))*	**–**	7,142

Notes:

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

(b)(i) During the year, the Group disposed of its entire approximately 2.5% equity interest in Korea Retail Holdings B.V. Limited ("KRH") and assigned its rights in the shareholders' loans to KRH's majority shareholder.

(b)(ii) As at 31 December 2006, other financial assets represented call options granted to the Group to acquire additional equity interest in KRH. The options were not exercised and expired during the year.

(b)(iii) The net loss on disposal of financial assets in respect of KRH is HK$1,670,000, which includes gain on disposal of interest in and loan to KRH of HK$5,472,000 and loss on expiry of call options of HK$7,142,000.

19. DEFERRED TAXATION

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

	Group	
	2007	2006
	HK$'000	HK$'000
At 1 January	**7**	(1,361)
Acquisition of subsidiaries *(note 29)*	**17,548**	–
(Credited)/charged to the consolidated profit and loss account *(note 8)*	**(2,159)**	1,368
At 31 December	**15,396**	7

19. DEFERRED TAXATION (continued)

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

	Group					
Deferred tax assets	**Tax losses**		**Others**		**Total**	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**(456)**	(1,281)	**(95)**	(164)	**(551)**	(1,445)
Acquisition of subsidiaries *(note 29)*	**(4)**	–	**(535)**	–	**(539)**	–
(Credited)/charged to the consolidated profit and loss account	**(591)**	825	**(2,099)**	69	**(2,690)**	894
At 31 December	**(1,051)**	(456)	**(2,729)**	(95)	**(3,780)**	(551)

	Group							
Deferred tax liabilities	**Accelerated tax depreciation**		**Fair value gain**		**Others**		**Total**	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**538**	38	**–**	–	**20**	46	**558**	84
Acquisition of subsidiaries *(note 29)*	**1,370**	–	**16,717**	–	**–**	–	**18,087**	–
(Credited)/charged to the consolidated profit and loss account	**797**	500	**(300)**	–	**34**	(26)	**531**	474
At 31 December	**2,705**	538	**16,417**	–	**54**	20	**19,176**	558

19. DEFERRED TAXATION (continued)

	Group	
	2007	2006
	HK$'000	HK$'000
Deferred tax assets		
– Deferred tax assets to be recovered after more than 12 months	**(2,549)**	(7)
– Deferred tax assets to be recovered within 12 months	**(1,231)**	(544)
	(3,780)	(551)
Deferred tax liabilities		
– Deferred tax liabilities to be settled after more than 12 months	**19,053**	19
– Deferred tax liabilities to be settled within 12 months	**123**	539
	19,176	558

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	
	2007	2006
	HK$'000	HK$'000
Deferred tax assets	**(3,613)**	(404)
Deferred tax liabilities	**19,009**	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$33,706,000 (2006: HK$24,765,000) in respect of losses amounting to HK$105,635,000 (2006: HK$76,497,000) 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.

20. 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 2007, the aging analysis of trade receivables is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
0-30 days	**23,434**	20,943
31-60 days	**3,784**	1,351
61-90 days	**1,886**	1,124
Over 90 days	**1,584**	690
	30,688	24,108

As of 31 December 2007, trade receivables of HK$615,000 (2006: HK$254,000) were impaired. The amount of the provision was HK$490,000 as of 31 December 2007 (2006: HK$242,000). The individually impaired receivable mainly due from suppliers, which are in financial difficulties. It was assessed that a portion of the receivables is expected to be recovered.

As of 31 December 2007, trade receivable of HK$7,128,000 (2006: HK$3,152,000) were past due but not impaired. These relate to a number of independent customers who have no recent history of default. The aging of these receivables is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Past due		
1 to 3 months	**5,670**	2,474
Over 3 months	**1,458**	678
	7,128	3,152

20. TRADE RECEIVABLES (continued)

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies.

	Group	
	2007	2006
	HK$'000	HK$'000
HK dollars (HK$)	**26,502**	21,281
Renminbi (RMB)	**3,716**	2,827
Patacas (MOP)	**470**	–
	30,688	24,108

Movements on the provision for impairment of trade receivables are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
At 1 January	**242**	159
Acquisition of subsidiaries	**634**	–
Provision for receivable impairment	**150**	83
Receivables written off	**(27)**	–
Unused amounts reversed	**(509)**	–
At 31 December	**490**	242

21. BANK BALANCES AND CASH

	Group	
	2007	2006
	HK$'000	HK$'000
Cash at bank and in hand	**242,844**	68,022
Bank deposits	**200,000**	566,763
Total bank balances and cash	**442,844**	634,785
Non-current bank deposits	**(50,000)**	(120,000)
Cash and cash equivalents	**392,844**	514,785

The effective interest on short-term bank deposits of HK$392,844,000 (2006: HK$514,785,000) was 1.5% (2006: 3.7%) per annum, and these deposits have an average maturity of 2 days (2006: 4 days).

The cash and bank balances are mainly denominated in Hong Kong dollars, except for certain balances of HK$34,725,000 (2006: HK$13,695,000) 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.

22. TRADE PAYABLES

At 31 December 2007, the aging analysis of the trade payables is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
0-30 days	**231,973**	173,012
31-60 days	**133,527**	99,804
61-90 days	**62,322**	51,370
Over 90 days	**27,530**	33,013
	455,352	357,199

23. SHARE CAPITAL

	2007		2006	
	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	**677,142,000**	**67,714**	673,668,000	67,367
Issue of shares on exercise of share options *(note a)*	**5,292,000**	**529**	3,474,000	347
Issue of shares for acquisition of subsidiaries *(note b)*	**46,637,974**	**4,664**	–	–
At 31 December	**729,071,974**	**72,907**	677,142,000	67,714

Notes:

(a) During the year, Nil (2006: 1,600,000) and 5,292,000 (2006: 1,874,000) 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.

(b) On 22 February 2007, 46,637,974 shares were issued for the acquisition of Saint Honore. The fair value of the shares issued was HK$144,578,000 which is based on the published share price of HK$3.10 as of the acquisition date *(note 29)*.

23. SHARE CAPITAL (continued)

Share options

(i) 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.

(ii) Share options which are granted after 7 November 2002 and had not yet been 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:

	2007		2006	
	Options	**Weighted average exercise price HK$**	Options	Weighted average exercise price HK$
At 1 January	**6,954,000**	**2.65**	5,642,000	2.51
Granted	**14,516,000**	**3.35**	2,232,000	2.91
Lapsed	**(718,000)**	**3.25**	(354,000)	2.70
Exercised	**(1,166,000)**	**2.62**	(566,000)	2.28
At 31 December	**19,586,000**	**3.15**	6,954,000	2.65
Exercisable	**4,964,000**	**2.62**	4,212,000	2.50

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.49 (2006: HK$3.17). The options outstanding at 31 December 2007 and 2006 had a weighted average remaining contractual life of 4.51 and 3.51 years respectively.

23. 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$	**2007 Options**	2006 Options
20 May 2008	1.69	**308,000**	348,000
30 September 2008	2.225	**54,000**	108,000
29 March 2009	2.535	**372,000**	570,000
6 August 2009	2.40	**366,000**	374,000
4 May 2010	2.86	**842,000**	1,174,000
14 September 2010	2.53	**1,794,000**	2,226,000
10 March 2011	2.905	**1,370,000**	1,522,000
29 August 2011	2.93	**614,000**	632,000
30 March 2012	3.00	**1,526,000**	–
3 May 2012	3.39	**3,440,000**	–
3 May 2013	3.39	**3,440,000**	–
3 May 2014	3.39	**3,440,000**	–
19 November 2012	3.46	**540,000**	–
19 November 2013	3.46	**740,000**	–
19 November 2014	3.46	**740,000**	–
		19,586,000	6,954,000

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$0.94 (2006: HK$0.77) per option. The significant inputs into the models were as follows:

	2007	2006
Expected volatility	**30%**	30%
Expected life	**5.4 years**	4.5 years
Risk free rate	**4.1%**	4.3%
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.

24. 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 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

24. RESERVES (continued)

(a) Group (continued)

	Share premium HK$'000	Merger reserve HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2007	125,556	177,087	13,433	4,646	1,445	139,149	461,316
Issue of new shares	13,637	–	–	–	–	–	13,637
Acquisition of subsidiaries	139,914	–	–	–	–	–	139,914
Employee share option benefit	928	–	–	3,006	–	8	3,942
Exchange differences	–	–	–	–	2,831	–	2,831
Acquisition of additional interest in subsidiary *(note 28)*	–	–	–	–	–	(5,212)	(5,212)
Profit attributable to shareholders of the Company	–	–	–	–	–	86,867	86,867
Dividends	–	–	–	–	–	(48,600)	(48,600)
At 31 December 2007	280,035	177,087	13,433	7,652	4,276	172,212	654,695
Representing:							
Reserves							614,584
2007 final dividend proposed							40,111
							654,695

24. 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 2006, as previously reported	119,457	12,792	2,466	23,594	158,309
Effect of change in accounting policy – employee share option benefit	–	–	–	501	501
At 1 January 2006, as restated	119,457	12,792	2,466	24,095	158,810
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	–	–	–	66,306	66,306
Dividends	–	–	–	(40,538)	(40,538)
At 31 December 2006	125,556	12,792	4,646	49,932	192,926

Representing:

Reserves	156,726
2006 final dividend proposed	36,200
	192,926

24. RESERVES (continued)

(b) Company (continued)

	Share premium HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2007, as previously reported	125,556	12,792	4,646	47,493	190,487
Effect of change in accounting policy – employee share option benefit	–	–	–	2,439	2,439
At 1 January 2007, as restated	125,556	12,792	4,646	49,932	192,926
Issue of new shares	13,637	–	–	–	13,637
Acquisition of subsidiaries	139,914	–	–	–	139,914
Employee share option benefit	928	–	3,006	8	3,942
Profit attributable to shareholders of the Company	–	–	–	49,598	49,598
Dividends	–	–	–	(48,600)	(48,600)
At 31 December 2007	280,035	12,792	7,652	50,938	351,417

Representing:

Reserves	311,306
2007 final dividend proposed	40,111
	351,417

25. 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	
	2007	2006
	HK$'000	HK$'000
Present value of unfunded obligations	**15,016**	8,919
Net unrecognised actuarial losses	**(836)**	(828)
Liability in the consolidated balance sheet	**14,180**	8,091

Movements in the liability recognised in the consolidated balance sheet are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
At 1 January	**8,091**	7,862
Acquisition of subsidiaries *(note 29)*	**6,248**	–
Expenses recognised in the consolidated profit and loss account – as shown below	**749**	299
Benefits paid	**(908)**	(70)
At 31 December	**14,180**	8,091

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

	Group	
	2007	2006
	HK$'000	HK$'000
Current service cost	**203**	25
Interest cost	**475**	271
Net actuarial losses recognised	**71**	3
Total, included in employee benefit expense *(note 12)*	**749**	299

25. LONG SERVICE PAYMENT LIABILITIES (continued)

Of the total charge, HK$235,000 (2006: HK$223,000), HK$17,000 (2006: HK$18,000) and HK$497,000 (2006: HK$58,000) were included, respectively, in store expenses, distribution costs and administrative expenses.

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

	2007	2006
Discount rate	**3.75% to 4.25%**	3.75%
Long term rate of salary increases		
– Full time staff	**3% to 3.25%**	3%
– Part time staff	**2.5% to 3.25%**	2.5%
Long term rate of increases to mandatory provident fund relevant income and long service payments maximum amount/wages	**2.5% to 3%**	2.5%

26. CASH GENERATED FROM OPERATIONS

	2007 HK$'000	2006 HK$'000
Profit for the year	**81,546**	69,437
Adjustments for		
– Income tax expenses	**23,583**	16,078
– Interest income	**(7,292)**	(18,816)
– Interest expenses	**745**	–
– Depreciation of owned fixed assets	**63,202**	39,251
– Employee share option benefit	**3,943**	2,660
– Amortisation of lease premium for land	**3,482**	427
– Loss on disposal of fixed assets	**1,510**	1,693
– Long service payment costs	**749**	229
– Net loss on disposal/(fair value gain) of financial assets	**1,417**	(1,665)
– Foreign exchange gain on operating activities	**(377)**	(550)
	172,508	108,744
Changes in working capital		
– Inventories	**(16,295)**	(3,243)
– Trade receivables, rental deposits, other receivables, deposits and prepayments	**346**	(20,326)
– Amount due from immediate holding company	**(179)**	(225)
– Trade payables, other payables and accruals	**70,560**	58,666
– Long service payment liabilities	**(908)**	–
– Cake coupons	**4,331**	–
	230,363	143,616

27. COMMITMENTS

(a) Capital commitments

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

	Group	
	2007	2006
	HK$'000	HK$'000
Contracted but not provided for	**7,324**	2,291
Authorised but not contracted for	**12,032**	10,099
	19,356	12,390

(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	
	2007	2006
	HK$'000	HK$'000
Not later than one year	**227,274**	162,307
Later than one year and not later than five years	**217,042**	146,257
Later than five years	**10,293**	7,896
	454,609	316,460

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.

28. ACQUISITION OF ADDITIONAL INTEREST IN SUBSIDIARY

During the year, the Group acquired an additional 8.5% interest in Convenience Retail Southern China Limited from a minority shareholder with a total purchase consideration of HK$5,212,000. The difference between the consideration paid and the share of net assets acquired has been debited to retained earnings.

29. BUSINESS COMBINATIONS

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

On 22 February 2007, the Group acquired 100% interest in Saint Honore, a company incorporated in Bermuda. Saint Honore is principally engaged in the manufacturing of bakery products and operation of retail chain of bakeries. It contributed revenue of HK$460,914,000 and net profit of HK$23,059,000 to the Group for the period from 23 February 2007 to 31 December 2007.

If the acquisition had occurred on 1 January 2007, the Group's revenue and net profit for the year ended 31 December 2007 would have been HK$3,010,363,000 and HK$86,179,000 respectively. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiaries to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to leasehold land and land use rights, property, plant and equipment and intangible assets had applied from 1 January 2007, together with the consequential tax effects.

The purchase consideration is comprised of:

	HK$'000
Cash paid	494,181
Direct costs relating to the acquisition	9,010
Fair value of shares issued *(note 23)*	144,578
	647,769
Fair value of net assets acquired – shown as below	(400,304)
Goodwill *(note 16)*	247,465

The Goodwill is attributable to the workforce of Saint Honore and the synergies expected to arise after the acquisition.

29. BUSINESS COMBINATIONS (continued)

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK$'000	Carrying amount HK$'000
Net tangible assets acquired		
Cash and cash equivalents	155,128	155,128
Leasehold land and land use rights *(note 15)*	168,714	72,583
Property, plant and equipment *(note 14)*	140,579	135,985
Trademarks *(note 16)*	110,000	27,600
Rental deposits paid	10,942	10,942
Deferred income tax assets *(note 19)*	539	539
Inventories	11,847	11,847
Trade receivables	6,464	6,464
Deposits, prepayments and other receivables	13,072	13,072
Other financial assets	8,147	8,147
Trade payables	(26,175)	(26,175)
Other payables and liabilities	(174,179)	(174,179)
Tax payable	(342)	(342)
Rental deposits received	(97)	(97)
Provision for long service payments *(note 25)*	(6,248)	(6,248)
Deferred tax liabilities *(note 19)*	(18,087)	(1,370)
	400,304	233,896
Purchase consideration settled in cash		503,191
Cash and cash equivalents acquired		(155,128)
Cash outflow on acquisition		348,063

30. RELATED PARTY TRANSACTIONS

The Group is controlled by Li & Fung (Retailing) Limited (incorporated in Hong Kong), which owns 51.3% of the Company's shares. The remaining 48.7% 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	**2007 HK$'000**	2006 HK$'000
Management fee and reimbursement of office and administrative expenses	*(i)*	**20,814**	17,869
Rental payable	*(ii)*	**924**	856

(b) Fellow subsidiaries

		2007 HK$'000	2006 HK$'000
Rental payable	*(ii)*	**4,204**	4,101
Net purchases	*(iii)*	**8,377**	6,253

(c) Key management personnel compensation

	2007 HK$'000	2006 HK$'000
Fees	**700**	700
Discretionary bonuses	**7,028**	5,571
Salaries, share options and other allowances	**9,530**	8,003
Pension costs – defined contribution scheme	**69**	69
	17,327	14,343

30. RELATED PARTY TRANSACTIONS (continued)

(d) Year-end balances with related parties

	2007	2006
	HK$'000	HK$'000
Amounts due from/(to):		
– Immediate holding company	**227**	48
– Fellow subsidiaries	**(2,926)**	(2,478)

The balances 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 (2006: HK$50,888,000). As of 31 December 2007, 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.

31. 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 2007.

	2007 **HK$'000**	2006 HK$'000	2005 HK$'000	2004 HK$'000 (Restated)	2003 HK$'000 (Restated)
Revenue	**2,916,734**	2,231,217	1,995,206	1,736,491	1,515,839
Profit attributable to shareholders of the Company	**86,867**	75,054	73,578	66,276	60,512
Total assets	**1,487,397**	978,279	879,449	779,120	688,231
Total liabilities	**(767,749)**	(457,422)	(397,864)	(343,228)	(288,631)
Minority interests	**7,954**	8,173	2,912	6,613	1,560
Surplus on shareholders' funds	**727,602**	529,030	484,497	442,505	401,160

Note:

2003-2004 figures have been restated on the adoption of new/revised accounting standards. Certain comparatives have been reclassified to conform with current year presentation.