



# 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



Half Year Report 2002



## **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 further profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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

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

*This document, for which the directors of Convenience Retail Asia Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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 document is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## HALF YEAR RESULTS FOR THE PERIOD ENDED 30 JUNE 2002

Three Months Ended 30 June		2002	2001
• Group Turnover	+5%	<b>HK\$343,435,000</b>	HK\$326,525,000
• Group Profit	+9%	<b>HK\$19,752,000</b>	HK\$18,059,000
• Earnings Per Share	+7%	<b>3.0 cents</b>	2.8 cents
Six Months Ended 30 June		2002	2001
• Group Turnover	+6%	<b>HK\$666,020,000</b>	HK\$628,430,000
• Group Profit	+8%	<b>HK\$31,776,000</b>	HK\$29,315,000
• Earnings Per Share	+4%	<b>4.8 cents</b>	4.6 cents

### HIGHLIGHTS

- K Satisfactory growth in turnover and profitability despite adverse retail environment in Hong Kong.
- K Number of stores in Hong Kong increased by three to 151 during the quarter, an increase of 19 stores compared to 132 stores as at 30 June 2001.
- K Ten new store openings in progress, either under renovation or with leases committed.
- K Awaiting official approval of business licenses from Central Government and expect to open first batch of Southern China stores before year end.
- K Anticipating volatility in the rate of profit growth in the coming six months due to uncertainty in the Hong Kong retail market and increase in start-up costs in Southern China.
- K Strong cash position with HK\$382 million cash on hand and no bank borrowings as at 30 June 2002.



## **CHAIRMAN'S STATEMENT**

### **Financial Review**

It gives me great pleasure to report the unaudited half year results of Convenience Retail Asia Limited and its subsidiaries (the "Group") for the period ended 30 June 2002.

A very adverse retail environment resulting from the current economic downturn in Hong Kong has posed a tremendous challenge to our business. However, in spite of the severe operating conditions, the Group achieved satisfactory growth in both turnover and profit. During the second quarter ended 30 June 2002, the Group's turnover increased by 5% to HK\$343.4 million when compared to the same period last year. Net profit attributable to shareholders rose to HK\$19.8 million, increasing by 9%. The Group has a net cash balance of HK\$382 million and no borrowings.

### **China Update**

The application for business licenses is now in its final stages and our China team plans to open the first batch of stores in Guangzhou before year end of 2002. This is slightly behind the original schedule due to the unforeseen need to bring in a new local joint venture partner in Guangzhou. The negotiation and documentation for the change in equity structure took longer than expected, causing a delay in the process.



## **Business Outlook**

The lackluster economic environment and impaired consumer confidence in Hong Kong continue to pose serious challenges to retailers in all sectors. This is compounded by rising unemployment, sustained price deflation and a volatile stock market. The challenging environment in Hong Kong in the coming six months is expected to continue to adversely impact the comparable stores turnover. However, in the face of tough conditions, we intend to continue with our strategy of quality growth while further consolidating our brand positioning as the consumer's preferred convenience store chain. We will do this by providing superior customer services, better store environments, more value for the dollar and aggressive promotions.

Because of the uncertainty in the Hong Kong retail market and the increase in start-up costs in Southern China, we are expecting some volatility in the rate of profit growth during the third and fourth quarters of 2002.

**Fung Kwok King, Victor**

*Chairman*

Hong Kong, 29 July 2002

## **OUR VISION**

**Convenience Retail Asia Limited is committed to be the preferred and fastest-growing convenience store chain in Hong Kong and the Mainland of China.**



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

It gives me great pleasure to report the unaudited half year results of the Group for the period ended 30 June 2002.

During the three months ended 30 June 2002, the Group recorded satisfactory growth in both turnover and profit. The Group's turnover increased by 5% to HK\$343.4 million when compared to the same period in the previous year. This was achieved despite a very difficult retailing environment in Hong Kong, which has been adversely affected by rising unemployment, continuous deflation and declining consumer confidence and spending. The increase in turnover in the past three months came primarily from sales at new and therefore non-comparable stores, as comparable stores (stores in existence throughout first and second quarters of 2001 and 2002) showed a decline in turnover of 6%.

As a result of better product category management, closer collaboration with suppliers and higher income from sales of phone cards and Octopus reloading services, the Group was able to improve gross margins and other income (excluding interest income) by 1.9% to 33.2% of sales during the quarter.

During this quarter, store operating expenses as a percentage of sales edged up by 1.3% to 22.6%. This was primarily due to an increase in advertising and promotional expenses, which were necessary to maintain customer transactions. Expenses in other areas were kept under tight control.

An increase in store sales and higher gross margins/other income together contributed to a satisfactory increase in the Group's net profit. For the second quarter of 2002, the Group recorded a net profit of HK\$19.8 million, which represents a 9% increase over second quarter of 2001's net profit of HK\$18.1 million. Earnings per share increased by a moderate 7% from 2001's 2.8 cents to 3.0 cents in the second quarter of 2002.

For the six months ended 30 June 2002, the Group recorded turnover of HK\$666 million and net profit of HK\$31.8 million, which represent increases of 6% and 8% respectively when compared to the results for the six months ended 30 June 2001.

The Group's financial position continues to be very strong with a total cash on hand of HK\$382 million and without any borrowings. The Group has little exposure to foreign exchange fluctuations as most of its receipts and payments are in HK\$.



## **Operations Overview**

### *Store Operations in Hong Kong*

During the second quarter of 2002, the store-opening programme in Hong Kong hit the 150-store milestone. The 150th store opening was officiated by popular local artist Eason Chan and duly celebrated with chain-wide promotional activities. A net total of three stores were opened during the second quarter, bringing the total number of stores to 151 at end of June 2002.

Currently ten more stores sites are committed to be opened in the next few months, and the Group is on schedule to meet its total store target of 170 by the end of the year.

### *Employees*

As at 30 June 2002, the Group had a total of 1,485 employees of whom 1,450 were based in Hong Kong with the remaining 35 based in China.

Regular part-time staff accounted for 45% of the total man-hours, a further improvement from the 40% at 31 December 2001. The increase in the ratio of the part-time staff allows for more flexibility in human resources allocation and lower labour costs.

The Group continued to invest in human resources development through in-house training programmes assisted by consultants, and provided financial subsidies for staff enrolled in external courses.

The Group's remuneration packages include a performance-related bonus scheme and share options. During the last quarter, a Chairman's Award Programme was introduced to provide recognition and reward to staff with excellent performance and outstanding commitment. A total of 64 staff were nominated and awarded 10,000 Convenience Retail Asia share options each.

### *Marketing and Promotion*

As the warm season began during the second quarter, the Group stepped up promotional activities.

In April, there were two major promotions. The first was a Coca-Cola Gundam Collectible Premiums promotion, which started in March and generated over HK\$4 million in turnover. This was followed by a "Japan Festival" promoting Japanese imported snacks and confectionery, which targeted teenagers and office ladies. A range of innovative Hello Kitty licensed products at HK\$8 a piece was introduced and accounted for more than HK\$1 million in incremental sales.

In May, the Group celebrated the 150th store opening by sponsoring a Circle K Concert featuring popular local artists Eason Chan, Joey Yung and the Twins. Concert tickets were given away as prizes for a lucky draw and a donation was made to Unicef.



June was the month of World Cup fever, which hit Hong Kong with bigger impact than previous years since the action took place in Asia. To tie in with the event, a World Cup promotion was launched. As part of the promotion, attractive free snack premiums were offered for bulk beer purchases, which resulted in a 17% increase in category sales despite general market reports of disappointing sales during the World Cup event.

All the above promotions represent an effective execution of our marketing strategy to build a “fun”, “in” and “value” image for the Circle K brand, in addition to generating immediate traffic and sales.

### *Category Excellence*

Continuous progress was made in the area of category management.

A notable achievement was the sales increase in the beer category, which consistently outperformed the overall market as a result of effective category planning, smart pricing and aggressive value promotion during the World Cup event.

With additional resources such as the hiring of a new category manager, the Group has been able to re-allocate the job responsibilities of category specialists to enable sharper focus in each category and devote more effort to the enhancement of “hot” and “in” product categories.

### *Service Excellence*

Ongoing customer service training, constant monitoring via the mystery shopper programme and a performance-related incentive scheme all helped to maintain the high standards of customer service, meeting the company goals of speed, tidiness and friendliness.

In the last quarter, an enhanced training programme called “Step One Step Further” was developed to increase front-line staff’s self-confidence and to equip them with a proactive, caring and customer-driven attitude. Over 1,200 staff attended the eight training sessions in May 2002.

### *Supply Chain Management and Logistics*

A significant breakthrough in supply chain management was the roll out of the Vendor Managed Inventory Programme for the entire Circle K store chain in partnership with British American Tobacco Co. Ltd.

Another major achievement was the introduction of the new centralized ordering system for direct store delivery of daily fresh dairy products and newspapers.

In order to improve information flow, an internal customer hotline was set up to handle store requests and expedite speedy response to frontline issues.





## **Preparation for the China Entry**

A commissary for food production has been set up to facilitate new product testing and development. The objective is to create proprietary food and drink recipes that will provide a competitive edge for Circle K food services in the Southern China market.

Key personnel have been recruited to the management team and are currently going through job orientation and intensive training. The computer support system has been installed and is going through final testing.

The fitting out programme for the Distribution Center in Panyu has commenced and is proceeding according to schedule.

The search for appropriate new store sites continues with some good sites identified and rental negotiation commenced, while a few prime locations are already signed and confirmed.

## **Prospects**

In the first six months of 2002, it has been an uphill battle to maintain sales and traffic growth in an adverse market environment. With a customer-driven strategy, increased productivity and a lot of hard work, the Group has been able to counteract some of the negative market trends and maintain a modest sales growth for the chain.

However, the Group remains conservative in its outlook for the sales trend for the next six months, since the signs and economic data for the anticipated rebound remain uncertain. One bright spot is the Mainland of China and the growing influx of Chinese tourists to Hong Kong, which provides some stimulus to retail sales.

Looking ahead, we expect the Hong Kong operation of Circle K will continue to provide profitability, sustain quality growth and serve as the showcase for brand building. The China operation will require investment and resources for aggressive growth and future expansion. Financially, we expect to see some volatility on the rate of profit growth in the coming six months due to the uncertainty in the Hong Kong retail market and the increase in start-up costs in Southern China.

**Yeung Lap Bun, Richard**

*Chief Executive Officer*

Hong Kong, 29 July 2002





## REVIEW OF BUSINESS OBJECTIVES FOR THE SIX MONTHS ENDED 30 JUNE 2002

### 1. Hong Kong Operations

#### Initiatives

#### Progress Update

##### *Marketing & Brand Building:*

- Commence Brand Imagery Campaign 2 to promote convenient shopping experience
  - Commence 3rd wave of promotional programmes
- Brand Imagery Campaign 2 was postponed and the budget was re-allocated to running more hard-hitting sales promotional campaigns until the retail market improves in Hong Kong.
  - A total of 7 promotional campaigns were successfully carried out:
    - Jan - Buy \$15 Get \$30 Super Value
    - Feb - CNY Promotion
    - Mar - Lucky Star Tissue
    - Apr - Coca-Cola Gundam & Japan Festival
    - May - 150th New Store Opening
    - Jun - World Cup

##### *Store Expansion:*

- Own & operate 146-155 Circle K stores
- Total number of stores increased to 151 as at end of period.

##### *Service Excellence:*

- Launch specific Speed, Tidiness and Friendliness - "STF" service excellence training programme for staff
- Tiptop Consultants Ltd worked with our in-house trainers to develop an enhanced STF Training Programme called "Step One Step Further", 8 training sessions were successfully completed in May 2002 with over 1,200 attendants.



*Category Excellence:*

- Upgrade Decision Support System (DSS) and Planogram data system
- A major upgrade of the DSS using the Business Object software was completed in May 2002. The Planogram software was also upgraded to the latest Spaceman Professional 5.0, which enhances speed and flexibility of the system.

*Supply Chain Management & Logistics:*

- Commence supply chain management initiatives with selected partner suppliers on Vendor-Managed Inventory
- Selected British American Tobacco as partner for VMI project. Pilot test on 11 stores was completed in May. Roll-out to all stores was completed in June 2002.



## 2. Start-up Operations in China

### Initiatives

### Progress Update

#### *Business Model Adaptation:*

- Apply adopted plan in new store opening
- The business model adaptation was completed in March. Proprietary “hot & fresh” food offerings will be a key category for differentiating Circle K and for attracting customer traffic.

#### *Category Management:*

- Launch category management training in the PRC
- The head of Category Management of Southern China was trained in our Hong Kong operations for two weeks. Additional training sessions will be conducted in China after store opening before the end of 2002.

#### *Store Openings:*

- Operate 30-50 Circle K stores in Guangzhou and the Pearl River Delta Area
- The final stage of the application for business licence is now being processed at the Beijing Government level. The first batch of stores is expected to open before end of 2002.
- Refine store feasibility model for Southern PRC market
- Will conduct this exercise about 3 months after opening first batch of stores which is expected to be before end of 2002.



### 3. e-Business Development

#### Initiatives

##### *Development of new customer accounts:*

- Implement marketing plans for 2002

##### *Brand Building:*

- Implement brand building campaign for 2002

##### *Developing Operation Excellence:*

- Review and improve productivity and service standards

#### Progress Update

- Due to latest e-commerce developments, it was decided to take a prudent approach to consolidate the business and to trim down operating expenses. The revised business focus is to provide quick response delivery at Circle K stores, hence there will be no need to implement the marketing plan.

- There is no need to initiate the programme due to the change of business focus to serve the need of internal customers i.e. Circle K's quick response fulfillment of time-critical products.

- The quick response fulfillment capability developed by the team has been leveraged to improve fulfillment of time-critical products such as comics and daily fresh-baked products to all Circle K stores.



## USE OF PROCEEDS

The Group raised approximately HK\$188 million through the placing and public offer of shares upon the listing of the Company. After deducting expenses related to listing, net proceeds were approximately HK\$163 million.

During the period from 18 January 2001 (date of listing) to 30 June 2002, the Group's use of proceeds was substantially in accordance with the intended use stated in the prospectus of the Company dated 9 January 2001 ("Prospectus") and the comparison is set out below.

	Intended amount to be used	Actual amount used	Remaining amount	
		For the six months ended 30 June 2002	For the period from 18 January 2001 (date of listing) to 30 June 2002	As at 30 June 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Establishment of a convenience store chain comprising up to 100 new Circle K stores in Guangzhou and the Pearl River Delta area	94,300	2,322	5,689	88,611
Establishment of the infrastructure of a distribution centre and administrative office in the Pearl River Delta area	5,200	97	873	4,327
Acquisition and development of a computer system for the Group's operation in the PRC	4,200	356	494	3,706
Opening of additional Circle K stores in the Eastern PRC and/or the Northern PRC	55,900	—	—	55,900
Total:	<u>159,600</u>	<u>2,775</u>	<u>7,056</u>	<u>152,544</u>

The actual use of proceeds for the six months ended 30 June 2002 of HK\$2,775,000 was lower than the intended amount for the period stated in the Prospectus of HK\$13,389,000. The main reason was due to delay in opening of new Circle K stores in Guangzhou and the Pearl River Delta area. The first batch of stores is expected to open before end of 2002.

The remaining net proceeds are deposited in licensed banks in Hong Kong.

The unused proceeds will be applied in future years to achieve the business objectives as set out in the Prospectus.

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2002

	<i>Note</i>	(Unaudited)		(Unaudited)	
		Three months ended 30 June		Six months ended 30 June	
		<b>2002</b>	2001	<b>2002</b>	2001
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	343,435	326,525	666,020	628,430
Cost of sales		(256,032)	(246,131)	(499,646)	(474,320)
Gross profit		87,403	80,394	166,374	154,110
Other revenues	2	28,237	24,400	50,820	46,000
Store expenses		(77,694)	(69,494)	(151,086)	(138,512)
Distribution costs		(4,628)	(3,690)	(9,024)	(7,941)
Administrative expenses		(12,404)	(12,445)	(23,143)	(23,376)
Start-up costs for China operations		(1,246)	(1,133)	(2,322)	(1,133)
Operating profit	3	19,668	18,032	31,619	29,148
Minority interests		84	27	157	167
Profit attributable to shareholders		19,752	18,059	31,776	29,315
Basic earnings per share	5	3.0 cents	2.8 cents	4.8 cents	4.6 cents
Diluted earnings per share	5	2.9 cents	2.7 cents	4.7 cents	4.5 cents



## CONDENSED CONSOLIDATED BALANCE SHEET

### AS AT 30 JUNE 2002

	<i>Note</i>	(Unaudited) <b>30 June 2002</b> <i>HK\$'000</i>	(Audited) 31 Dec 2001 <i>HK\$'000</i>
Intangible assets	7	214	253
Fixed assets	8	59,218	58,979
Current assets			
Inventories		45,591	35,521
Rental deposits		25,579	24,104
Trade receivable	9	11,541	8,121
Other receivables, deposits and prepayments		37,680	30,357
Bank balances and cash		382,194	354,567
		502,585	452,670
Current liabilities			
Amount due to immediate holding company		813	721
Trade payable	10	218,036	204,000
Other payables and accruals		33,444	37,991
		252,293	242,712
Net current assets		250,292	209,958
Total assets less current liabilities		309,724	269,190
Financed by:			
Share capital		66,529	65,560
Reserves		241,767	202,045
Shareholders' funds		308,296	267,605
Minority interests		1,428	1,585
		309,724	269,190





## CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2002

	(Unaudited)	
	<b>Six months ended 30 June</b>	
	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow from operating activities	28,642	36,389
Net cash outflow from investing activities	(9,928)	(6,385)
Net cash inflow from financing activities	8,913	162,706
	<hr/>	<hr/>
Increase in cash and cash equivalents	27,627	192,710
Cash and cash equivalents at 1 January	354,567	114,896
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	382,194	307,606
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	382,194	307,606
	<hr/> <hr/>	<hr/> <hr/>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

	Share capital	Share premium	Merger reserve	Capital reserve	Accumulated losses	Total shareholders' equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2001	6,769	—	177,087	13,433	(157,847)	39,442
Issue of shares	16,390	172,095	—	—	—	188,485
Capitalisation issues	42,401	(42,401)	—	—	—	—
Expenses incurred in connection with the issue of shares	—	(25,779)	—	—	—	(25,779)
Profit for the period attributable to shareholders	—	—	—	—	29,315	29,315
At 30 June 2001	<u>65,560</u>	<u>103,915</u>	<u>177,087</u>	<u>13,433</u>	<u>(128,532)</u>	<u>231,463</u>
At 1 July 2001	65,560	103,915	177,087	13,433	(128,532)	231,463
Profit for the period attributable to shareholders	—	—	—	—	36,142	36,142
At 31 December 2001	<u>65,560</u>	<u>103,915</u>	<u>177,087</u>	<u>13,433</u>	<u>(92,390)</u>	<u>267,605</u>
At 1 January 2002	65,560	103,915	177,087	13,433	(92,390)	267,605
Issue of shares	969	7,946	—	—	—	8,915
Profit for the period attributable to shareholders	—	—	—	—	31,776	31,776
At 30 June 2002	<u>66,529</u>	<u>111,861</u>	<u>177,087</u>	<u>13,433</u>	<u>(60,614)</u>	<u>308,296</u>

## NOTES TO CONDENSED INTERIM ACCOUNTS

### 1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of The Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

These condensed interim accounts should be read in conjunction with the 2001 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2001.

### 2. Revenue and turnover

The Group is principally engaged in the operation of a chain of convenience stores. Revenues recognised during the three months and six months ended 30 June 2002 are as follows:

	(Unaudited)		(Unaudited)	
	<b>Three months ended 30 June</b>		<b>Six months ended 30 June</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover				
Merchandise sales revenue	334,654	316,368	648,670	607,862
Bakery sales revenue	8,744	9,904	17,273	19,907
E-fulfillment service income	37	253	77	661
	<u>343,435</u>	<u>326,525</u>	<u>666,020</u>	<u>628,430</u>
Other revenues				
Rebate income	23,933	19,570	41,517	36,526
Interest income	1,741	2,696	3,280	5,727
Others	2,563	2,134	6,023	3,747
	<u>28,237</u>	<u>24,400</u>	<u>50,820</u>	<u>46,000</u>
Total revenues	<u><u>371,672</u></u>	<u><u>350,925</u></u>	<u><u>716,840</u></u>	<u><u>674,430</u></u>



Revenue from the sale of goods is recognized 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.

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

Rebate income is recognized on an accrual basis.

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

No activity analysis and geographical analysis are presented for the three months and six months ended 30 June 2002 and 2001 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.

### 3. Operating profit

Operating profit is stated after crediting and charging the following:

	(Unaudited)		(Unaudited)	
	Three months ended 30 June		Six months ended 30 June	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Crediting				
Recovery of bad debts previously written off	—	392	—	392
Charging				
Amortisation of franchise licence	20	20	39	39
Depreciation of owned fixed assets	6,764	5,339	12,863	10,259
Loss on disposal of fixed assets	114	—	106	—
Provision for doubtful debts	199	300	351	595
Provision for inventories	10	—	10	—

### 4. Taxation

No Hong Kong profits tax has been provided for the three months and six months ended 30 June 2002 and 2001 as the Group has been able to utilise available tax losses brought forward from previous years to offset the assessable profit for the periods.



**5. Earnings per share**

The calculation of the Group's basic and diluted earnings per share for the three months and six months ended 30 June 2002 is based on the respective unaudited consolidated profit attributable to shareholders of HK\$19,752,000 (2001: HK\$18,059,000) and HK\$31,776,000 (2001: HK\$29,315,000).

The basic earnings per share is based on the weighted average of 664,622,198 (2001: 655,600,000) and 662,273,591 (2001: 640,206,077) ordinary shares in issue during the three months and six months ended 30 June 2002 respectively.

The diluted earnings per share is based on the weighted average number of 664,622,198 (2001: 655,600,000) and 662,273,591 (2001: 640,206,077) ordinary shares in issue during the three months and six months ended 30 June 2002 plus the respective weighted average of 6,756,577 (2001: 10,661,393) and 8,361,553 (2001: 8,544,288) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

**6. Interim dividend**

The Board does not recommend payment of an interim dividend for the three months and six months ended 30 June 2002 (2001: Nil).

**7. Intangible assets**

	(Unaudited) <b>30 June 2002</b> <i>HK\$'000</i>	(Audited) 31 Dec 2001 <i>HK\$'000</i>
Franchise licence, at cost	1,559	1,559
Less: accumulated amortisation	(1,345)	(1,306)
	<hr/>	<hr/>
	214	253
	<hr/> <hr/>	<hr/> <hr/>

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.



## 8. Fixed assets

	(Unaudited) <b>Six months ended 30 June 2002</b> <i>HK\$'000</i>	(Audited) Twelve months ended 31 Dec 2001 <i>HK\$'000</i>
Opening net book value	58,979	50,098
Additions	13,216	31,544
Disposals	(114)	(608)
Depreciation	(12,863)	(22,055)
	<hr/>	<hr/>
Closing net book value	<u>59,218</u>	<u>58,979</u>

## 9. Trade receivable

Majority of the Group's turnover are cash sales. The Group's credit terms on trade receivable from other income mainly range from 30 days to 60 days. At 30 June 2002, the ageing analysis of trade receivable was as follows:

	(Unaudited) <b>30 June 2002</b> <i>HK\$'000</i>	(Audited) 31 Dec 2001 <i>HK\$'000</i>
Current	7,971	6,189
31-60 days	1,723	997
61-90 days	947	383
Over 90 days	900	552
	<hr/>	<hr/>
	<u>11,541</u>	<u>8,121</u>



## 10. Trade payable

At 30 June 2002, the ageing analysis of the trade payable was as follows:

	(Unaudited) <b>30 June 2002</b> <i>HK\$ '000</i>	(Audited) 31 Dec 2001 <i>HK\$ '000</i>
Current	109,786	106,871
31-60 days	66,113	57,594
61-90 days	27,206	28,049
Over 90 days	14,931	11,486
	<hr/> 218,036 <hr/> <hr/>	<hr/> 204,000 <hr/> <hr/>

## 11. Commitments

### (a) Capital commitments

	(Unaudited) <b>30 June 2002</b> <i>HK\$ '000</i>	(Audited) 31 Dec 2001 <i>HK\$ '000</i>
Contracted but not provided for		
- in respect of acquisition of fixed assets	4,949	3,925
- in respect of investment in a joint venture in China	30,800	33,000
	<hr/> 35,749	<hr/> 36,925
Authorised but not contracted for		
- in respect of acquisition of fixed assets	2,970	3,033
	<hr/> 38,719 <hr/> <hr/>	<hr/> 39,958 <hr/> <hr/>



(b) Commitments under operating leases

At 30 June 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	(Unaudited) <b>30 June 2002</b> <i>HK\$ '000</i>	(Audited) 31 Dec 2001 <i>HK\$ '000</i>
Not later than one year	71,023	77,928
Later than one year and not later than five years	52,558	56,309
	<hr/>	<hr/>
	123,581	134,237
	<hr/> <hr/>	<hr/> <hr/>

12. Contingent liabilities

	<b>Company</b>	
	(Unaudited) <b>30 June 2002</b> <i>HK\$ '000</i>	(Audited) 31 Dec 2001 <i>HK\$ '000</i>
Guarantees for bank loans and overdrafts of subsidiaries	50,888	50,888
	<hr/>	<hr/>
	<hr/> <hr/>	<hr/> <hr/>



### 13. Related party transactions

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

(Unaudited)			
Six months ended 30 June			
<i>Note</i>	<b>2002</b>	2001	
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Net purchases from:			
- Li & Fung (Trading) Limited	a	302	531
- JDH (Hong Kong) Limited	b	4,203	4,089
- Nice Image Limited	b	—	827
Management fee to Li & Fung (Retailing) Limited ("LFR")	c	3,863	3,215
Rental payable to:			
- LFR	d	306	302
- Albinina Limited		246	84
- Bomaron Limited		1,237	1,136
Reimbursement of office and administration expenses to LFR	e	779	1,327

*Note:*

- (a) Li & Fung (Trading) Limited is an associated company of an intermediate holding company of the Company.
- (b) JDH (Hong Kong) Limited is a fellow subsidiary of the Company. Nice Image Limited was a fellow subsidiary of the Company and was disposed of to a third party by LFR in July 2001.
- (c) Management fee is charged by the immediate holding company in respect of various administrative services provided to the Group.
- (d) Rentals are payable to the immediate holding company and fellow subsidiaries in accordance with the terms of agreements.
- (e) Reimbursements payable to the immediate holding company are made at cost in respect of office and administration expenses incurred.

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 (c) and (e) which are based on an actual cost recovery basis of the Group. The above mentioned transactions are expected to continue on an on-going basis, and will be conducted based on the terms of the relevant agreements governing these transactions.

### 14. Comparative figures

Certain comparative figures have been re-classified to conform with current period's presentation.



## SHARE OPTIONS

### 1. Pre-IPO Share Option Plan

On 27 December 2000, a Pre-IPO Share Option Plan was approved by a written resolution of the shareholders of the Company under which the board of Directors may, at its discretion, grant options to full-time or part-time employees of the Group entitling them to subscribe for shares of HK\$0.10 each ( 'the Share(s)' ) representing up to maximum 19,930,000 Shares. On 30 December 2000, options to subscribe 19,930,000 Shares were granted to 228 employees, who are continuous contract employees and none of whom are Directors of the Company.

Details of the share options granted under the Pre-IPO Share Option Plan and remain outstanding as at 30 June 2002 are as follows:

Options held at 1 January 2002	Options exercised during the period (note i)	Options lapsed during the period (note ii)	Options held at 30 June 2002	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
15,490,000	9,720,000	80,000	5,690,000	0.92	30 December 2000	10 January 2002	9 January 2006
3,810,000	—	—	3,810,000	0.92	30 December 2000	10 January 2003	9 January 2006

Notes:

During the period -

- (i) 9,720,000 share options were exercised at an exercise price of HK\$0.92 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised was HK\$2.55; and
- (ii) 80,000 share options were lapsed following the cessation of employment of certain grantees.

## 2. Share Option Scheme

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

Details of the share options granted under the Scheme and remain outstanding as at 30 June 2002 are as follows:

	Options held at 1 January 2002	Options granted during the period (Note (i))	Options held at 30 June 2002	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
(A) Continuous contract employees							
	242,000	—	242,000	2.42	21 September 2001	21 September 2002	20 September 2006
	472,000	—	472,000	2.42	21 September 2001	21 September 2003	20 September 2006
	—	2,436,000	2,436,000	2.785	24 May 2002	24 May 2003	23 May 2007
	—	660,000	660,000	2.785	24 May 2002	24 May 2004	23 May 2007
(B) Director							
	—	1,800,000 (note ii)	1,800,000	2.785	24 May 2002	24 May 2003	23 May 2007

### Notes:

- (i) During the period, a total of 4,896,000 shares options were granted on 24 May 2002. As at 23 May 2002, the date before the options were granted, the closing price per Share was HK\$ 2.625.
- (ii) 1,300,000, 250,000 and 250,000 options were granted to Mr. Yeung Lap Bun, Richard, Mr. Li Kwok Ho, Bruno and Ms. Wong Yuk Nor, Louisa respectively, details of which were also disclosed in the section headed 'Directors' interests in equity or debt securities in the Company and certain major associated corporations'.



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

a. Options are freely tradeable in the market

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

b. European exercise terms are used

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

c. Returns are lognormally distributed

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

d. Estimating volatility

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

e. Value of the underlying share

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

- f. The share pays no dividends during the option's life

Although adjustments can be made to the models by making assumptions on dividend yield, it is not possible at this stage to predict the dividend yield of the Company. It is highly likely that there will be dividend payments during the option life but the Board has not determined a dividend policy yet. Historically, no dividends have been paid by the Company.

- g. No tax and commissions are charged

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

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

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

Save as disclosed above, as at 30 June 2002, none of the Directors, chief executives, management shareholders or substantial shareholders of the Company or their respective associates have been granted options under the Scheme.

## DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES IN THE COMPANY AND CERTAIN MAJOR ASSOCIATED CORPORATIONS

As at 30 June 2002, the interests of each of the Directors, chief executives and their associates in the equity or debt securities of the Company and certain of its major 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:

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  1,300,000 (Note 2)	—	—	—	19,196,000



Name of the Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Company	Li Kwok Ho, Bruno	2,676,000  250,000 <i>(Note 3)</i>	—	—	—	2,926,000
Company	Lau Butt Farn	2,676,000	—	—	—	2,676,000
Company	Wong Yuk Nor, Louisa	1,338,000  250,000 <i>(Note 4)</i>	—	—	—	1,588,000
Company	Dr. Ch'ien Kuo Fung, Raymond	1,000,000	—	—	—	1,000,000
Li & Fung (Gemini) Limited	Dr. Fung Kwok King, Victor	—	—	10,263,158 <i>(Note 5)</i>	1,184,210 <i>(Note 7)</i>	11,447,368
Li & Fung (Gemini) Limited	Dr. Fung Kwok Lun, William	—	—	10,263,158 <i>(Note 5)</i>	—	10,263,158
Li & Fung (Distribution) Limited	Dr. Fung Kwok King, Victor	(i) 130,000 <i>(Note 8)</i>	—	(i) 6,800,000 (full voting ordinary shares) <i>(Note 6)</i>	—	7,090,000 (full voting ordinary shares)
		(ii) 160,000 <i>(Note 9)</i>		(ii) 6,630,000 (redeemable participating preferred shares) <i>(Note 6)</i>		6,630,000 (redeemable participating preferred shares)




Name of the Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Li & Fung (Distribution) Limited	Dr. Fung Kwok Lun, William	—	—	(i) 6,800,000 (full voting ordinary shares) (Note 6)	—	6,800,000 (full voting ordinary shares)
				(ii) 6,630,000 (redeemable participating preferred shares) (Note 6)		6,630,000 (redeemable participating preferred shares)
Li & Fung (Distribution) Limited	Lau Butt Farn	32,500 (Note 8)	—	—	—	32,500
Li & Fung Limited	Dr. Fung Kwok King, Victor	—	—	1,180,500,000 (Note 10)	50,750,000 (Note 11)	1,231,250,000
Li & Fung Limited	Dr. Fung Kwok Lun, William	68,502,300	4,000 (Note 12)	1,180,500,000 (Note 10)	—	1,250,446,300
		480,000 (Note 13)				
		480,000 (Note 14)				
Li & Fung Limited	Lau Butt Farn	2,200,000	—	—	—	2,200,000

\* Dr. Fung Kwok King, Victor, and Dr. Fung Kwok Lun, William, by virtue of their interests in King Lun and the Company are deemed to be interested in the equity securities of certain associated corporations of the Company under the SDI Ordinance. A waiver from full compliance from Rule 18.56 of the GEM Listing Rules for the disclosure of directors' interest in the equity or debt securities of the associated corporations has been granted by the Stock Exchange on 25 July 2002. Accordingly, the companies under the section headed 'Directors' interests in equity or debt securities in the Company and certain major associated corporations' are only the major associated corporations of the Company and are not intended to be exhaustive.

*Notes:*

1. King Lun Holdings Limited ('King Lun') through its indirect wholly owned subsidiary, Li & Fung (Retailing) Limited (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 J.P. Morgan Trust Company (Jersey) Limited (formerly known as 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.
2. On 24 May 2002, Mr. Yeung Lap Bun, Richard was granted share options to subscribe for 1,300,000 Shares. The options are exercisable at a subscription price of HK\$2.785 per Share during the period from 24 May 2003 to 23 May 2007.
3. On 24 May 2002, Mr. Li Kwok Ho, Bruno was granted share options to subscribe for 250,000 Shares. The options are exercisable at a subscription price of HK\$2.785 per Share during the period from 24 May 2003 to 23 May 2007.
4. On 24 May 2002, Ms. Wong Yuk Nor, Louisa was granted share options to subscribe for 250,000 Shares. The options are exercisable at a subscription price of HK\$2.785 per Share during the period from 24 May 2003 to 23 May 2007.
5. King Lun through its wholly owned subsidiary, LF(1937) held 10,263,158 shares in Li & Fung (Gemini) Limited ("LFG"). Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun and LF(1937) as set out in note (1) above.
6. LFG holds 6,800,000 full voting ordinary shares and 6,630,000 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) & (5) above.
7. 1,184,210 shares in LFG are owned by a company which is held by J.P. Morgan Trust Company (Jersey) Limited (formerly known as Chase Bank & Trust Company (CI) Limited).
8. 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 81,000 and 19,500 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 two equal lots on 31 December, in each of the calendar years 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) 31 December, 2006.
9. 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 (8) above.



- 
10. 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) & (5) above.
  11. 50,750,000 LF Shares are held by J.P. Morgan Trust Company (Jersey) Limited (formerly known as Chase Bank & Trust Company (CI) Limited).
  12. 4,000 LF Shares are owned by the wife of Dr. Fung Kwok Lun, William.
  13. 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 7 July 2001 to 6 July 2003.
  14. In July 2001, 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\$10.50 per LF Shares during the period from 18 July 2002 to 17 July 2004.
  15. In August 2001, 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\$7.98 per LF Shares during the period from 28 August 2003 to 27 August 2005.

Save as disclosed above, as at 30 June 2002, none of the Directors or any of their associates had any interests in any equity or debt securities of the Company or any of its associated corporations.

## **SUBSTANTIAL SHAREHOLDERS**

As at 30 June 2002, the register of substantial shareholders maintained by the Company under section 16(1) of the SDI Ordinance showed that Li & Fung (Retailing) Limited 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 in the Company and certain major associated corporations’ 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 30 June 2002.

Pursuant to the agreement dated 9 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 18 January 2001 to 31 December 2003.



## **BOARD PRACTICES AND PROCEDURES**

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

## **AUDIT COMMITTEE**

The Company established an audit committee on 6 January 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 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.

The audit committee has reviewed with management this unaudited half year report for the period ended 30 June 2002.

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

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