



Convenience Retail Asia Limited

利亞零售有限公司

(Incorporated in the Cayman Islands with limited liability)



A member of the Li & Fung Retailing Group



Annual Report 2000



Providing location convenience, speedy checkout, tidy and friendly services around the clock has made us one of the preferred and fastest-growing convenience store chains.

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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 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, 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 the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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 annual 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



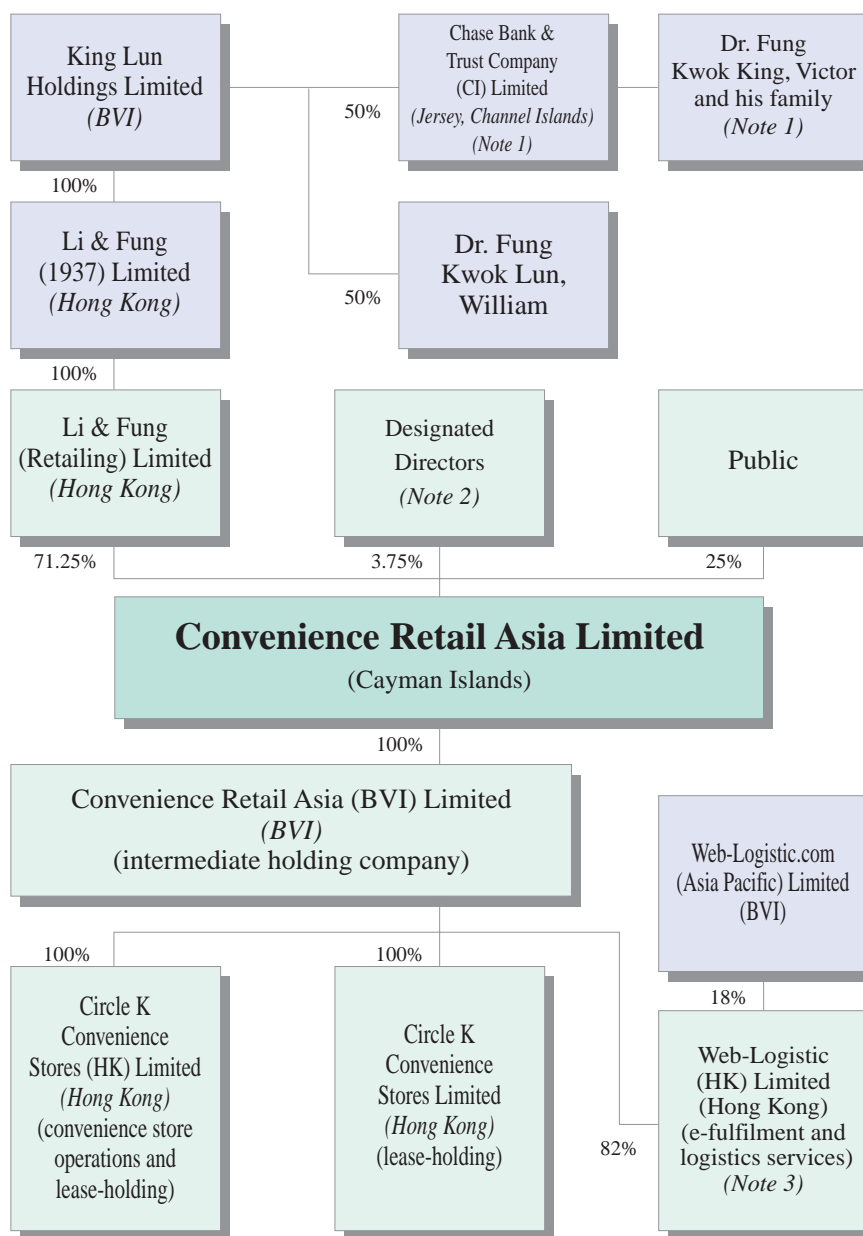
Corporate Information

Executive Directors	Yeung Lap Bun, Richard (<i>Chief Executive Officer</i>) Li Kwok Ho, Bruno (<i>Chief Financial Officer</i>)
Non-executive Directors	Dr. Fung Kwok King, Victor (<i>Chairman</i>) Dr. Fung Kwok Lun, William Lau Butt Farn Wong Yuk Nor, Louisa
Independent non-executive Directors	Dr. Ch'ien Kuo Fung, Raymond Au Man Chung, Malcolm
Registered office	Zephyr House 3rd Floor, Mary Street George Town Grand Cayman British West Indies
Head office and principal place of business	12th Floor, LiFung Centre 2 On Ping Street Siu Lek Yuen Shatin New Territories Hong Kong
Company's website address	www.cr-asia.com
Company secretary	Wong Wing Ha (FCIS)
Compliance officer	Li Kwok Ho, Bruno
Qualified accountant	Lam Siu Tak, Jimmy (FHKSA, FCPA)
Audit committee	Dr. Ch'ien Kuo Fung, Raymond Au Man Chung, Malcolm Lau Butt Farn
Authorised representatives	Li Kwok Ho, Bruno Wong Wing Ha
Authorised person to accept service of process and notices	Li Kwok Ho, Bruno
Sponsor	BNP Paribas Peregrine Capital Limited

Corporate Information (continued)

Legal adviser	Johnson Stokes & Master (as to Hong Kong Law) Conyers Dill & Pearman, Cayman (as to Cayman Islands Law)
Auditor	PricewaterhouseCoopers <i>Certified Public Accountants</i>
Principal share registrar and transfer office	Bank of Butterfield International (Cayman) Ltd. P.O. Box 705 Butterfield House Fort Street George Town Grand Cayman Cayman Islands
Hong Kong share registrar and transfer office	Abacus Share Registrars Limited 2401 Prince's Building Central Hong Kong
Principal bankers	The Hongkong & Shanghai Banking Corporation Limited
Stock code	8052

Group Business Structure



Note:

1. Chase Bank & Trust Company (CI) Limited is the trustee of a discretionary trust established for the benefit of the family members of Dr. Fung Kwok King, Victor.
2. "Designated Directors" refer to Messrs. Yeung Lap Bun, Richard, Li Kwok Ho, Bruno, Lau Butt Farn and Ms. Wong Yuk Nor, Louisa,
3. Pursuant to a shareholders' agreement entered into between Web-Logistic.com (Asia Pacific) Limited ("Web-Logistic (AP)"), Convenience Retail Asia (BVI) Limited ("CRA (BVI)") and Web-Logistic (HK) Limited ("Web-Logistic (HK)") dated 18th September, 2000, Web-Logistic (AP) was granted an option to purchase from CRA (BVI) a number of shares in Web-Logistic (HK) representing 12% of the issued share capital of Web-Logistic (HK), based on the existing issued share capital of Web-Logistic (HK), on or before 31st July, 2001, at a total consideration of HK\$1,872,000. If this option is exercised in full by Web-Logistic (AP), the Group's shareholding interests in Web-Logistic (HK) will be reduced from 82% to 70%.



Chairman's Statement



Dr. Victor Fung Kwok King
Chairman

FINANCIAL OVERVIEW

We are glad to report that 2000 was an outstanding year for Convenience Retail Asia Limited and its subsidiaries (collectively the “Group”) in terms of business growth, profitability, and in achieving key business objectives.

We closed the year with 123 stores, which generated turnover of approximately HK\$1,140.7 million, represented an increase of about 17%. Profit attributable to shareholders was approximately HK\$48.1 million, represented an increase of about 629% over 1999. These remarkable achievements for the Group are encouraging, as they were achieved in a period of slow growth in the general retail environment and conservative consumer spending in Hong Kong.

INITIAL PUBLIC OFFERING

Shares of Convenience Retail Asia Limited (the “Company” or “CRA”) were successfully listed on the GEM of the Stock Exchange in January 2001. The net proceeds of approximately HK\$163 million are mainly used to fund CRA’s expansion into the Mainland of China. We were very pleased with the strong interests from both institutional and retail investors in our company and its growth prospects. The new issue was oversubscribed 14 times by institutional investors and 6.5 times by retail investors.

RETAIL MARKET OVERVIEW

A strong economic recovery in 2000 sets the tone for an upturn in the retail market for the coming year in Hong Kong. We are confident that Hong Kong will grow at a steady pace. All economic indicators look promising for continued economic growth in the Mainland of China, which will continue to fuel expansion in the retail market. This sentiment is buoyed by the fact that the Chinese government will continue to implement market reform and deregulation policy in the retail sector.

With modern lifestyle getting more hectic, convenience more than ever is a valuable everyday commodity. Because of these factors, we believe that the convenience retailing industry offers an enormous growth opportunity, despite the fact that competition will become more intense.

GROWTH STRATEGY FOR HONG KONG

For Hong Kong, CRA plans to continue expanding its network of high quality stores with a focus on profitability. Our goal is to maintain double digit percentage store growth per annum. There is still plenty of room for growth in the Hong Kong convenience store market segment. We see our Hong Kong operation as a solid base for profits and positive cashflow generation. The marketing focus will be to continue building the premium brand image for CRA as the fastest-growing and preferred convenience store chain.

GROWTH STRATEGY FOR CHINA

Upon China's WTO accession, the anticipated lowering of import tariff will in turn lower prices, provide more product choices and stimulate consumer spending in the Mainland of China. The market will also open up to foreign retailers with the deregulation in equity structure for joint ventures, geographical area and number of outlets.

Each of these new developments brought about by WTO accession will have a positive impact on chain-operated retail businesses in the Mainland of China. At present, the convenience store industry in the Mainland of China is in an infancy stage. In order to take advantage of the opportunities offered by the WTO accession, CRA will aim for an aggressive growth strategy but will adopt a phase expansion strategy for establishing businesses in the Mainland of China, in order to manage the risk exposure involved.

Phase One will be to establish a solid business base with adequate store network coverage in Guangzhou and the Pearl River Delta in the period of 2001-2003. An important part of our entry strategy is to build a distribution centre as part of our integrated supply chain and a training centre to cultivate the Company's "speed, tidiness and friendliness" operating culture.

Chairman's Statement (continued)

Only after a successful adaptation of our business model and healthy profitability is achieved, will the Company commence Phase Two expansion into the Eastern China. Phase Three expansion into the Northern China will be initiated after the same conditions are achieved in Phase Two.

Finally, we are in the process of negotiating with a strong potential joint venture partner in China. This partner has a strong retail background and is in sound financial shape. The joint venture is intended to give us majority ownership and management control. Once a solid base is established in Pearl River Delta, the joint venture will serve as a springboard for our expansion into other provinces.

CONCLUSION

Given the proven track record of the Circle K operations in Hong Kong, a well established international brand image, and an experienced and competent management team, we are confident that we will succeed in capturing the enormous growth opportunities in the Mainland of China.

Finally, on behalf of the board of directors, I would like to take this opportunity to express my gratitude to all the employees of the Group who made year 2000 a very successful year, in particular the management team for their significant contributions in developing a powerful customer driven business model: one that focuses on strong core competencies and service excellence. The performance of the Group indicates the success of the model.

Fung Kwok King, Victor

Chairman

Hong Kong, 14th March, 2001

Management Discussion and Analysis



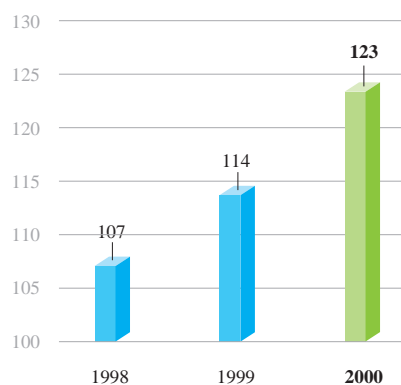
**Mr. Richard
Yeung Lap Bun**
Chief Executive Officer

FINANCIAL REVIEW

The board of directors (the “Board”) is extremely pleased to report the results of the Group for the year ended 31st December, 2000. The Group’s turnover increased by about 17% from approximately HK\$972.9 million in 1999 to approximately HK\$1,140.7 million in 2000, with almost all the turnover coming from Circle K Convenience Stores (HK) Limited (“Circle K (HK)”). Of the total 17% increase, 12.2% came from increase in sales of the existing stores and 4.8% from sales of new stores opened during the year.

The directors of the Company (the “Directors”) believe that the sales increase is due to customers responding favourably to the Group’s pricing policy, aggressive promotions and excellent customer services. As a result, customer traffic has increased significantly during 2000. Average daily sales per store increased by about 11% to HK\$26,915 per store during 2000.

Benefiting from the integrated EPOS (electronic point of sales) and supply chain systems, the Group was able to improve store productivity and to handle the increased turnover with very minimal increase in operating expenses. As a result, store operating expenses as a percentage of sales dropped from 24.3% in 1999 to 21.9% in 2000, representing a substantial saving of 2.4% of sales.



No. of Outlets in Hong Kong

Gross margin and other income as a percentage of sales also increased by 0.8% of sales to 31.2% of sales in 2000. Higher sales volume and better management of product categories both contributed to this improvement.

The increase in turnover, the improvement in store productivity and the higher gross margin together contributed to a very significant increase in the Group's net profit. For 2000, the Group recorded a net profit of HK\$48,119,000 which represents about a 629% increase over 1999's net profit of HK\$6,603,000. The net profit has exceeded the profit estimate of HK\$45 million by about 6.9%. Net profit as a percentage of sales increased from 0.7% in 1999 to 4.2% in 2000. Basic earnings per share increased by about 654% from HK\$1.3 cents to HK\$9.8 cents.



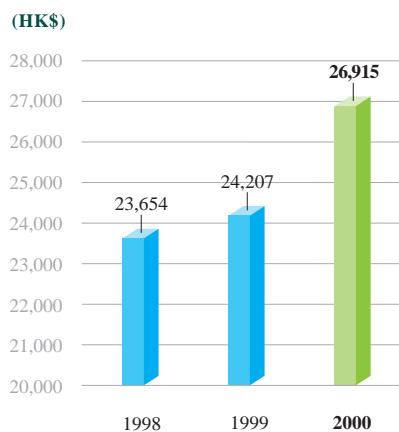
BUILDING THE CIRCLE K BRAND

In addition to achieving favorable financial results, another major focus during 2000 was building the Circle K brand as the preferred brand in convenience retailing in Hong Kong.

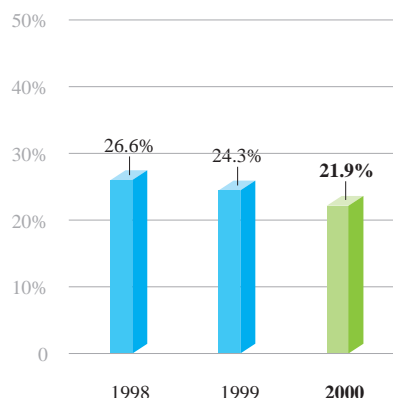
The Group embarked on major initiatives to improve every interface with the customers which included:

- Store Renovation Program to upgrade stores to the new Circle K clean and modern imagery specifications
- Upgrading Product Merchandising Display
- Excellence in STF (Speed, Tidiness & Friendliness) to provide the best customer services in the industry
- Customer-driven Promotions to promote fun, value and enjoyable shopping experience
- New Layout of Stores to support 5-Easy shopping experience (easy to come in, easy to locate products, easy to decide, easy to pay and easy to leave)

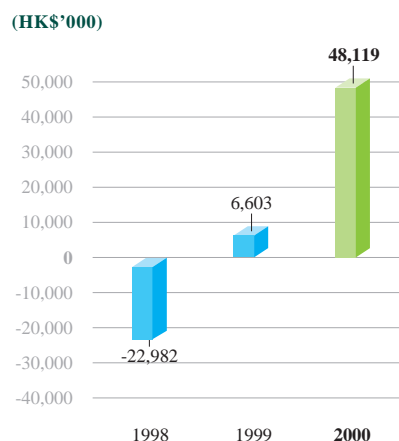
The significant increase in customer traffic and store transactions achieved during 2000 indicates that customers have responded positively to these initiatives. Additional new initiatives have been planned for 2001 to build on this success and to enlarge this pool of very satisfied and loyal customers.



Average Daily Sales Per Store



Store Operating Expenses as % of Sales



Net Profit

BUILDING CORE COMPETENCIES

One of the key reasons behind the Group's major improvement in financial results was the improvement in the Group's core competencies in convenience retailing during the year. These are the Group's capabilities to do something substantially better than our competitors, and which will create value to our customers. The Group has identified 7 core competencies that are critical to the Group's success in convenience retailing:

1. Quality Customer Service
2. Strategy Driven Marketing
3. Category Management Excellence
4. Synchronized Supply Chain Management & Logistics Processes
5. Integrated Information System
6. New Store Development
7. e-Business Capability

The Group will continue to make investments in training, technology improvement, recruitment of talented staff, and re-engineering and improvement of processes so as to further expand this competitive gap over the competitors.



Our quality customer services won the Hong Kong Retail Management Association Service and Courtesy Award in 2000.



A customer-driven business model has resulted in increased customer traffic and a loyal customer base.

PROSPECTS



The Distribution Centre is crucial to a synchronized supply chain management – one of the Company's core competencies.

The Group will be focusing its future growth in the Hong Kong and China markets and it is the Group's vision to become the preferred and fastest-growing convenience store chain in these two markets. With the expanding urban population, faster pace of lifestyle, China's expected entry into the WTO, and increasing spending power, the demand for convenience retailing in these two markets will grow dramatically in the coming years. Based on developments in more matured markets such as Japan and Taiwan, the Group estimates that Hong Kong will be a 1,200-store market. At present, there are only two dominant convenience store brands in Hong Kong (Circle K and 7-Eleven) and between the two, there are about 525 stores, which make up only about 44% of the potential market.

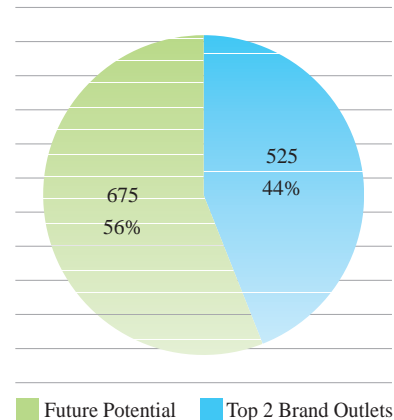
As for the China market, it is at the infancy stage of development for convenience retailing. Based on a conservative assumption of 20,000 people per convenience store for China's urban population, the Group believes that this is a potential 20,000-store market. As of today, international chains have established about 120 outlets there.

The Group has prepared a business plan for exploiting the business opportunity for the period from 2001 to 2003. In a nutshell, the Group is aiming to have 200 Circle K stores operating in Hong Kong and about 100 Circle K stores in China by the end of 2003 and to achieve a healthy growth in the Group's turnover and profitability during this planning period.

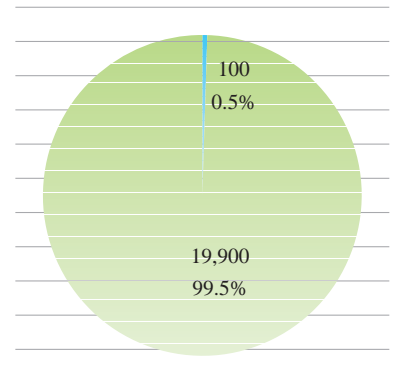
GEM LISTING ON 18TH JANUARY, 2001

To prepare for the funding needs for the expansion into the China market, the Group conducted an initial public offering with a total of 163,900,000 new shares at HK\$0.10 par value representing 25% of the enlarged capital being offered to international investors and for the Hong Kong public at HK\$1.15 per share. The international placing was 14 times over-subscribed while the public offer in Hong Kong was 6.5 times over-subscribed. The stock was successfully listed on the GEM of the Stock Exchange on 18th January, 2001. A total net proceeds of about HK\$163 million was raised and such proceeds will be mainly used for the expansion into the China market (details as disclosed in the Company's prospectus dated 9th January, 2001).

After the listing, the Group has a very strong cash position with cash balance of HK\$291 million as at the end of January 2001 and with no bank borrowings. This together with the cashflow to be generated



Hong Kong Convenience Store Market



The PRC Convenience Store Market

from its operations in Hong Kong will provide adequate funding for the Group's expansion into the China market.

The bold design of the Circle K lightbox at every store front reinforces the premium brand image and enhances the store presence in the busy retail environment in Hong Kong.



Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Yeung Lap Bun, Richard – *Chief Executive Officer*

Mr. Yeung, aged 44, has over 20 years' 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 PRC. Prior to joining the Group in October 1998, he spent about 10 years in senior positions at HAVI Food Services Group, managing the supply chain of McDonald's Restaurants in various countries in Asia. Mr. Yeung graduated from the University of Hawaii with a Bachelor of Business Administration degree. Mr. Yeung also holds a MBA degree from the California State University of Los Angeles and is a Certified Public Accountant. Mr. Yeung is also an Executive Committee member of the Hong Kong Retail Management Association.

Li Kwok Ho, Bruno – *Chief Financial Officer*

Mr. Li, aged 51, joined Li & Fung Group in January 1991 as the Chief Financial Officer. Since February 1993, he has been appointed as the Retail Services Director and takes charge of all the centralised supporting services of Li & Fung Retailing Group which comprises the business of Circle K, Fotomax, Toys "R" Us and Fun Fun World. His areas of responsibilities include Finance and Accounting, Human Resource and Administration, Business Systems Development and Real Estate. Mr. Li graduated from the Chinese University of Hong Kong with a Bachelor of Science degree and is a member of the Institute of Chartered Accountants of Scotland. He has 21 years of professional experience in finance and accounting.

NON-EXECUTIVE DIRECTORS

Dr. Fung Kwok King, Victor – *Chairman*

Dr. Fung, aged 55, is Chairman of Li & Fung (1937) Limited, a privately-held holding company with three core businesses: export trading, retailing and distribution. He is Chairman of publicly listed Li & Fung Limited, the export trading subsidiary, Chairman of Li & Fung (Retailing) Limited ("LFR") and Chairman and Chief Executive Officer of Li & Fung (Distribution) Limited. Dr. Fung also serves as Chairman of Prudential Asia, the Asian investment management subsidiary of the Prudential Insurance Company of America.

Born and raised in Hong Kong, Dr. Fung began his career in the Corporate Banking Group of Citibank in New York. He then served as Professor at the Harvard Business School for four years before returning to Hong Kong in 1974 to join Li & Fung Limited. He became Managing Director in 1981 and Chairman in 1989. In 1986, Dr. Fung and three partners co-founded Prudential Asia.

In May 1999, he was appointed by the Hong Kong Government as Chairman of the Airport Authority. He is also a member of the Hong Kong Government Judicial Officers Recommendation Committee. In 1996, Dr. Fung was appointed by the Hong Kong Government to serve as the Hong Kong Representative on the APEC Business Advisory Council (ABAC). From September 1991 to September 2000, Dr. Fung was Chairman of the Hong Kong Trade Development Council, the statutory body responsible for the promotion of Hong Kong's external trade.

Directors and Senior Management Profile (continued)

NON-EXECUTIVE DIRECTORS (continued)

Dr. Fung holds a Bachelors and a Masters Degree in Electrical Engineering from the Massachusetts Institute of Technology, and a Doctorate in Business Economics from Harvard University.

Dr. Fung Kwok Lun, William

Dr. Fung, OBE, JP, aged 52, brother of Dr. Fung Kwok King, Victor, is the Managing Director of Li & Fung Limited and LFR. He is also a director of Li & Fung (Distribution) Limited. Dr. Fung graduated from Princeton University with a bachelor of science degree in engineering and holds an MBA degree from the Harvard Graduate School of Business. He has been awarded the degree of Doctor of Business Administration, honoris causa by the Hong Kong University of Science & Technology. Dr. Fung is a non-executive director of HSBC Holdings Plc and CLP Holdings Limited. He is a past Chairman of the Hong Kong General Chamber of Commerce and a past Chairman of the Hong Kong Exporters' Association. He is a member of the Economic Advisory Committee to the Financial Secretary. Dr. Fung is a Hong Kong Special Administrative Region delegate to the Chinese People's Political Consultative Conference.

Lau Butt Farn

Mr. Lau, aged 53, joined Li & Fung Group in 1981 as the Financial Controller. Between 1985 and 1998, he was the Operations Director for LFR with operations in Circle K, Fotomax, Toys "R" Us and Fun Fun World. Since 1999, Mr. Lau is the Chief Financial Officer of Li & Fung (Distribution) Limited, an unlisted company in the supply chain management business. Mr. Lau graduated from the University of London with a Bachelor of Science degree in Physics and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Wong Yuk Nor, Louisa

Ms. Wong, aged 51, joined LFR 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' professional experience in Marketing and Advertising. Prior to joining LFR, 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 49, is Chairman of chinadotcom corporation and its subsidiary, hongkong.com corporation. He is a director of Inchcape plc and HSBC Holdings plc, while chairing Inchcape Greater China and HSBC Private Equity (Asia) Ltd. In public service, Dr. Ch'ien is a member of the Executive Council of the Hong Kong Special Administrative Region. He also serves as Chairman of the Hong Kong/Japan Business Cooperation Committee and the Hong Kong Industrial Technology Centre Corporation. In addition, Dr. Ch'ien is the honorary president and past chairman of the Federation of Hong Kong Industries and serves on the Council of the Hong Kong University of Science and Technology. Dr. Ch'ien received a doctorate in economics from the University of Pennsylvania, U.S.A. in 1978. He was appointed a Justice of the Peace in 1993 and a Commander in the Most Excellent Order of the British Empire in 1994, and awarded the Gold Bauhinia Star medal in 1999.

Au Man Chung, Malcolm

Mr. Au, aged 51, is currently the managing director of Artal Food Industries Limited. 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.

SENIOR MANAGEMENT

Kan Wing Chuen, Raphael – *General Manager*

Mr. Kan, aged 49, has over 20 years experience in manufacturing and logistics management with multinationals and local companies in Hong Kong and Southern China. Prior to joining the Group in February 2000, he was the General Manager of HAVI Food Services Group and IDS Logiotics (HK) Limited, and was responsible for providing supply chain management services to multinational clients of the companies. Recently 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's degree in Mechanical Engineering. He also holds a Master degree in Business Administration from the University of East Asia, Macau.

Ko Kam Cheong – *Divisional Manager – Sales and Operations*

Mr. Ko, aged 60, has been with the Circle K stores since 1991. He has over 40 years of solid experience in the retailing industry. Prior to joining the Group, he spent 18 years as Operations Manager in Park' N Shop and he was in charge of all matters related to Store Operations. With his extensive experience, Mr. Ko has successfully led a very strong and effective operations team in Hong Kong.

SENIOR MANAGEMENT (continued)

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

Mr. Tsui, aged 43, has solid experience in conducting the Group's Sales Forecasting Model and location analysis of new stores. He is currently responsible for expediting the Group's new store growth in Hong Kong and the Group's business expansion into the PRC market. He has over 15 years of experience gained in trade finance, marketing and business development area. He graduated from the University of Hong Kong with a Bachelor degree in Geography/Economics.

Pak Chi Kin – *Divisional Manager – Supply Chain Management & Logistics*

Mr. Pak, aged 42, has over 10 years experience in the food distribution Industry. He is responsible for overseeing the Group's logistics and supply chain management systems and processes. Prior to joining the Group in May 1999, he spent 7 years in senior position at HAVI Food Services Group and he was in charge of the distribution of food products and logistics services to the McDonald's Restaurant. He 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.

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

Mr. Li, aged 47, has been with the Li & Fung Retailing Group since 1985. He has over 25 years of experience in the Construction Industry. He is responsible for Company's store construction, renovation, project planning and maintenance. He has been awarded the Associateship in Building Technology and Management from the Hong Kong Polytechnic University and a Diploma in Legal Studies from the University of Hong Kong. He is also a member of The Chartered Institute of Building, a member of The Hong Kong Institution of Engineers, a member of the Architecture & Surveying Institute and the Associate of The Chartered Institute of Arbitrators.

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

Mr. Tse, aged 40, is responsible for overseeing the buying, merchandising and marketing strategies of the Company. He has over 20 years experience in the retailing industry gained from his experience in Park' N Shop, Uncle A and 7-Eleven. He holds a diploma in Management Studies from The Hong Kong Polytechnic University as well as a Master Degree in Marketing Management from the Macquarie University of Australia.

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

Mr. Lam, aged 42, has over 18 years experience in finance and accounting in various companies including Shell Australia and Wellcome Supermarket in Hong Kong. Mr. Lam graduated from the University of Melbourne with a Bachelor of Commerce. He also holds a Master degree of Business Administration from the University of South Australia. He is a Fellow member of the Hong Kong Society of Accountants, and he is also a Fellow member of the CPA Australia.

SENIOR MANAGEMENT (continued)

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

Mr. Wu, aged 39, is responsible for overseeing all Human Resources functions of the Company including manpower planning, compensation and benefits, training and development, insurance and administration as well as staff management and relations. He has over 16 years of Human Resources management experience gained in various industries including retailing, broadcasting and manufacturing. Prior to joining the Group, he spent 6 years in senior position at Watson's the Chemist Ltd. and Asia Television Limited. He holds a Master Degree of Business Administration from the Queen's University of Belfast as well as a Master degree of Arts in Human Resources from Macquarie University of Australia.

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

Mr. Yiu, aged 41, has over 16 years' solid experience in real estate management gained from various companies including Chinese Estates, Ltd., Emperor Investment Ltd. and Hang Lung Development Co., Ltd.. He has an in-depth knowledge on the real estate market of Hong Kong and he is responsible for management of rental leases and for securing new sites for the Company's expansion. He holds a Certificate in Estate Management from The Hong Kong Management Association.

Lau Chun Chau, Gary – *Divisional Manager – Business Systems Development*

Mr. Lau, aged 45, has over 10 years experience in MIS management gained from major retailing corporations including Duty Free Shoppers HK Ltd. And Loft – Innovation Stores (HK) Ltd. He is responsible for the overall management of the MIS function and project implementation in support of business strategies and operations. He holds a Bachelor of Science degree from Brighton University, UK as well as Master degree in Computer Science (Data Engineering) from University of Keele, UK.



Directors' Report

The Directors are pleased to submit their report together with the audited accounts for the year ended 31st December, 2000.

GROUP REORGANISATION AND BASIS OF PREPARATION OF ACCOUNTS

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 23rd October, 2000 under the Companies Law (2000 Revision) of the Cayman Islands. Pursuant to a corporate reorganisation to rationalise the group structure in preparation for a listing of the Company's shares on the GEM of the Stock Exchange, the Company became the holding company of the subsidiaries disclosed under note 13 to the accounts on 29th December, 2000.

The Group has been treated as a continuing entity and, accordingly, the accompanying accounts have been prepared on the basis of merger accounting as if the Company had always been the holding company of the Group.

The shares of the Company were listed on the GEM of the Stock Exchange on 18th January, 2001 (the "Listing Date").

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the operation of a chain of convenience stores under the tradename of Circle K in Hong Kong and the Group is preparing for its penetration into the Mainland of China. The Circle K tradename is licenced from The Circle K Stores Inc. of the United States of America.

No activity analysis and geographical analysis is presented as substantially all the Group's turnover and contribution to results were derived from the operation of a chain of convenience stores in Hong Kong.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 49.

The Directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 16 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets during the year are set out in note 12 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 15 to the accounts.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31st December, 2000 are set out in note 13 to the accounts.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares since the Listing Date up to the date of this report. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the same period.

DIRECTORS

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

Dr. FUNG Kwok King, Victor ⁺	(appointed on 3rd January, 2001)
Dr. FUNG Kwok Lun, William ⁺	(appointed on 3rd January, 2001)
Mr. LAU Butt Farn ⁺	(appointed on 3rd January, 2001)
Mr. LI Kwok Ho, Bruno	(appointed on 1st November, 2000)
Mr. YEUNG Lap Bun, Richard	(appointed on 1st November, 2000)
Ms. WONG Yuk Nor, Louisa ⁺	(appointed on 3rd January, 2001)
Dr. CH'IEN Kuo Fung, Raymond*	(appointed on 3rd January, 2001)
Mr. AU Man Chung, Malcolm*	(appointed on 3rd January, 2001)
Mr. Neil T. Cox	(first director and resigned on 1st November, 2000)

⁺ *Non-executive directors*

^{*} *Independent non-executive directors*

In accordance with Articles 86 and 87 of the Company's Articles of Association, all Directors retire and being eligible, offer themselves for re-election.

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

Directors' service contracts

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

Directors' Report (continued)

DIRECTORS (continued)

Save as disclosed, none of the Directors has entered into any service contracts with any 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 Company's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interests in equity or debt securities

As at the date of this report, the interests of each of the directors, chief executives and their associates in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as required to be recorded in the register maintained by the Company pursuant to section 29 of the SDI Ordinance are as follows:

(a) Interests in the Company and certain major associated corporations

Name of the Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Company	Dr. Fung Kwok King, Victor	–	–	467,114,000 (Note 1)	–	467,114,000
Company	Dr. Fung Kwok Lun, William	–	–	467,114,000 (Note 1)	–	467,114,000
Company	Yeung Lap Bun, Richard	17,896,000	–	–	–	17,896,000
Company	Li Kwok Ho, Bruno	2,676,000	–	–	–	2,676,000
Company	Lau Butt Farn	2,676,000	–	–	–	2,676,000
Company	Wong Yuk Nor, Louisa	1,338,000	–	–	–	1,338,000
Company	Dr Ch'ien Kuo Fung, Raymond	1,000,000	–	–	–	1,000,000
Li & Fung (Gemini) Limited	Dr. Fung Kwok King, Victor	–	–	13,000,000 (Note 2)	1,500,000 (Note 4)	14,500,000

DIRECTORS (continued)**Directors' interests in equity or debt securities** (continued)(a) *Interests in the Company and certain major associated corporations* (continued)

Name of the Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Li & Fung (Gemini) Limited	Dr. Fung Kwok Lun, William	–	–	13,000,000 (Note 2)	–	13,000,000
Li & Fung (Distribution) Limited	Dr. Fung Kwok King, Victor	(i) 130,000 (Note 5)	–	(i) 6,800,000 (full voting ordinary shares) (Note 3)	–	7,090,000 (full voting ordinary shares)
		(ii) 160,000 (Note 6)		(ii) 10,200,000 (redeemable participating preferred shares) (Note 3)		10,200,000 (redeemable participating preferred shares)
Li & Fung (Distribution) Limited	Dr. Fung Kwok Lun, William	–	–	(i) 6,800,000 (full voting ordinary shares) (Note 3)	–	6,800,000 (full voting ordinary shares)
				(ii) 10,200,000 (redeemable participating preferred shares) (Note 3)		10,200,000 (redeemable participating preferred shares)
Li & Fung (Distribution) Limited	Lau Butt Farn	32,500 (Note 5)	–	–	–	32,500

Directors' Report (continued)

DIRECTORS (continued)

Directors' interests in equity or debt securities (continued)

(a) *Interests in the Company and certain major associated corporations* (continued)

Name of the Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Li & Fung Limited	Dr. Fung Kwok King, Victor	–	–	1,180,500,000 (Note 7)	50,750,000 (Note 8)	1,231,250,000
Li & Fung Limited	Dr. Fung Kwok Lun, William	68,502,300	8,000 (Note 9)	1,180,500,000 (Note 7)	–	1,249,490,300
		480,000 (Note 10)				
Li & Fung Limited	Lau Butt Farn	2,200,000	–	–	–	2,200,000

Notes:

- King Lun Holdings Limited ("King Lun") through its indirect wholly owned subsidiary, LFR (a wholly owned subsidiary of Li & Fung (1937) Limited ("LF(1937)")) held 467,114,000 shares in the Company. 1,332,840 shares in King Lun, representing 50% of its issued share capital, are owned by Chase Bank & Trust Company (CI) Limited, the trustee of a trust established for the benefit of the family members of Dr. Fung Kwok King, Victor. The remaining 50% of King Lun is owned by Dr. Fung Kwok Lun, William.
- King Lun through its wholly owned subsidiary, LF(1937) held 13,000,000 shares in Li & Fung (Gemini) Limited ("LFG"). Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun and LF(1937) as set out in note (1) above.
- LFG holds 6,800,000 full voting ordinary shares and 10,200,000 redeemable participating preferred shares in Li & Fung (Distribution) Limited ("LFD"). Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun and LF (1937) and indirect interests in LFG as set out in notes (1) & (2) above.
- 1,500,000 shares in LFG, representing 8.83% of its issued share capital, are owned by a company which is held by Chase Bank & Trust Company (CI) Limited.
- In 1999, Dr. Fung Kwok King, Victor and Mr. Lau Butt Farn were granted share options to subscribe for 130,000 and 32,500 full voting ordinary shares of US\$0.01 each in LFD ("LFD Shares") respectively. Of these, options in respect of 56,500 and 13,000 LFD Shares are fully vested in Dr. Fung Kwok King, Victor and Mr. Lau Butt Farn respectively. The remaining share options are to be vested in Dr. Fung Kwok King, Victor and Mr. Lau Butt Farn in three equal lots on 31st December, in each of the calendar years 2001, 2002 and 2003. The share options are exercisable at US\$1 per LFD Share within 21 business days after the earliest of (a) the date of issuance of a notice for an initial public offering of LFD Shares, (b) the date of issuance of a notice of the sale of all or substantially all of the business or shares of LFD and (c) 31st December, 2006.

DIRECTORS (continued)**Directors' interests in equity or debt securities** (continued)*(a) Interests in the Company and certain major associated corporations* (continued)

6. In 1999, Dr. Fung Kwok King, Victor was granted share options to subscribe for 16,000 LFD Shares for each full percentage point by which certain LFD investors' fully diluted aggregate estimated internal rate of return on a public share offer by LFD, or on a sale of all or substantially all of its business or shares, exceeds 30% per annum, subject to a maximum of 160,000 LFD Shares. The share options are exercisable at US\$1 per LFD Share within 21 business days after the date of issuance of a notice of public offer or sale (whichever is earlier) as described in note (5) above.
7. Out of the 1,180,500,000 shares of HK\$0.025 each in Li & Fung Limited ("LF Shares"), holdings of 49,950,800 LF Shares, 996,000,000 LF Shares and 134,549,200 LF Shares are respectively held by King Lun, LF(1937) and Orient Ocean Holdings Limited ("Orient Ocean"). Orient Ocean is a private company incorporated in the British Virgin Islands. LF(1937) held 50% of the voting rights, but no beneficial interests, in Orient Ocean. 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 notes (1) & (2) above.
8. 50,750,000 LF Shares are held by Chase Bank & Trust Company (CI) Limited, the trustee of a trust established for the benefit of the family members of Dr. Fung Kwok King, Victor.
9. 8,000 LF Shares are owned by the wife of Dr. Fung Kwok Lun, William.
10. In 2000, Dr. Fung Kwok Lun, William was granted share options to subscribe for 480,000 LF Shares. The options are exercisable at a subscription price of HK\$15.26 per LF Shares during the period from 7th July, 2001 to 6th July, 2003.

(b) Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William, by virtue of their interests in King Lun and LF (1937) as set out above, have the following indirect interests in other associated corporations of the Company:

Name of corporation	Class and/or descriptions of securities	Present balance
Albinina Limited	Ordinary shares	2
American Discount Store Limited	Ordinary shares	100
Anglo-Thai Company Limited	Ordinary shares	6,859,980
Anglo-Thai Services Limited	(i) Class A shares (ii) Class B shares	(i) 160 (ii) 3,920
Anglo-Thai Tractors Limited	Ordinary shares	499,980
Appleton Holdings Limited	Ordinary share	1
Asiadent Pte Limited	Ordinary shares	200,000

Directors' Report (continued)

DIRECTORS (continued)

Directors' interests in equity or debt securities (continued)

(b) (continued)

Name of corporation	Class and/or descriptions of securities	Present balance
Atarashi Moutrie Sdn Bhd	Ordinary shares	500,000
Auto Electric Limited	Ordinary shares	75,000
B-Trak Sdn Bhd	Ordinary shares	25,000,000
B.G.S. Limited	(i) Ordinary shares	(i) 2,880
	(ii) Preference shares	(ii) 7,120
Bakehouse Company Limited	Ordinary shares	1,748,949
Basic & More Fashion Limited	Ordinary shares	1,000,000
Beldare Enterprises Inc.	Common stock	100
Beldare Enterprises Limited	Ordinary shares	100,000
Black Cat Fireworks Limited	Ordinary shares	1,200,000
Blue Sky Buying Services Limited	Ordinary shares	2
Bomaron Limited	(i) Ordinary shares	(i) 2
	(ii) Non-voting deferred shares	(ii) 10,000
Borneo Agencies Limited	Ordinary shares	2,000
	Preference shares	2,000
Borneo Auto Care Limited	(i) Ordinary shares	(i) 2,000
	(ii) Preference shares	(ii) 2,100
Borneo Investments (Singapore) Pte Limited	Ordinary shares	4
Borneo Technical (Thailand) Limited	(i) Ordinary shares	(i) 16,000
	(ii) Preference shares	(ii) 2,010

DIRECTORS (continued)**Directors' interests in equity or debt securities** (continued)

(b) (continued)

Name of corporation	Class and/or descriptions of securities	Present balance
Borneo Technical Co (M) Sdn Bhd	Ordinary shares	4,231,002
Bosca Development Limited	Ordinary shares	2
Branded Lifestyle International Limited	Ordinary share	1
Butler & Webster (Thailand) Limited	Ordinary shares	100,000
Camberley Enterprises Limited	Ordinary shares	250,000
Canathan Inc	Ordinary shares	8,750
Circle K - Amazens Retalhistas (Macau) Limitada	Quotas	2 (Note A)
Circle K Convenience Stores (PRC) Limited	Ordinary share	1
Circle K Convenience Stores (HK) Limited	Ordinary shares	183,756
Circle K Convenience Stores Limited	Ordinary shares	10,000
Convenience Retail Asia (BVI) Limited	Ordinary shares	10,000
Cornerstone Enterprises Limited	Ordinary shares	10,000
Costume Limited	Ordinary shares	2
Dephina Limited	Ordinary shares	10,000
Dodwell (Korea) Limited	Ordinary shares	500
Dodwell (Mauritius) Limited	Ordinary A shares	300
Dodwell (Singapore) Pte Limited	Ordinary shares	200

Directors' Report (continued)

DIRECTORS (continued)

Directors' interests in equity or debt securities (continued)

(b) (continued)

Name of corporation	Class and/or descriptions of securities	Present balance
Dodwell (Taiwan) Limited	Ordinary shares	1,150
Dodwell (Thailand) Limited	(i) Ordinary shares (ii) Preference shares	(i) 5,000 (ii) 15,000
Dodwell Japan KK	Shares of common stock	14,800
Dodwell Limited	Ordinary shares	2
Dodwell Philippines, Inc.	Ordinary shares	150,000
E-Foremost Management Limited	Ordinary share	1
eLiFung.Com Limited	Ordinary shares	2
Ellinwood Limited (incorporated in B.V.I.)	Ordinary share	1
Ellinwood Limited (incorporated in Hong Kong)	Ordinary shares	2
Exportacao Dodwell (Macau) Limitada	Quotas	8 (Note B)
Ferragamo Korea Limited	Ordinary shares	658,240
Ferrinch (L) Limited	Class B shares	2,250,000
Filmax Far East Limited	Ordinary shares	2
Forrestgrove Limited	Ordinary shares	2
Fotokwik Limited	Ordinary shares	2
Fotomax (F.E.) Limited	Ordinary shares	1,000,000

DIRECTORS (continued)**Directors' interests in equity or debt securities** (continued)

(b) (continued)

Name of corporation	Class and/or descriptions of securities	Present balance
Fotomax Holdings Limited	Ordinary shares	21,823,333
Fotomax Home Entertainment Limited	Ordinary shares	1,000
Fotomax Limited	Ordinary shares	2
Fun Fun World (Hong Kong) Limited	Ordinary shares	2
Fun Fun World Investment Limited	Ordinary shares	70
G.S.C.M. (Marketing) Limited	Ordinary shares	50,000
Gibb, Livingston & Company Limited	Ordinary shares	26,600
Gilman & Company Limited	Ordinary shares	100,000
Gilman Industrial Limited	(i) Ordinary shares (ii) Non-voting deferred shares	(i) 610,050 (ii) 175,000
Golden Gate Fireworks Inc.	Common stock	8,000
Golden Horn (III) L.P. (Partnership)	Contribution	US\$100
Golden Horn Investments (Europe) Limited	Ordinary shares	75
Golden Horn Investments Inc.	Ordinary shares	75
Golden Horn N.V.	Ordinary shares	61
Golden Horn Venture Capital Limited	Ordinary shares	40,000

Directors' Report (continued)

DIRECTORS (continued)

Directors' interests in equity or debt securities (continued)

(b) (continued)

Name of corporation	Class and/or descriptions of securities	Present balance
GSCM (HK) Limited	Ordinary shares	1,400
Hefei Dodwell Machinery Company Limited *合肥道特威爾機械有限公司	Registered capital	US\$800,000
Hillung Enterprises Limited	Ordinary shares	30,000
Home Mart Limited	Ordinary shares	2
Homeworks Limited	Ordinary shares	2
Hua Mark Patana Limited	Ordinary shares	1,000
IDS Logistics (Hong Kong) Limited	Ordinary shares	10,000
IDS Logistics (Thailand) Limited	Ordinary shares	1,215,000
IDS Logistics Services (M) Sdh Bhd	Ordinary shares	2,000,000
IDS Logistics Services Pte Limited	Ordinary shares	28,296,962
IDS Logistics, Inc.	Ordinary shares	50,003
iLiFung.Com Limited	Ordinary shares	2
iSCM Asia Limited	Ordinary shares	2
iSCM Asia Pte Limited	Ordinary shares	2
JDH (China) Limited	Ordinary shares	400,000
JDH (Hong Kong) Limited	Ordinary shares	2,000,000

DIRECTORS (continued)**Directors' interests in equity or debt securities** (continued)

(b) (continued)

Name of corporation	Class and/or descriptions of securities	Present balance
JDH (Nanjing) Development Company Limited *南京英和發展有限公司	Registered capital	US\$800,000
JDH (Nanjing) Investment Enterprise Limited *英和(南京)投資實業有限公司	Registered capital	US\$3,000,000
JDH (Philippines), Inc.	Ordinary shares	500,000
JDH (Taiwan) Limited	Ordinary shares	2
JDH Borneo (Thailand) Limited	(i) Ordinary shares (ii) Preference shares	(i) 160,000 (ii) 55,000
JDH Borneo Sdn Bhd	Ordinary shares	2,100,000
JDH Dental Sdn Bhd	Ordinary shares	150,000
JDH Investments (S) Pte Limited	Ordinary shares	2,360
JDH John Brothers (Malaysia) Sdn Bhd	Ordinary shares	2,875,001
JDH Jong Brothers (B) Sdn Bhd	Ordinary shares	2
JDH Logic-Med Sdn Bhd	Ordinary shares	165,000
JDH Marketing (Singapore) Pte Limited	(i) Ordinary shares (ii) Preference shares	(i) 300,000 (ii) 60,000
JDH Marketing Sdn Bhd	Ordinary shares	2,000,000
JDH Pharmaceutical Sdn Bhd	Ordinary shares	400,000
JDH Special Markets Limited	Ordinary shares	1,000

Directors' Report (continued)

DIRECTORS (continued)

Directors' interests in equity or debt securities (continued)

(b) (continued)

Name of corporation	Class and/or descriptions of securities	Present balance
Kijpinyo Company Limited	Ordinary shares	980
Kingfort Limited	Ordinary shares	2
Kingsbury International Limited	Ordinary shares	2
Kistor Limited	Class A shares	9,000
Kuching Hotels Sdn Bhd	Ordinary shares	34,799,303
Kwikpart (Thailand) Limited	(i) Ordinary shares	(i) 24,500
	(ii) Preference shares	(ii) 25,500
Kwikpart Holdings Limited	Ordinary share	1
Kwikpart Sdn Bhd	Ordinary shares	350,000
Kwikpart Singapore Pte Limited	Ordinary shares	278,600
Kwok Yue Limited	Ordinary shares	100
L&F Branded Lifestyle (Malaysia) Sdn Bhd	Ordinary shares	12,000,000
L&F Branded Lifestyle (Singapore) Pte Limited	Ordinary shares	500,000
L&F Branded Lifestyle International Limited	Ordinary share	1
L&F Industrial (Singapore) Pte Limited	Ordinary shares	4,000,000
L.F. Europe	Ordinary shares	1,500

DIRECTORS (continued)**Directors' interests in equity or debt securities** (continued)

(b) (continued)

Name of corporation	Class and/or descriptions of securities	Present balance
LF Capital (II) Limited	Class A shares	110
	Class B shares	115
LF Capital Management Limited	Ordinary share	1
LF Corporate Capital (I) Limited	Ordinary share	1
LF Distribution Centers Limited	Ordinary shares	750,000
LF DistriCenters Development Limited	Ordinary shares	2
LF Europe Limited	Ordinary share	1
LF Europe Sourcing Limited	Ordinary shares	80
LF Europe Sourcing Tekstil Ticaret Limited Sirketi (formerly known as Europe Sourcing Tekstil Tic. Limited Sirketi)	Ordinary shares	640
LF Europe Sourcing Tekstil Ve Dis Ticaret Limited Sirketi (formerly known as Europe Sourcing Tekstil Ve Dis Tic. Limited Sirketi)	Ordinary shares	80
LF European Capital Limited	Ordinary share	1
LF Industrial Estates Limited	(i) Class A shares	(i) 67,500,000
	(ii) Class B shares	(ii) 11,500,000
LF International Inc.	Common stock	202
LF International Limited	Ordinary shares	50,000

Directors' Report (continued)

DIRECTORS (continued)

Directors' interests in equity or debt securities (continued)

(b) (continued)

Name of corporation	Class and/or descriptions of securities	Present balance
LF Maclaine (Thailand) Limited	Ordinary shares	40,000
LFC Holdings Limited	Ordinary shares	400,000
LFCF Investment I (Europe) Limited	Ordinary share	1
LFCF Investment I (USA) Limited	Ordinary share	1
LFD (China) Limited	Ordinary shares	2,000
LFD (Singapore) Pte Limited	Ordinary shares	163,714,597
LFD (Thailand) Limited	Ordinary shares	655,000
LFD Corporate Services Sdn Bhd	Ordinary shares	14,231,002
LFD Holdings Sdn Bhd	Ordinary shares	118,000,002
LFD Investment Holdings Limited	Ordinary shares	44,150
LFD Malaysia (Holdings) Sdn Bhd	Ordinary shares	40,000,000
LFD Manufacturing Limited <i>(incorporated in Hong Kong)</i>	Ordinary shares	3,000
LFD Manufacturing Limited <i>(incorporated in Thailand)</i>	Ordinary shares	4,695,000
LFD Manufacturing Sdn Bhd	Ordinary shares	3,000,000
LFD Properties Limited	Ordinary shares	2
LFD Services Limited	Ordinary shares	3,762,000
LFD Technical Services Limited	Ordinary share	1

DIRECTORS (continued)**Directors' interests in equity or debt securities** (continued)

(b) (continued)

Name of corporation	Class and/or descriptions of securities	Present balance
LFD – Online Sdn Bhd	Ordinary shares	2
LFIE Management (BVI) Limited	Ordinary shares	1,000
LFIE Management Limited	Ordinary shares	1,000
Li & Fung (B.V.I.) Limited	Ordinary shares	400,010
Li & Fung (Bangladesh) Limited	Ordinary shares	100
Li & Fung (Canada) Inc.	Common shares	100
Li & Fung (Exports) Limited	(i) Non-voting deferred shares (ii) Ordinary shares	(i) 8,600 (ii) 10
Li & Fung (Fashion Accessories) Limited	(i) Ordinary A shares (ii) Ordinary B shares	(i) 30,000 (ii) 30,000
Li & Fung (Guatemala) S.A.	Common shares	5
Li & Fung (Honduras) Limited	Nominative common shares	250
Li & Fung (Hong Kong) Limited	Ordinary shares	5,500
Li & Fung (India) Private Limited	Equity shares	6,400,020
Li & Fung (Italia) S.r.l.	Units	90
Li & Fung (Korea) Limited	Common stock	40,000
Li & Fung (Mauritius) Limited	Class “A” shares	750
Li & Fung (Philippines) Inc.	Ordinary shares	5,000
Li & Fung (Portugal) Limited	Ordinary shares	100

Directors' Report (continued)

DIRECTORS (continued)

Directors' interests in equity or debt securities (continued)

(b) (continued)

Name of corporation	Class and/or descriptions of securities	Present balance
Li & Fung (Properties) Limited	Ordinary shares	10,000
Li & Fung (Retailing) Limited	Ordinary shares	2,513,212
Li & Fung (Singapore) Pte Limited	Ordinary shares	25,000
Li & Fung (South Asia) Limited	Ordinary shares	2
Li & Fung (Taiwan) Limited	Ordinary shares	6,300,000
Li & Fung (Thailand) Limited	Ordinary shares	1,200,000
Li & Fung (Trading) Limited	(i) Ordinary shares (ii) Non-voting deferred shares	(i) 2 (ii) 100,000
Li & Fung (Warehousing) Limited	Ordinary shares	2
Li & Fung (Zhanjiang) Limited *利豐(湛江)商品開發有限公司	Registered capital	US\$1,999,055
Li & Fung Agencia de Compras em Portugal, Limitada	Quotas	2 (Note C)
Li & Fung Apparel (North America) Limited	Ordinary shares	100
Li & Fung China Investments Limited	Ordinary shares	1,076,000
Li & Fung Development (China) Limited (formerly known as Hinchinbrook Limited)	Ordinary shares	2
Li & Fung Development (PRC) Limited	Ordinary share	1

DIRECTORS (continued)**Directors' interests in equity or debt securities** (continued)

(b) (continued)

Name of corporation	Class and/or descriptions of securities	Present balance
Li & Fung Development Limited	Ordinary shares	2
Li & Fung Distribution (Asia) Limited	Ordinary share	1
Li & Fung Distribution (China) Limited	Ordinary share	1
Li & Fung Distribution (International) Limited	Ordinary share	1
Li & Fung Distribution (Malaysia) Limited	Ordinary share	1
Li & Fung Distribution (Management) Limited	Ordinary shares	2
Li & Fung Distribution (Overseas) Sdn Bhd	Ordinary shares	2
Li & Fung Distribution (Singapore) Limited	Ordinary shares	50,000
Li & Fung Enterprise Development (Shenzhen) Company Limited *利豐實業發展(深圳)有限公司	Registered capital	HK\$10,000,000
Li & Fung Foods Company Limited	Ordinary shares	10,000
Li & Fung IDS Logistics Limited	Ordinary shares	24,000,000
Li & Fung Industrial Holdings Limited	Ordinary shares	9,400,000
Li & Fung Industrial Limited	(i) Ordinary shares (ii) Non-voting deferred shares	(i) 2 (ii) 80,000,000

Directors' Report (continued)

DIRECTORS (continued)

Directors' interests in equity or debt securities (continued)

(b) (continued)

Name of corporation	Class and/or descriptions of securities	Present balance
Li & Fung Investments (B.V.I.) Limited	Ordinary share	1
Li & Fung JDH Healthcare Limited	Ordinary shares	2
Li & Fung JDH Limited	(i) Ordinary shares (ii) Non-voting deferred shares	(i) 50 (ii) 1,500,000
Li & Fung Management Services Limited	Ordinary shares	100
Li & Fung Marketing (Hong Kong) Limited	Ordinary shares	2
Li & Fung Marketing Services Limited	Ordinary shares	20,887,323
Li & Fung Mumessillik, Pazarlama Limited Sirketi	Ordinary shares	24
Li & Fung Pacific Holdings Limited	Ordinary shares	25,371,016
Li & Fung Packaging Limited	Ordinary shares	5,000
Li & Fung Retailing (Malaysia) Sdn Bhd	Ordinary shares	2
Li & Fung Retailing (Singapore) Pte Limited	Ordinary shares	2
Li & Fung South Africa (Proprietary) Limited	Ordinary shares	100
Li & Fung Taiwan Holdings Limited	Ordinary shares	287,996,000

DIRECTORS (continued)**Directors' interests in equity or debt securities** (continued)

(b) (continued)

Name of corporation	Class and/or descriptions of securities	Present balance
Li & Fung Taiwan Investments Limited	Ordinary shares	4,912,180
Lifung County Seat Limited	Ordinary shares	2
Lifung DistriCenters Management Limited	Ordinary shares	3
Lifung DistriCenters Trading Limited	Ordinary shares	10,000
Lifung Express Limited	(i) Ordinary A share (ii) Ordinary B share	(i) 1 (ii) 1
Lifung Structure Limited	Ordinary shares	2
LiFung.Com Limited	Ordinary shares	2
Lloyd Textile Trading Limited	Ordinary shares	1,000,000
Luma Trading Limited	Ordinary shares	60
Lux Plush Enterprises Limited	Ordinary shares	250,000
Maclaine (Singapore) Pte Limited	Ordinary shares	25,000
Maclaine Limited	Ordinary shares	557,015
Malinch Associate Holdings Sdn Bhd	Ordinary shares	22,000,000
Manling Property Limited	Ordinary shares	11,000,002
Mercury (BVI) Holdings Limited	Ordinary share	1
Millwork Asia, Limited	Ordinary shares	1,000
Ming Yu Superstore Limited	Ordinary shares	10,000

Directors' Report (continued)

DIRECTORS (continued)

Directors' interests in equity or debt securities (continued)

(b) (continued)

Name of corporation	Class and/or descriptions of securities	Present balance
Moda Lifestyle Limited	(i) Ordinary shares	(i) 491
	(ii) Preference shares	(ii) 49,510
Moutrie Trading Sdn Bhd	Ordinary shares	10,000,000
N.E.A.L. Incorporated N.V.	Ordinary B shares	4,800
Nanjing JDH Logistics Services Company Limited *南京英和倉儲服務有限公司	Registered capital	US\$2,000,000
Nanjing JDH Trading Company Limited *南京英和貿易有限公司	Registered capital	RMB2,850,000
Nanjing Li & Fung JDH Trading Company Limited *南京利豐英和商貿有限公司	Registered capital	US\$4,900,000
Neptune Pacific Limited	Ordinary share	1
New Investment Corporation	Ordinary shares	4,071
Nice Image Limited	Ordinary shares	2
Northpoint Properties Sdn Bhd	Ordinary shares	2
Orient City Properties Limited	Ordinary shares	2
Orient Ocean Holdings Limited	Class A share	1
Orient Overseas Foods Limited	Ordinary shares	2
P.T. Lifung Indonesia	Ordinary shares	250

DIRECTORS (continued)**Directors' interests in equity or debt securities** (continued)

(b) (continued)

Name of corporation	Class and/or descriptions of securities	Present balance
Pembangunan Jentera Perindustrian Sdn Bhd (In Creditors' Voluntary Liquidation)	Ordinary shares	470,003
Perfect Trading Inc.	Ordinary shares	1,500
PKNS-LFD Sdn Bhd	Ordinary shares	7,350,000
Pottrix Trading Limited	Ordinary share	1
Product Network Asia Limited (formerly known as Biostreet Limited)	Ordinary shares	2
Promising Development Limited	Ordinary shares	2
Prosper Development Limited	Ordinary shares	2
Ratners Enterprises Limited	Ordinary share	1
Romanov Company Limited	Ordinary shares	2
Sandakan Developments Sdn Bhd	Ordinary shares	210,000
Sebor (Sabah) Marketing & Services Sdn Bhd	Ordinary shares	9,850,000
Sebor (Sabah) Sdn Bhd	Ordinary shares	4,400,000
Sebor (Sarawak) Sdn Bhd	Ordinary shares	3,801,334
Shanghai IDS Distribution Company Limited *上海英利物流有限公司	Registered capital	US\$3,100,000

Directors' Report (continued)

DIRECTORS (continued)

Directors' interests in equity or debt securities (continued)

(b) (continued)

Name of corporation	Class and/or descriptions of securities	Present balance
Shanghai IDS Shen Hong Logistics Company Limited *上海英和申宏商業服務有限公司	Registered capital	US\$4,000,000
Shanghai Land-Ocean IDS International Container Transport Company Limited *上海陸海英之傑國際集裝箱貨運有限公司	Registered capital	RMB19,915,000
Shanghai New Asia Inchcape Business System Company Limited *上海新亞英之傑信息工程有限公司	Registered capital	US\$300,000
Shanghai Orient Overseas Foods Limited *上海東方海外食品有限公司	Registered capital	US\$5,000,000
Shiu Fung Fireworks Company Limited	(i) Ordinary A shares (ii) Ordinary B shares	(i) 11,000 (ii) 11,000
Sichling B.V.	Ordinary shares	50
Slumberland (M) Sdn Bhd	Ordinary shares	2,000,000
Slumberland (S) Pte Limited	Ordinary shares	400,000
Slumberland (Thailand) Limited	(i) Ordinary shares (ii) Preference shares	(i) 4,900 (ii) 5,100
Slumberland Asia Pacific Limited	Ordinary share	1
Slumberland China Limited	Ordinary shares	500,000

DIRECTORS (continued)**Directors' interests in equity or debt securities** (continued)

(b) (continued)

Name of corporation	Class and/or descriptions of securities	Present balance
Slumberland Harbin Company Limited *斯林百蘭哈爾濱有限公司	Registered capital	RMB3,278,000
Slumberland Marketing Sdn Bhd	Ordinary shares	2
Slumberland Soft Furniture Shanghai Company Limited *上海斯林百蘭軟傢俱有限公司	Registered capital	US\$1,100,000
Strategic Assets Limited	Ordinary share	1
Studio Direct Limited	Ordinary shares	2
Studio LF, L.P. (Partnership)	Capital contribution	US\$56,148,954
Swift Return Investments Limited	Ordinary share	1
T-T Martech Sdn Bhd	Ordinary shares	80,000
Tantallon Enterprises Limited	Ordinary share	1
Thai Greyfin Limited	(i) Ordinary shares (ii) Preference shares	(i) 380,000 (ii) 400,000
The Borneo Company (Sabah) Sdn Bhd	Ordinary shares	7,500,000
The Borneo Company Limited	Ordinary shares	4,553,300
The Borneo Company Pte Limited	Ordinary shares	8,836,152
The Millwork Trading Company Limited	(i) 9.5% preferred stock (ii) Common stock	(i) 17 (ii) 100

Directors' Report (continued)

DIRECTORS (continued)

Directors' interests in equity or debt securities (continued)

(b) (continued)

Name of corporation	Class and/or descriptions of securities	Present balance
Toy Island (USA) Inc.	Common shares	100
Toy Island Manufacturing Company Limited	Ordinary shares	6,200,000
Toys "R" Us (Malaysia) Sdn Bhd	Ordinary shares	8,400,000
Toys "R" Us – Lifung Limited	Ordinary shares	28,000,000
Toys "R" Us – Lifung Taiwan Limited	Ordinary shares	34,000,000
Toys "R" Us – Singapore (Pte) Limited	Ordinary shares	4,000,000
Toys "R" Us Asia Limited	Ordinary shares	2
Toys (Labuan) Holding Limited	Ordinary share	1
Toys (Labuan) Limited	Ordinary shares	9,244,447
Toys LiFung Limited	Ordinary shares	2
Toys Lifung Netherlands B.V.	Ordinary shares	182
Trademart Wholesale Limited	(i) Class A shares (ii) Class B shares	(i) 255,000 (ii) 200,000
Turbo Dragon Trading Limited (formerly known as Li & Fung Development (China) Limited)	Ordinary shares	2
Verity Enterprises Limited	Ordinary shares	200,000
Viagold International Limited	Ordinary share	1
Web-Logistic (HK) Limited	Ordinary shares	12,792,000
Win Certain Limited	Ordinary shares	2
Workbase Limited	Ordinary shares	2

* *the legal name of the relevant company is in Chinese*

DIRECTORS (continued)

Directors' interests in equity or debt securities (continued)

(b) (continued)

Notes :

- A. 2 quotas in issue comprising 1 quota of Patacas 9,000 and 1 quota of Patacas 1,000.
- B. 8 quotas in issue comprising:
- 1 quota of Patacas 69,000
 - 1 quota of Patacas 5,000
 - 1 quota of Patacas 5,000
 - 1 quota of Patacas 1,000
 - 1 quota of Patacas 5,000
 - 1 quota of Patacas 5,000
 - 1 quota of Patacas 5,000
 - 1 quota of Patacas 5,000
- C. 2 quotas in issue comprising 1 quota of Portuguese Escudo 19,980,000 and 1 quota of Portuguese Escudo 20,000

(c) The list of associated corporations in paragraph (b) above is expected to be augmented to include the following companies upon completion of an agreement dated 8th November, 2000 between Li & Fung Limited (a major associated corporation of the Company as disclosed in paragraph (a)) and other parties for the former's acquisition of all the issued shares of Colby Group Holdings Limited:

Colby International Limited
Colby Property Holdings Limited
Colby Group Holdings Limited
CS International Limited
CS International (Offshore) Limited
Epiquest Limited
Mighty Hurricane Holdings Inc
International Sourcing Group Europe Limited
Active Islands Group Limited
Allegreto Company Limited
Bacarolle Limited
Colby International (Guatemala) Sociedad Anonima
CS Asia Limited
Cuore Limited
Eclat Properties Inc.
International Sourcing Group, LLC
Lineament Company Limited
Sky Million International Limited
Towards Perfect Company Limited
Yau Kit Company Limited
Colby Nominees Limited

Directors' Report (continued)

DIRECTORS (continued)

Directors' interests in equity or debt securities (continued)

Save as disclosed above, as at the date of this report, no directors, chief executives, or any of their associates had any interests in any equity or debt securities of the Company or any of its associated corporations.

Directors' benefits from rights to acquire shares or debentures

Pursuant to a share option scheme approved by the shareholders of the Company on 6th January, 2001, the board of Directors may, at its discretion, invite any full-time employees of the Group (including executive Directors) to subscribe for shares in the Company subject to the terms and conditions stipulated therein. No options have been granted to the executive Directors up to the date of this report.

Saved as disclosed in the section headed "Directors' interests in equity or debt securities" and apart from the above, at no time during the year and up to the date of this report was the Company, its holding companies, its fellow subsidiaries or its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

The Company's shares were not yet traded on the GEM of the Stock Exchange as at 31st December, 2000. As at the date of this report, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance showed that LFR held 467,114,000 shares in the Company. Other than such interests and those as disclosed in the section headed "Directors' interests in equity or debt securities" above, the Company has not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital.

SPONSOR'S INTEREST

None of the Company's sponsor, BNP Paribas Peregrine Capital Limited (the "Sponsor"), its directors, employees or associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 31st December, 2000.

Pursuant to the agreement dated 9th January, 2001 entered into between the Company and the Sponsor, the Sponsor will receive usual sponsorship fees for acting as the Company's retained sponsor for the period from 18th January, 2001 to 31st December, 2003.

CONNECTED TRANSACTIONS

During the financial year ended 31st December, 2000, the Group had various transactions with related parties (details are set out in pages 68 and 69). Some of these transactions, as set out below, are expected to continue on an on-going basis following the listing of the Company's shares on the GEM of the Stock Exchange on 18th January, 2001 and will constitute non-exempt connected transactions of the Company:

	<i>HK\$'000</i>
1. Services agreement with LFR (<i>note 1</i>)	10,898
2. Purchase of products from JDH (Hong Kong) Limited (<i>note 2</i>)	8,850
3. Provision of photofinishing services by Nice Image Limited (<i>note 3</i>)	2,055
4. The Circle K (HK) lease (<i>note 4</i>)	696
5. The Web-Logistic (HK) lease (<i>note 5</i>)	426

Notes:

- This refers to the provision by LFR to Circle K (HK) of services relating to finance and accounting, management information systems, human resources, real estate and other administrative support. Circle K (HK) has also reimbursed LFR for utility expenses, insurance premiums and other office or administrative expenses which are paid by LFR on behalf of Circle K (HK).
- This refers to the purchase of various products (being both food and non-food products) by Circle K (HK) from JDH (Hong Kong) Limited, an indirect subsidiary of Li & Fung (1937) Limited which has an effective interest in it of 51.74%, on its standard terms of business.
- This refers to the provision of photo-finishing services by Nice Image Limited, a subsidiary of LFR, to Circle K (HK) on its ordinary trade terms.
- This refers to the lease payment from Circle K (HK) to Bomaron Limited, an indirect subsidiary of LF (1937) Limited for a portion of 5th Floor, LiFung Centre, 2 On Ping Street, Siu Lek Yuen, Shatin, New Territories, Hong Kong with a gross floor area of 20,723 sq.ft.. Such premises are used as an office-cum-workshop.
- This refers to the lease payment from Web-Logistic (HK) to Bomaron Limited, an indirect subsidiary of LF (1937) Limited for a portion of 5th Floor LiFung Centre, 2 On Ping Street, Siu Lek Yuen, Shatin, New Territories, Hong Kong with a gross floor area of 12,667 sq.ft.. Such premises are used as an office-cum-workshop.

A waiver from full compliance with the announcement and shareholders' approval requirements of the GEM Listing Rules in respect of the continual conduct of the above transactions ("Waiver Transactions") has been granted by the Stock Exchange on 17th January, 2001, subject to such terms and conditions as set out in the grant ("Waiver") (details of which are set out in the prospectus of the Company dated 9th January, 2001).

The independent non-executive Directors confirmed that the services agreement with LFR has been entered into on arm's length terms, the purchase of products from JDH (Hong Kong) Limited has been entered into on terms no less favourable to the Group than terms available to independent third parties, and the remaining Waiver Transactions have been entered into on normal commercial terms, and each of the Waiver 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.

CONNECTED TRANSACTIONS (continued)

Pursuant to the terms of the Waiver, approval will be sought for from the independent shareholders for the services agreement with LFR and the purchase of products from JDH (Hong Kong) Limited (items 1 and 2 above) and the maximum size at which these two transactions may be conducted for the financial year 2001 at the forthcoming annual general meeting of the Company. In this respect, LFR and its associates (as defined in the GEM Listing Rules) will abstain from voting at the annual general meeting in respect of the resolutions relating to these two transactions. Mr. Lau Butt Farn and his associates (as defined in the GEM Listing Rules) will abstain from voting at the annual general meeting in respect of the resolution relating to the transaction with JDH (Hong Kong) Limited. The independent non-executive Directors have confirmed that they are of the opinion that the Group should continue with the services agreement with LFR and the purchase of products from JDH (Hong Kong) Limited in the financial year ending 31st December, 2001.

MANAGEMENT CONTRACTS

No contracts of significance for the provision of services to the Group by a controlling shareholding or its subsidiaries were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

– the largest supplier	9%
– five largest suppliers combined	31%

None of the Directors, their associates or any shareholders of the Company which to the knowledge of the Directors own more than 5% of the issue 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 5 largest customers.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 of the Listing Rules, since listed on the GEM of the Stock Exchange.

AUDIT COMMITTEE

The Company has established an audit committee on 6th January, 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises three members, namely Dr. Ch'ien Kuo Fung, Raymond, Mr. Au Man Chung, Malcolm, (being the independent non-executive Directors) and Mr. Lau Butt Farn (being a non-executive Director). The chairman of the audit committee is Dr. Ch'ien Kuo Fung, Raymond.

AUDIT COMMITTEE (continued)

The audit committee met once in March 2001 in conjunction with the auditors to review the accounts of the Group for the year ended 31st December, 2000 prior to recommending such accounts to the board of the Directors for approval.

AUDITORS

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

On behalf of the Board
Fung Kwok King, Victor
Chairman

Hong Kong, 14th March, 2001

Auditors' Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor
Prince's Building
Central
Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888

AUDITORS' REPORT TO THE SHAREHOLDERS OF CONVENIENCE RETAIL ASIA LIMITED

(incorporated in Cayman Islands with limited liability)

We have audited the accounts set out on pages 49 to 69 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14th March, 2001

Consolidated Profit and Loss Account

For the year ended 31st December 2000

	<i>Note</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Turnover	3	1,140,671	972,921
Cost of sales		<u>(856,611)</u>	<u>(736,290)</u>
Gross profit		284,060	236,631
Other revenues	3	71,621	59,371
Store expenses		(249,956)	(236,055)
Distribution costs		(17,390)	(12,214)
Administrative expenses		(36,921)	(32,150)
Other operating income		<u>480</u>	<u>–</u>
Operating profit	4	51,894	15,583
Finance costs	5	<u>(4,106)</u>	<u>(8,980)</u>
Profit for the year		47,788	6,603
Minority interests		<u>331</u>	<u>–</u>
Profit attributable to shareholders	7&16	<u><u>48,119</u></u>	<u><u>6,603</u></u>
Basic earnings per share	8	<u><u>9.8 cents</u></u>	<u><u>1.3 cents</u></u>

Apart from the profit as shown above, there are no other recognised gains and losses for the year. Accordingly, no separate statement of recognised gains and losses is presented.

Consolidated Balance Sheet

As at 31st December, 2000

	<i>Note</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Intangible assets	<i>11</i>	331	409
Fixed assets	<i>12</i>	50,098	43,763
Current assets			
Inventories, at cost		35,554	29,825
Rental deposits		21,426	20,750
Accounts receivable		23,131	25,313
Other deposits and prepayments		16,133	6,681
Bank balances and cash		114,896	13,102
		<u>211,140</u>	<u>95,671</u>
Current liabilities			
Amount due to immediate holding company	<i>14</i>	1,267	112
Trade payable		192,882	142,032
Other payables and accruals		25,131	30,986
Current portion of long term loans	<i>17</i>	850	1,700
Short term bank loans	<i>18</i>	–	108,000
Bank overdrafts	<i>18</i>	–	6,844
		<u>220,130</u>	<u>289,674</u>
Net current liabilities		<u>(8,990)</u>	<u>(194,003)</u>
		<u>41,439</u>	<u>(149,831)</u>
Financed by:			
Share capital	<i>15</i>	6,769	5,856
Reserves	<i>16</i>	32,673	(205,325)
Surplus/(deficit) on shareholders' funds		39,442	(199,469)
Minority interests		1,997	–
Long term loans	<i>17</i>	–	49,638
		<u>41,439</u>	<u>(149,831)</u>

On behalf of the Board

Fung Kwok King, Victor
Director

Yeung Lap Bun, Richard
Director

Balance Sheet

As at 31st December, 2000

	<i>Note</i>	2000 <i>HK\$'000</i>
Investment in subsidiaries	<i>13</i>	15,153
Current asset		
Prepayments		----- 6,553
Current liability		
Accruals		----- 2,174
Net current assets		----- 4,379 -----
		<u>19,532</u>
Financed by:		
Share capital	<i>15</i>	6,769
Reserve	<i>16</i>	12,792
Loss for the year		----- (29) -----
Shareholders' funds		<u>19,532</u> <u>-----</u>

On behalf of the Board

Fung Kwok King, Victor
Director

Yeung Lap Bun, Richard
Director

Consolidated Cash Flow Statement

For the year ended 31st December, 2000

	<i>Note</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Net cash inflow from operating activities	20(a)	101,205	46,762
Returns on investments and servicing of finance			
Interest received		2,187	127
Interest paid		(4,106)	(8,980)
Net cash outflow from returns on investments and servicing of finance		(1,919)	(8,853)
Investing activities			
Purchase of fixed assets		(25,760)	(31,816)
Proceeds from disposal of fixed assets		–	16
Net cash outflow from investing activities		(25,760)	(31,800)
Net cash inflow before financing		73,526	6,109
Financing	20(b)		
Loans from immediate holding company and capitalised during the year		91,704	9,000
Increase in share capital of a subsidiary before reorganisation		50,300	–
Capital contribution from a minority shareholder		2,808	–
Repayment of other loans		(1,700)	–
Net cash inflow from financing activities		143,112	9,000
Increase in cash and cash equivalents		216,638	15,109
Cash and cash equivalents at 1st January		(101,742)	(116,851)
Cash and cash equivalents at 31st December		114,896	(101,742)
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		114,896	13,102
Bank loans and overdrafts		–	(114,844)
		114,896	(101,742)



Notes to the Accounts

1. GROUP REORGANISATION AND BASIS OF PREPARATION

- (a) The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Laws (2000 Revision) of the Cayman Islands on 23rd October, 2000.
- (b) On 29th December, 2000, pursuant to a group reconstruction to rationalise the structure of the Group in preparation for the new listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group. The Company issued 131,120,000 shares and 32,780,000 shares of HK\$0.10 each at a price of HK\$1.15 to the public in form of placing and public offer respectively in mid January 2001 and has its shares listed on the Stock Exchange on 18th January, 2001.
- (c) The corporate reorganisation referred to above has been reflected in the accounts by regarding the Group, which comprises the Company and its subsidiaries, as a continuing entity. Accordingly, the group accounts have been prepared on the basis of merger accounting as if the Company had been the holding company of the Group throughout the accounting periods presented. All significant inter-company transactions and balances within the Group have been eliminated. The difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the shares issued by the Company as consideration thereof is regarded as a merger reserve included in the shareholders' equity of the Group.
- (d) No balance sheet of the Company as at 31st December, 1999 is presented in the accounts as the Company was not incorporated on that date.
- (e) The accounts have been prepared under the historical cost convention in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Consolidation

The Group accounts include the accounts of the Company and its subsidiaries made up to 31st December. The results of subsidiaries acquired or disposed of during the year are included as from their effective date of acquisition or up to the effective date of disposal, as appropriate.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Consolidation (continued)

In the company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Revenue recognition

- (i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered to customers and the title has passed.
- (ii) Rebate income is recognised on an accrual basis.
- (iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (iv) Revenue from provisions of services is recognised when the services are rendered.

(c) Intangible assets

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

(d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation.

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

Equipment, furniture and fixtures	10% to 33 1/3%
Motor vehicles	25%

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

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Fixed assets (continued)

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

(e) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(f) Inventories

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

(g) Accounts receivable

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet is stated net of such provision.

(h) Translation of foreign currencies

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

(i) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or receivable in the foreseeable future.

(j) Retirement benefit costs

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

Notes to the Accounts (continued)

3. REVENUE AND TURNOVER

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

	2000	Group
	<i>HK\$'000</i>	<i>1999</i>
		<i>HK\$'000</i>
Turnover		
Merchandise sales revenue	1,094,986	924,370
Bakery sales revenue	44,799	48,551
E-fulfillment service income	886	–
	<u>1,140,671</u>	<u>972,921</u>
Other revenues		
Rebate income	62,944	55,954
Interest income	2,187	127
Others	6,490	3,290
	<u>71,621</u>	<u>59,371</u>
Total revenues	<u><u>1,212,292</u></u>	<u><u>1,032,292</u></u>

No activity analysis and geographical analysis are presented for the years ended 31st December, 2000 and 1999 as substantially all the Group's turnover and contribution to results were derived from the operation of a chain of convenience stores in Hong Kong.

4. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2000 <i>HK\$'000</i>	Group 1999 <i>HK\$'000</i>
Crediting		
Gain on dilution in shareholding of a subsidiary (<i>note</i>)	<u>480</u>	<u>–</u>
Charging		
Amortisation of franchise licence	78	78
Auditors' remuneration	200	298
Cost of inventories sold	841,749	726,865
Depreciation of owned fixed assets	18,024	14,656
Loss on disposal of fixed assets	1,401	329
Operating leases – land and buildings	76,154	72,181
Provision for doubtful debts	2,214	400
Retirement benefit costs (<i>note 9</i>)	2,710	2,783
Staff costs	<u>128,294</u>	<u>118,189</u>

Note: This represents deemed gains arising on dilution of interest in Web-Logistic (HK) Limited following the capital contribution from a minority shareholder, Web-Logistic.com (Asia Pacific) Limited, in September 2000.

5. FINANCE COSTS

	2000 <i>HK\$'000</i>	Group 1999 <i>HK\$'000</i>
Interest on bank loans and overdrafts	4,106	7,606
Interest on loans from immediate holding company	<u>–</u>	<u>1,374</u>
	<u>4,106</u>	<u>8,980</u>

6. TAXATION

No Hong Kong profits tax has been provided for as the Group has been able to utilise available tax losses brought forward from previous years to offset the assessable profit for the year (1999: the assessable profit for the year was offset by the tax losses brought forward from previous years).

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of loss of HK\$29,000. The Company was incorporated on 23rd October, 2000, there was no profit or loss incurred by the Company for the year ended 31st December, 1999.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to shareholders of HK\$48,119,000 (1999: HK\$6,603,000) and 491,700,000 shares (1999: 491,700,000 shares) deemed to be in issue during the year. In determining the number of shares deemed to be in issue, the 67,690,000 shares issued before the capitalisation issue and the capitalisation issue of 424,010,000 shares made to LFR and four directors, namely Mr Yeung Lap Bun, Richard, Mr Li Kwok Ho, Bruno, Mr Lau Butt Farn and Ms Wong Yuk Nor, Lousia, (“Designated Directors”) immediately following the initial public offering of the Company’s shares which took place in mid January 2001, were deemed to have been in issue on 1st January, 1999.

Diluted earnings per share for the year ended 31st December, 2000 and 1999 respectively was not disclosed as there were no dilutive potential ordinary shares.

9. RETIREMENT BENEFIT COSTS

The Group operates a defined contribution retirement scheme (“the Scheme”) for its employees in Hong Kong. The Scheme is administered by independent trustees.

Contributions to the Scheme by the Group are calculated as a percentage of employees’ basic salaries. The contributions are reduced by contributions forfeited by those employees who leave the Scheme prior to vesting fully in the contributions.

The retirement benefits costs charged to the profit and loss account represent net contributions payable by the Group to the Scheme.

Contributions paid by the Group to the Scheme are as follows:

	2000 <i>HK\$'000</i>	Group 1999 <i>HK\$'000</i>
Gross retirement benefits scheme contributions	2,920	3,870
<i>Less:</i> Forfeited contributions utilised	(893)	(1,087)
Net retirement benefits scheme contributions	<u>2,027</u>	<u>2,783</u>

No contribution was made to the Scheme since 1st of December, 2000 as the Group selected to contribute to the Mandatory Provident Fund Scheme (“MPF Scheme”) in substitute of the Scheme.

9. RETIREMENT BENEFIT COSTS (continued)

Under the MPF Scheme, both the employer and the employees have to contribute an amount equal to 5% of the “relevant income” of such employee to the Mandatory Provident Fund. “Relevant income” includes wages, salaries, leave pay, fees, commission, bonuses, gratuities and allowances which are expressed in monetary terms (excluding housing allowance). The minimum and maximum levels of monthly “relevant income” are HK\$4,000 and HK\$20,000 respectively. An employee earning less than HK\$4,000 is not required to contribute but may elect to do so. However, the employer must still contribute 5% of the employee’s “relevant income” even if it is below HK\$4,000.

Contributions from the employer and an employee are 100% vested in the employee as soon as they are paid to the relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 (subject to a few exceptions, including early retirement between age 60 and 64, death, total incapacity and permanent departure from Hong Kong).

Contribution paid by the Group to the MPF Scheme for the year ended 31st December, 2000 amounted to HK\$683,000.

10. DIRECTORS’ AND SENIOR MANAGEMENT’S EMOLUMENTS**(a) Directors’ emoluments**

Details of emoluments paid by the Group to a director during the year are as follows. The remaining directors did not receive any emoluments from the Group during the year.

	2000 <i>HK\$’000</i>	1999 <i>HK\$’000</i>
Fees	–	–
Basic salaries, allowances and other benefits in kind	1,950	1,837
Retirement benefits scheme contributions	84	–
	<u>2,034</u>	<u>1,837</u>

No director waived or agreed to waive any of their emoluments in respect of the years ended 31st December, 2000 and 1999.

10. 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 include one (1999: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (1999: four) individuals during the year are as follows:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Basic salaries, allowances and other benefits in kind	3,081	2,578
Retirement benefits scheme contributions	127	134
Bonuses	1,382	828
	<u>4,590</u>	<u>3,540</u>

The emoluments of the employees fell within the following bands:

	Number of employees	
	2000	1999
HK\$ Nil – HK\$1,000,000	1	4
HK\$1,000,000 – HK\$1,500,000	3	–
	<u>4</u>	<u>4</u>

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

11. INTANGIBLE ASSETS

	Group	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Franchise licence, at cost	1,559	1,559
<i>Less: accumulated amortisation</i>	1,228	1,150
	<u>331</u>	<u>409</u>

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

12. FIXED ASSETS

	Group			
	Equipment, furniture and fixtures	Leasehold improvements	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Costs				
At 1st January, 2000	125,426	55,003	2,172	182,601
Additions	18,354	6,890	516	25,760
Disposals	<u>(13,798)</u>	<u>(4,870)</u>	<u>–</u>	<u>(18,668)</u>
At 31st December, 2000	<u>129,982</u>	<u>57,023</u>	<u>2,688</u>	<u>189,693</u>
Accumulated depreciation				
At 1st January, 2000	84,958	51,745	2,135	138,838
Charge for the year	14,757	3,198	69	18,024
Disposals	<u>(11,659)</u>	<u>(5,608)</u>	<u>–</u>	<u>(17,267)</u>
At 31st December, 2000	<u>88,056</u>	<u>49,335</u>	<u>2,204</u>	<u>139,595</u>
Net book value				
At 31st December, 2000	<u>41,926</u>	<u>7,688</u>	<u>484</u>	<u>50,098</u>
At 31st December, 1999	<u>40,468</u>	<u>3,258</u>	<u>37</u>	<u>43,763</u>

13. INVESTMENT IN SUBSIDIARIES – COMPANY

	2000
	<i>HK\$'000</i>
Investment at cost:	
Unlisted shares	6,769
Loan to a subsidiary	12,792
Amount due to a subsidiary	<u>(4,408)</u>
	<u>15,153</u>

13. INVESTMENT IN SUBSIDIARIES – COMPANY (continued)

The following is a list of the subsidiaries of the Company as at 31st December, 2000:

Name	Place of incorporation	Principal activities and place of operation	Issued and fully paid up capital	Interest held
<i>Directly held:</i>				
Convenience Retail Asia (BVI) Limited	British Virgin Islands	Investment holding in Hong Kong	10,000 ordinary shares of US\$1 each	100%
<i>Indirectly held:</i>				
Circle K Convenience Stores (HK) Limited	Hong Kong	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	Inactive	10,000 ordinary shares of HK\$10 each	100%
Ming Yu Superstore Limited	Hong Kong	Dormant	10,000 ordinary shares of HK\$100 each	100%
Web-Logistic (HK) Limited	Hong Kong	Logistic service provider in Hong Kong	15,600,000 ordinary shares of HK\$1 each	82%

14. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount due to immediate holding company is unsecured, interest free and has no fixed terms of repayment.

15. SHARE CAPITAL

	Group and Company	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
2,000,000,000 ordinary shares of HK\$0.10 each	<u>200,000</u>	<u>–</u>
Issued and fully paid:		
67,690,000 ordinary shares of HK\$0.10 each	<u>6,769</u>	<u>5,856</u>

- (a) The comparative figure for the previous year represents the combined total of the issued share capital of the subsidiaries as at 31st December, 1999 prior to the group reorganisation.
- (b) The Company was incorporated on 23rd October, 2000 with an authorised capital of HK\$380,000 divided into 3,800,000 shares of HK\$0.10 each of which one share was allotted and issued at par to the subscriber on 1st November, 2000.
- (c) In preparation for a listing of the Company's shares on the Stock Exchange, the following changes in authorised and issued share capital of the Company took place on 29th December, 2000.
- (i) The authorised share capital of the Company was increased to HK\$200,000,000 by the creation of additional 1,996,200,000 shares of HK\$0.10 each.
- (ii) The Designated Directors, LFR and the Company entered into a sale and purchase agreement pursuant to which on the same date the Designated Directors severally transferred to the Company an aggregate of 500 ordinary shares of US\$1 each in CRA (BVI) at a consideration of HK\$338,400, satisfied by the issue of an aggregate of 3,384,000 shares of HK\$0.10 each severally to the Designated Directors and LFR transferred to the Company 9,500 ordinary shares of US\$1 each in CRA (BVI) and assigned to the Company the benefit of a loan in the amount of HK\$12,791,998 previously made by LFR to CRA (BVI), in respect of the cost of the latter's subscription of shares of a subsidiary, Web-Logistic (HK) Limited, at a consideration of HK\$6,430,600, satisfied by the issue of 64,305,999 shares of HK\$0.10 each to LFR.
- (d) Subsequent to the year end, 163,900,000 shares of HK\$0.10 each were issued to the public at a premium of HK\$1.05 per share for cash totalling HK\$188,485,000 (the "New Issue") in January 2001. The excess of the issue price over the par value of the shares issued has been credited to the share premium account of the Company.
- (e) Immediately after the New Issue, 424,010,000 shares of HK\$0.10 each were issued, allotted at par and fully paid to LFR and the Designated Directors by way of the capitalisation of a sum of HK\$42,401,000 out of the credit of the share premium account of the Company created as a result of the New Issue.

15. SHARE CAPITAL (continued)

- (f) On 27th December, 2000, a Pre-IPO share option plan was approved by a written resolution of the shareholder of the Company under which the board of Directors may, at its discretion, grant options to full-time or part-time employees of the Group entitling them to subscribe for shares representing up to maximum 19,930,000 shares.

On 30th December, 2000, options to subscribe 19,930,000 shares were granted to 228 employees. In February and March, 2001, options to subscribe for a total of 160,000 shares lapsed following the cessation of employment of 3 grantees. Details of share options granted and outstanding up to the date of this report are as follows:

Exercise period	Exercise price	Number of share options outstanding
10th January 2002 to 9th January 2006	HK\$0.92	15,860,000
10th January 2003 to 9th January 2006	HK\$0.92	3,910,000
		<u>19,770,000</u>

- (g) On 6th January, 2001, a share option scheme (“Share Option Scheme”) was approved by a written resolution of the shareholders of the Company under which the board of Directors may, at its discretion, grant options to the full-time employees of the Group (including executive directors) entitling them to subscribe for shares representing up to a maximum of 10% of the shares in issue from time to time (excluding (i) any shares which have been allotted and issued upon the exercise of options granted pursuant to the Share Option Scheme and any other schemes and (ii) any pro-rata entitlements to further shares issued in respect of those shares mentioned in (i)). No share options have been granted by the Company up to the date of this report.

16. RESERVES**(a) Group**

	Merger reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 1999	–	641	(212,569)	(211,928)
Profit for the year attributable to shareholders	–	–	6,603	6,603
At 1st January, 2000	–	641	(205,966)	(205,325)
Profit for the year attributable to shareholders	–	–	48,119	48,119
Merger reserve	177,087	–	–	177,087
Reserve arising from group reorganisation (note 16 (b))	–	12,792	–	12,792
At 31st December, 2000	<u>177,087</u>	<u>13,433</u>	<u>(157,847)</u>	<u>32,673</u>

16. RESERVES (continued)**(b) Company**

This represents a contribution from a shareholder of the Company arising from the group reorganisation as set out in notes 1(b) and 15(c)(ii).

Distributable reserves of the Company at 31st December, 2000 amounted to HK\$12,763,000.

17. LONG TERM LIABILITIES

		Group	
	<i>Notes</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Loans from immediate holding company	<i>(i)</i>	—	49,638
Other loans	<i>(ii)</i>	850	1,700
<i>Less: amount repayable within one year</i>		<i>(850)</i>	<i>(1,700)</i>
		—	—
		—	—
		—	49,638

(i) The loans from immediate holding company were unsecured and, except for loans of HK\$26,467,760 on which interest is charged at HIBOR plus 1% per annum, were interest free for the year 1999. The loans were capitalised in August 2000.

(ii) The other loans are unsecured, interest free and will be fully repaid in 2001.

18. SHORT TERM BANK LOANS AND BANK OVERDRAFTS

The Group had available banking facilities guaranteed by the immediate and intermediate holding companies to the extent of HK\$50,888,000 (1999: HK\$166,687,500).

The guarantees given by the immediate and intermediate holding companies have been released upon the listing of the shares of the Company on the GEM of the Stock Exchange in January 2001 and have been replaced by guarantees given by the Company.

19. DEFERRED TAXATION

The potential deferred taxation (assets)/liabilities which have not been recognised/provided for in the accounts are as follows:

	Group	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Accelerated depreciation allowances	6,644	3,251
Tax losses	<i>(23,559)</i>	<i>(33,321)</i>
	—	—
	—	—
	(16,915)	(30,070)

20. NOTE TO THE CASH FLOW STATEMENT**(a) Reconciliation of profit for the year to net cash inflow from operating activities**

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Profit for the year	47,788	6,603
Interest income	(2,187)	(127)
Interest expense	4,106	8,980
Depreciation of owned fixed assets	18,024	14,656
Loss on disposal of fixed assets	1,401	329
Amortisation of franchise licence	78	78
Gain on dilution in shareholding of a subsidiary	(480)	–
(Increase)/decrease in inventories	(5,729)	5,124
Increase in accounts receivable, rental deposits, other deposits and prepayments	(7,946)	(16,055)
Increase in amount due to immediate holding company	1,155	7,846
Increase in trade payable, other payables and accruals	44,995	19,328
	<u>101,205</u>	<u>46,762</u>
Net cash inflow from operating activities	<u><u>101,205</u></u>	<u><u>46,762</u></u>

(b) Analysis of changes in financing during the year

	Minority Interest		Loans	
	2000 <i>HK\$000</i>	1999 <i>HK\$000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Balance at 1st January	–	–	49,638	41,488
New loan from immediate holding company	–	–	91,704	9,000
Capital contribution from a minority shareholder	2,808	–	–	–
Non-cash movements				
Minority interest's share of loss for the year	(331)	–	–	–
Gain on dilution in shareholding of a subsidiary	(480)	–	–	–
Capitalised during the year	–	–	(127,700)	–
Transferred to capital reserve	–	–	(12,792)	–
Re-classified to short term loans	–	–	(850)	(850)
	<u>1,997</u>	<u>–</u>	<u>–</u>	<u>49,638</u>
Balance at 31st December	<u><u>1,997</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>49,638</u></u>

21. COMMITMENTS

(a) Capital commitments

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

	2000	Group
	<i>HK\$'000</i>	1999
		<i>HK\$'000</i>
Contracted but not provided for	<u>7,489</u>	<u>328</u>

(b) Commitments under operating leases

The Group had commitments to make payments in the next twelve months under operating leases in respect of land and buildings which expire as follows:

	2000	Group
	<i>HK\$'000</i>	1999
		<i>HK\$'000</i>
Within one year	12,051	14,568
In the second to fifth years inclusive	<u>57,658</u>	<u>43,383</u>
	<u>69,709</u>	<u>57,951</u>

22. RELATED PARTY TRANSACTIONS

Saved as disclosed in note 18 to the accounts in connection with the guarantees given by certain related parties, the following is a summary of significant related party transactions carried out in the normal course of the Group's business:

		2000	Group
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Income			
Management fee from Bakehouse Company Limited ("Bakehouse")	<i>a</i>	12	161
Recharge of office and administration expenses from Bakehouse	<i>a</i>	<u>438</u>	<u>1,769</u>
Expenses			
Purchases from:			
– Li & Fung (Trading) Limited	<i>b</i>	203	–
– JDH (Hong Kong) Limited	<i>c</i>	8,850	6,495
– Nice Image Limited	<i>c</i>	2,055	2,354
Management fee to LFR	<i>d</i>	9,362	7,394
Interest on loans from LFR	<i>e</i>	–	1,374
Rental payable to:	<i>f</i>		
– LFR		576	270
– Albinina Limited		168	184
– Bomaron Limited		1,122	–
Reimbursement of office and administration expenses to LFR	<i>g</i>	7,368	4,240
System development costs to LFR	<i>h</i>	<u>304</u>	<u>–</u>

Note:

- (a) Management fee was charged by the Group to a fellow subsidiary in respect of administrative services provided to it. Reimbursements receivable from the fellow subsidiary were made at cost based on office and administration expenses incurred. These transactions were terminated in February 2000.
- (b) Li & Fung (Trading) Limited is an associated company of an intermediate holding company of the Company.
- (c) JDH (Hong Kong) Limited and Nice Image Limited are fellow subsidiaries of the Company.
- (d) Management fee is charged by the immediate holding company in respect of various administrative services provided to the Company.
- (e) Interest was payable at prevailing market rates on loans advanced from the immediate holding company. Loans of HK\$127.7 million were capitalised on 31st August, 2000.

22. RELATED PARTY TRANSACTIONS (continued)

- (f) Rentals are payable to the immediate holding company and fellow subsidiaries in accordance with the terms of agreements.
- (g) Reimbursements payable to the immediate holding company are made at cost in respect of office and administration expenses incurred.
- (h) System development costs were charged by the immediate holding company in respect of system development services provided to the Company. The development was completed in 2000.

In the opinion of the Directors, the above transactions were carried out on normal commercial terms in the ordinary course of business and on terms mutually agreed between the Group and the respective related parties except for items (d), (g) and (h) which are based on an actual cost recovery basis of the Group. With the exception of the transactions with Bakehouse, the system development costs charged by LFR, and the interest paid on loans from LFR, which had been terminated in February 2000, August 2000 and January 2000 respectively, the abovementioned transactions will continue subsequent to the listing of the Company's shares on the GEM of the Stock Exchange, and will be conducted based on the terms of the relevant agreements governing these transactions.

23. ULTIMATE HOLDING COMPANY

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

24. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 14th March, 2001.

Financial Summary

THREE YEAR FINANCIAL SUMMARY

The following table summarise the results, assets and liabilities of the Group for the three years ended 31st December, 2000.

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Turnover	<u>1,140,671</u>	<u>972,921</u>	<u>980,209</u>
Profit/(loss) attributable to shareholders	<u>48,119</u>	<u>6,603</u>	<u>(22,982)</u>
Total assets	261,569	139,843	117,588
Total liabilities	(220,130)	(339,312)	(323,660)
Minority interests	<u>(1,997)</u>	<u>—</u>	<u>—</u>
Surplus/(deficit) on shareholders' funds	<u>39,442</u>	<u>(199,469)</u>	<u>(206,072)</u>

Note: The results, total assets and total liabilities of the Group for each of the three years ended 31st December, 2000 have been prepared on a combined basis as if the group structure, at that time when the group reorganization as referred to in note 1 to the accounts was completed, had been in existence throughout the years concerned.