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## CONVENIENCE RETAIL ASIA LIMITED

利亞零售有限公司

*(Incorporated in the Cayman Islands with limited liability)*

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

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

### HIGHLIGHTS

- Satisfactory growth in turnover and profitability despite adverse retail environment in Hong Kong.
- 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.
- Ten new store openings in progress, either under renovation or with leases committed.
- Awaiting official approval of business licenses from Central Government and expect to open first batch of Southern China stores before year end.
- 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.
- Strong cash position with HK\$382 million cash on hand and no bank borrowings as at 30 June 2002.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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.

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 150<sup>th</sup> store opening was officiated by popular local celebrity 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 by 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 150<sup>th</sup> 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.

## **Operations Overview** (continued)

### 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.

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

	Note	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
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 STATEMENT OF CHANGES IN EQUITY

	(Unaudited)					Total
	Share capital	Share premium	Merger reserve	Capital reserve	Accumulated losses	shareholder's 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
	<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 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
	<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 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
	<u>66,529</u>	<u>111,861</u>	<u>177,087</u>	<u>13,433</u>	<u>(60,614)</u>	<u>308,296</u>
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:

## 1. Basis of preparation and accounting policies

The 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.

The accounting policies and methods of computation used in the preparation of the 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) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
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>371,672</u>	<u>350,925</u>	<u>716,840</u>	<u>674,430</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) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Crediting				
Recovery of bad debts previously written off	<u>-</u>	<u>392</u>	<u>-</u>	<u>392</u>
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	<u>10</u>	<u>-</u>	<u>10</u>	<u>-</u>

### 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 dividends

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

### 7. Comparative figures

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

## **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.

On behalf of the Board  
**Fung Kwok King, Victor**  
*Chairman*

Hong Kong, 29 July 2002

*This announcement will remain on the GEM website on the "Latest Company Announcements" page for 7 days of its posting and will also be available from the Company's website at [www.cr-asia.com](http://www.cr-asia.com).*