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 2001

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.

The Circle K store at the Chek Lap Kok Airport offers location convenience, speedy checkout, tidy and friendly services around the clock to local and international customers.

Contents

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast 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 in 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.

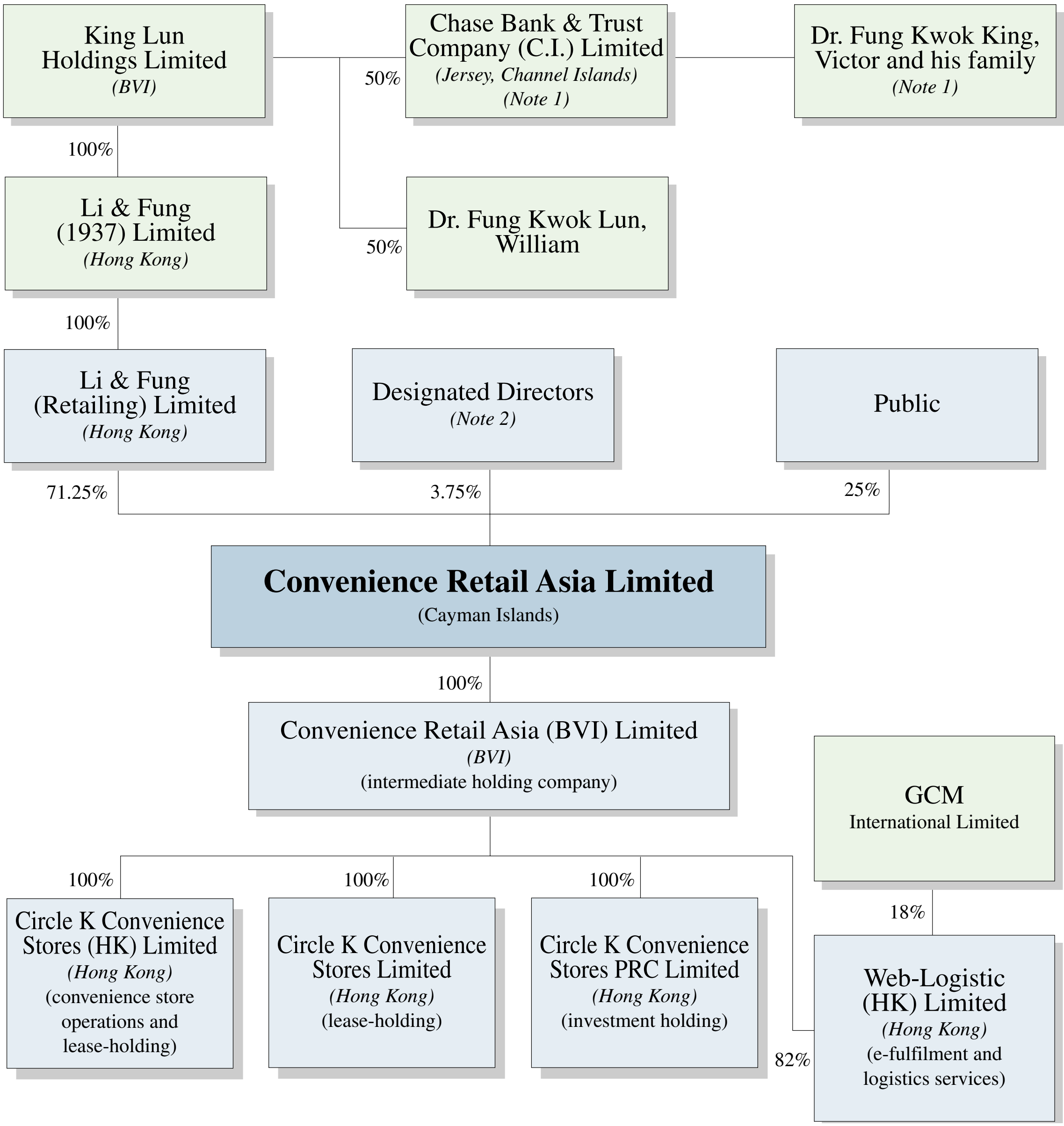
Corporate Information

Executive Directors	Yeung Lap Bun, Richard *(Chief Executive Officer)* Li Kwok Ho, Bruno *(Chief Financial Officer)*
Non-executive Directors	Dr. Fung Kwok King, Victor *(Chairman)* 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	Century Yard Cricket Square Hutchins Drive P.O. Box 2681GT 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

Legal adviser	Johnson Stokes & Master (as to Hong Kong Law)
	Conyers Dill & Pearman, Cayman (as to Cayman Islands Law)
Auditors	PricewaterhouseCoopers *Certified Public Accountants*
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 5th Floor Wing On Centre 111 Connaught Road Central Hong Kong
Principal bankers	The Hongkong & Shanghai Banking Corporation Limited
Stock code	8052

Group Business Structure

The following is the corporate structure of the major members of the Group:



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.

Chairman's Statement

Dr. Victor Fung Kwok King
Chairman

FINANCIAL OVERVIEW

We are pleased to report that Year 2001 was another year of commendable achievement for Convenience Retail Asia Limited and its subsidiaries (the "Group") after a year of rapid growth in 2000. Sales turnover surged to HK$1.3 billion, representing an increase of 14.4% over 2000. Net profit attributable to shareholders rose to HK$65.5 million, increasing by 36%. The Group's financial position remains very strong as we finished the year with cash in bank of HK$354.6 million and without any borrowings.

We have been able to sustain our growth momentum in a consistent manner over the last three years. The Group's performance throughout this period clearly reflects the success of its business model whereby business is driven by a clear and focused strategy, executed by a team of highly competent, motivated and dedicated staff.

REVIEW OF HONG KONG RETAIL MARKET

In Hong Kong, Year 2001 started with modest growth in retail sales. In the first half of 2001, total retail sales increased by 1.1% in value over the same period a year earlier.

REVIEW OF HONG KONG RETAIL MARKET (continued)

Towards mid-2001, economic slowdown began as indicated by declining exports and rising unemployment. Overall retail sales had been falling since June and the sluggish market was further aggravated by the tragic September 11 terrorist attacks in the United States. Retail sales value dropped by 3.6% and 1.2% in the second half and full year of 2001 respectively, compared to the same period in 2000.

This less than optimistic market sentiment is generally expected to continue at least into the first few months of 2002. However, since convenience store purchases are mainly daily necessities of small transaction value, the overall retail downturn should have relatively minor impact on the Group's business in comparison with other high-end retailers. We expect the retail market to remain slow during the first half of 2002, but overall consumer spending should show signs of recovery in the second half.

GROWTH STRATEGY FOR HONG KONG

We see enormous opportunities for growth in Hong Kong despite the less than favourable market environment. Assuming a ratio of 5,500 people per store, the optimum number of convenience stores for the whole population of Hong Kong should be 1,200, which means that only 50% of the current market demand is met.

We will continue with our strategy of "quality" growth – quality defined as superior customer service level, operational excellence and profitability. We believe 2002 will be a good year for opening new stores because shop premises are now available at more reasonable rental terms. For existing stores, we anticipate rental reduction in certain locations, especially Government housing estates.

Circle K staff will continue to provide the friendliest and quickest service in the tidiest store environment. An innovative and aggressive marketing programme will be executed to introduce new products and services. All these are meant to ensure superior value for money.

The fact that the Group's store chain is 100% company-owned-and-managed means that company initiatives will be implemented with more thoroughness, more consistency and better chance of success than our competitors.

We see no reason for deviating from this strategy in Hong Kong.

GROWTH STRATEGY FOR THE MAINLAND OF CHINA

The retail market in the Mainland of China experienced healthy double-digit growth almost throughout 2001. In Guangdong province, retail sales value increased by 13% in November from the previous year. China's accession to WTO that was formalized in November is also conducive to the growth of the retail sector. We are glad to report that the Group's expansion plan in the Mainland China has been making good progress in accordance with schedule.

In order to facilitate the setting up of the Guangzhou store chain, the Group signed a joint venture agreement with the Guangzhou Grain Group Limited in December 2001. The equity structure is such that 65% of the equities is owned by the Group, 25% by the Guangzhou Grain Group Limited and 10% by the Shanghai Shenhong Corporation (a member of the Shanghai Friendship Group). The Guangzhou Grain Group Limited has solid retailing background and an extensive network of retail premises in Guangzhou at their disposal. This would give us strong support in expanding our store chain in Guangzhou.

With all the joint-venture documentation in order and the licence application process well under way, we are optimistic that our first store in Guangzhou can be opened by the middle of 2002.

Since the convenience store market in China is still in its infancy, the room for growth is large. We plan to expand in different phases. We shall start with Guangzhou city. Initially, we are planning to set up the first batch of stores that focus on meeting local consumers' needs in order to test market acceptance. We shall then consider embarking on a more aggressive expansion plan in the Pearl River Delta region. The first Circle K stores will be located in prime retail locations to ensure visibility of our brand.

Our China management team has moved into new premises that will be our head office in Guangzhou. The establishment of a distribution centre is also under way.

CONCLUSION

Encouraged by satisfactory business performance in 2001, we believe the Group has entered a period of sustainable quality growth in Hong Kong and is ready for entering the Mainland of China market.

Notwithstanding expectations of a rather tough retail environment in the coming six months or so in Hong Kong, we believe that by excelling in customer services, maximising operational efficiency, increasing market share and achieving a greater economy of scale, we are able to maintain the profitability level for the Hong Kong market.

CONCLUSION (continued)

In the Mainland of China, the market sentiments after WTO accession are in our favour. Year 2002 will therefore be a year of investment and rapid growth and, hence, laying a strong foundation for the Group's operation in the Mainland of China. There will be initial needs for system investment, team building and market experimentation. However, our successful experience assures us that we are equipped with a very viable convenience store business model for similar, if not greater, success in this huge market.

Owing to short-term uncertainties in the Hong Kong market, we would expect profitability growth to moderate in 2002. However, in anticipation of an economic rebound in the second half of 2002, we see no reason to revise our three-year target of doubling profit.

On behalf of the board of directors, I would like to take this opportunity to express our gratitude to the management team and all the employees for their continued contribution and dedication in the past year. Their hard work and the Group's successful business model have stood the test and produced outstanding results.

Fung Kwok King, Victor
Chairman

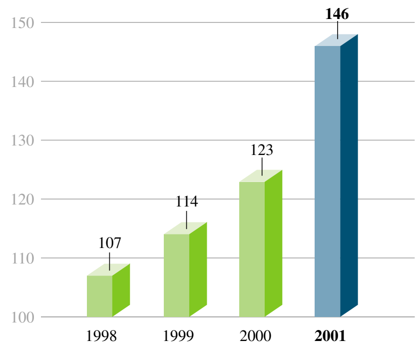
Hong Kong, 4 March 2002

Management Discussion and Analysis

Mr. Richard
Yeung Lap Bun
Chief Executive Officer

FINANCIAL RESULTS

The board of directors (the "Board") is very pleased to report that the financial results of the Group for the year ended 31 December 2001 continued to be impressive. The Group's sales turnover for the year increased to HK$1.3 billion, representing a growth of 14.4% when compared to 2000. Sales turnover of new stores accounted for 7.1% of the increase whereas that of existing stores accounted for the remaining 7.3%. Sales growth in the fourth quarter slowed down as a result of a drop in consumer spending, the Group recorded a sales turnover increase of 10.4% over the same quarter last year. In the fourth quarter, sales turnover of new stores accounted for an increase of 12.3% whereas that of existing stores decreased by 1.8%.



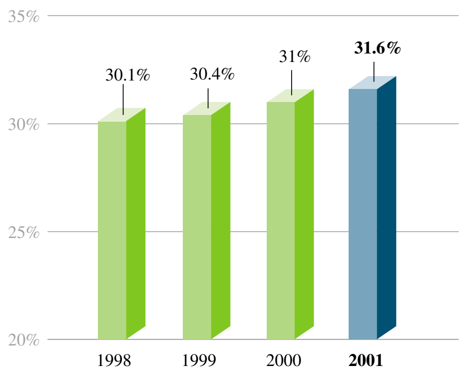
No. of Circle K Outlets in Hong Kong

Despite the slowdown in the fourth quarter, the Group continued to achieve healthy year-on-year growth. The directors of the Company (the "Directors") believe that the sales increase was attributable to the Group's continual improvements in core competencies of service excellence, category management as well as innovative and aggressive promotion.

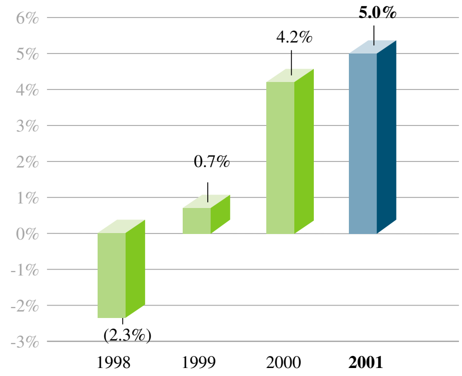
FINANCIAL RESULTS (continued)

As a result of closer collaboration with suppliers in product promotion, category management and smart pricing, the Group has made a significant improvement in gross margin and other income (excluding interest income). Gross margin and other income (excluding interest income) for the full year increased to 31.6% of sales, compared to 31% in 2000. And for the fourth quarter in 2001, it increased to 32.8% of sales compared to 32.2% for the same quarter in 2000.

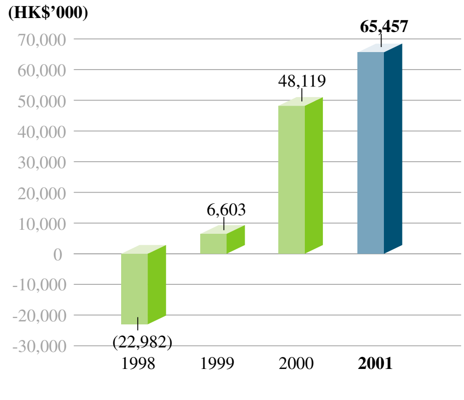
Store expenses were under tight control and improvements were made to the supply chain management process, which further enhanced productivity and operational efficiency. The slight increase of store expenses from 21.9% to 22.1% of sales for the full year was mainly due to the increase in advertising and promotion expenditure plus the cost of implementing the Mandatory Provident Fund Scheme in Hong Kong in 2001. Store expenses for the fourth quarter as a percentage of sales also registered a small increase to 23.1% from 22.6% in the same quarter last year.



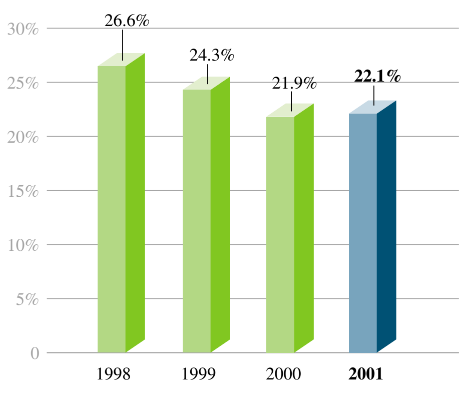
Gross Margin and Other Income (excluding interest income)



Net Margin



Net Profit



Store Operating Expenses as % of Sales

FINANCIAL RESULTS (continued)

The Group achieved a net margin of 5% of sales in 2001, compared to 4.2% in 2000. Increases in sales turnover and gross margin respectively accounted mainly for the increase in net margin. The net margin for the fourth quarter was slightly dragged down by the economic downturn. The Group achieved a net margin of 4.9% in the fourth quarter, compared to 5% in the same quarter in 2000.

It is gratifying to note that the profit attributable to shareholders continued to increase, up by 36% to HK$65.5 million for the full year. The fourth quarter showed an increase of 6.7% to HK$15.9 million. Basic earnings per share increased marginally by 3.1% to 10.1 cents for 2001 due to the 25% public issue of the Group's shares which took place in January 2001.

OPERATION REVIEW

The brightly lit store front with the bold design of the protruding logo enhances the visibility of the new Circle K store and attracts customer traffic on Hennessy Road.

Store Operations in Hong Kong

We opened 23 new stores in 2001, making the total 146 by year-end, which exceeded our original target of 145. Five of the new stores were opened in the last quarter of 2001.

The experiment with the mini-store format at MTR stations has produced satisfactory results. Strategically, this implies that the small-sized store format (i.e. 200 - 300 sq. ft.) at good locations with high traffic flow can now be considered as a real option for increasing the Group's market presence.

To synchronize with the renewal of the lease for various stores, our store renovation programme continued throughout 2001. Over 40 Circle K stores underwent a facelift that resulted in a tidier and more spacious layout with an eye-catching signage at the shop front that serves to reinforce the Group's contemporary and user-friendly brand image.

OPERATION REVIEW (continued)

Employees

At 31 December 2001, the Group had a total of 1,370 employees of whom 1,355 were based in Hong Kong whereas the remaining 15 were based in China. Regular part-time staff accounted for 40% of the total headcount. Staff development initiatives were implemented through in-house training programmes conducted with the assistance of training consultants. Financial subsidies were provided for staff who enrolled for external courses. The Group's remuneration packages include a performance-related bonus scheme and share options.

Marketing and Promotion

Marketing and promotional efforts in 2001 were focused on building the "fun", "in" and "value" image of the Circle K brand while generating incremental traffic and sales for various product categories.

The ongoing promotion of one free pack of tissue paper for each newspaper or magazine purchase was still highly welcomed by customers. The Octopus Reloading Service was launched chain-wide in October. Our competitive edge has been our transaction speed, which is the fastest in town with each reloading transaction taking only about three seconds. The new service was so well received that the average daily reloading value for the chain reached about HK$2.5 million per day soon after the launch.

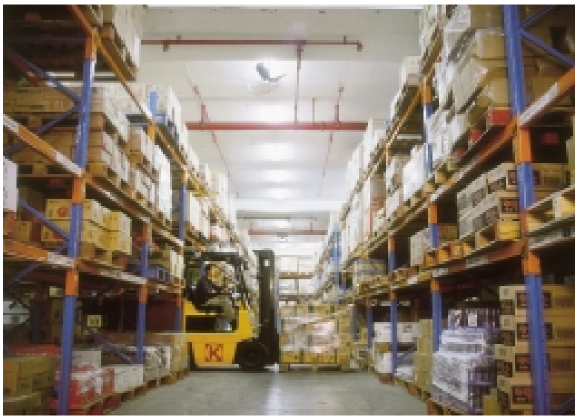
The "Breakfast Express" programme was launched at around the same period offering a value-for-money breakfast combo which was equally well received. Our customers are now able to come in, grab their breakfast, pay and leave our store in less than a minute.

Several of our "value" promotions in 2001 indicated that cash coupon offers were extremely effective in creating incremental sales. It will be used again to improve the value perception of price-conscious customers and provide an incentive for repeat purchases.

Circle K's "Breakfast Express" programme offers a value-for-money bread and beverage combo for grab-and-go morning shoppers.

The Octopus Reloading Service launched in October 2001 requires only 3 seconds for a transaction — the fastest service in town.

OPERATION REVIEW (continued)



Circle K's own Distribution Centre enables seven-days-a-week delivery and reduces overall inventory holding days from 14.1 days in 2000 to 13.6 days in 2001.

Quality customer service training is an on-going programme specially designed for all Circle K frontline staffs.

Category Excellence

The Category Excellence Programme encompassing supplier partnership and category management was effectively implemented, resulting in a 0.6% increase in gross margin and other income (excluding interest income). The improved margin was due to smarter pricing, higher volume rebate and win-win ideas arising from such retailer-supplier partnerships.

Service Excellence

To further nurture the core competence of service excellence, we continued to invest in training for all our employees. A service-excellence incentive scheme was also implemented to reward employees for outstanding performance in terms of ensuring customer satisfaction. The Group is committed to be the best in our industry by providing excellent STF (Speed, Tidiness and Friendliness) customer services.

Supply Chain Management and Logistics

In 2001, we made considerable improvements in delivery efficiency by re-engineering most logistics processes. As a result, we are now able to achieve seven-days-a-week delivery to stores, Just-In-Time delivery for fast moving product categories, express delivery for comic magazines and Breakfast Express bread products. The Group's overall inventory holding days were reduced from 14.1 days in 2000 to 13.6 days in 2001.

ENTRY PLAN FOR THE MAINLAND OF CHINA

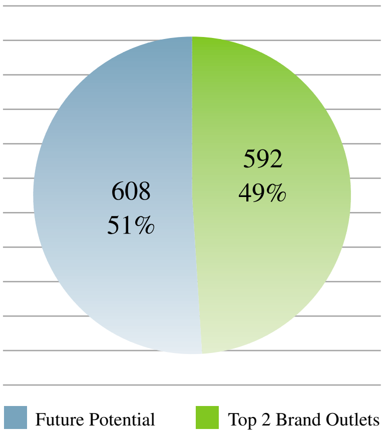
Our management team in the Mainland of China formally took occupancy of new office premises in Guangzhou in November 2001. The management structure was finalized and all key positions were filled. The purchasing team is currently in the process of finalizing trading terms with local vendors.

An important component of the Guangzhou store business model will be food services, specifically proprietary food and drink products. Hence we have invested considerable time and resources in new product development. In order to speed up the research and development process, we have invited Artal AFG Company Limited (a leading manufacturer of packaged bread and food products in China) and Saint Honore Cake Shop Limited (a household name for cakes and bread products in Hong Kong) to be our project partners so that we can benefit from their food production experience.

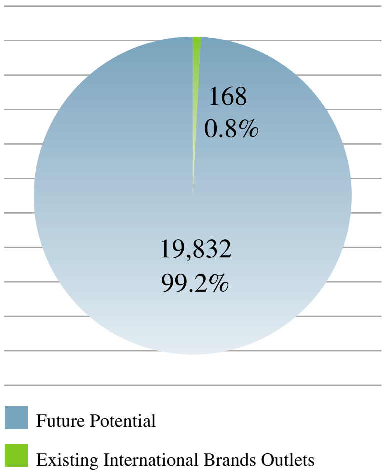
As soon as the business licence is granted, we will be ready to open five to ten stores at once since we will have all the system infrastructure and support team in place. Our new joint venture partner Guangzhou Grain Group Limited*, with their local market experience and retailing network, has been very helpful in locating potential store sites for us.

After operating the first batch of stores for three to six months, we will be able to gauge consumer preference and further refine our offerings and store model before rolling out an aggressive store expansion plan.

We foresee that during Phase One (the Pearl River Delta region), the pace of growth will be measured and strategy-driven. Only after a base in Guangzhou and the Pearl River Delta region has been firmly established shall we consider moving on to Phase Two (Shanghai and surrounding area) and likewise, Phase Three (Beijing and surrounding area).



Hong Kong Convenience Store Market



The PRC Convenience Store Market

* Guangzhou Grain Group Limited is a stated-owned enterprise responsible for maintaining grain reserves to ensure supply and the balance of supply and demand of the grain market. There are 10 commercial ventures under its management including the Guangzhou Municipal Government approved Cereals & Oil Wholesale Exchange Market and the "8" Chain Shop with over 200 grains retail stores all over Guangzhou city. The Group enjoys a total turnover of RMB3 billion and nearly a million tons of product sales annually.

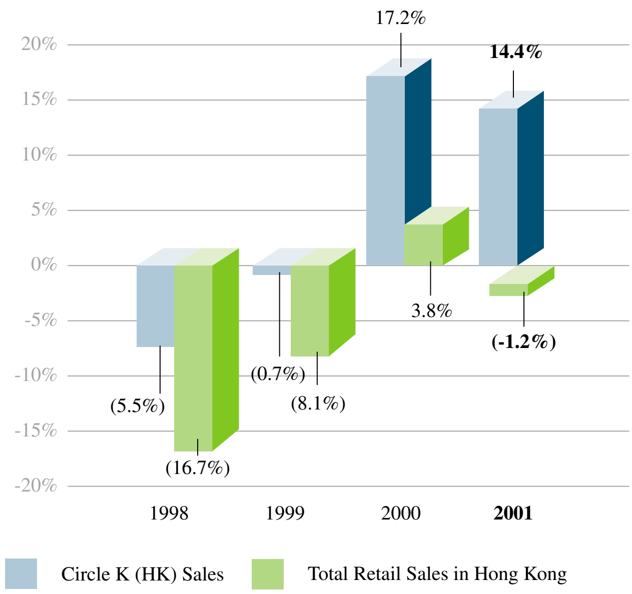
PROSPECTS

The challenge of 2002 will be the weak economy and impaired consumer confidence in Hong Kong. To counteract such negative factors, we will continue to exercise vigilant cost control, maximize productivity and implement aggressive promotions so as to lower costs and improve the margin. We will also continue with our quality store growth programme by opening about 24 stores in 2002, which will help maintain our sales turnover growth.

By focusing on these initiatives and building the Circle K brand, the Group should be able to sustain stable and quality growth in Hong Kong.

In the Mainland of China, we foresee great potential for the convenience store business as the market polarizes towards hypermarkets and convenience store outlets as the preferred modern shopping outlets of choice. The former offers value for money while the latter offers location convenience and superior service convenience. China's WTO accession will undoubtedly expedite the development of international chain stores and within three to five years, convenience retailing should become an integral part of Chinese consumers' everyday shopping experience.

For 2002, the Group will focus on building the Circle K brand, a quality network of stores and the supply chain infrastructure, i.e., the foundation for fast growth in China. Affected by the weak consumer spending in Hong Kong and by the start-up cost in China, the Group's overall profitability growth is expected to be moderate in 2002 but should pick up again in 2003 when we would have better economy of scale in the China market.



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

Review of Business Objectives

For the six months ended 31 December 2001

1. HONG KONG OPERATIONS

Initiatives	Progress Update
Marketing & Brand Building	
• Continue Brand Imagery Campaign to provide Speed, Tidiness and Friendliness – "STF"	• All Circle K front-line staff continued to improve STF service standards and customers are now commending the excellent services.
• Commence 2nd wave of promotional programmes	• A total of 9 promotional campaigns were successfully carried out: - $10 Promotion - Summer Promotion - Scratch & Be a Millionaire - Mid Autumn - Octopus Promotion - Breakfast Express - Coke Classic Premiums - Media Promotion - Buy $15 Free $15
Store Expansion	
• Own and operate 136 - 145 Circle K stores	• The number of store increased by 14 (between July and December) to 146 stores as at end of 2001.

1. HONG KONG OPERATIONS (continued)

Initiatives	Progress Update
Service Excellence	
• Launch leadership training programme for Circle K store managers	• The following training courses were successfully completed during the period: - Service Seminar for Newly Joined Staff - Effective Leadership - Supervisory Skills Training - Store Management Programme - Courtesy Award Training - Managerial Experience Sharing
Category Excellence	
• Launch advanced training programme for category management teams	• A consulting firm from the UK, SRCG Group, was engaged and conducted an Advanced Category Management Workshop for all Category Management Teams.
• Review strategies and plan for 2002	• 2002 strategy plan was completed in November 2001 and the teams started deployment in December 2001.
Supply Chain Management & Logistics	
• Upgrade computerized warehouse management system	• Enhancements to streamline the processes and making the system user-friendlier were completed during the period.

2. START-UP OPERATIONS IN CHINA

Initiatives	Progress Update
Business Model Adaptation	
• Review and refine adaptation plans	• A refined model positioning Circle K as the "premium" convenience store chain in China was completed in December 2001.
Training Centre	
• Develop training programme	• The training center is ready in late 2001. In-house training courses for store crews and store managers are being developed and to be completed in February 2002. External consultant for STF training program will be contracted in 1st Quarter 2002.
Category Management	
• Develop category management system with support from market research	• Category management teams were formed and all members are still under-going training. As most suppliers still are dealing in a traditional approach, we are adapting our strategy to become more flexible in working with local suppliers.
Store Openings	
• Operate 15 - 35 Circle K stores in Guangzhou and the Pearl River Delta area	• Store opening was deferred due to delay in obtaining business license. Expect to open first batch of stores by mid year of 2002.
Supply Chain Management	
• Develop computerized dynamic route planning system	• This project was postponed due to the delay in store openings.
Business System	
• Deployment of integrated computer system	• The system services provider was chosen in December and programming for all local adaptations are scheduled to be completed in March 2002.

3. e-BUSINESS DEVELOPMENT

Initiatives	Progress Update
Development of new customer accounts:	
• Review and plan marketing strategies for 2002	• Due to the latest e-commerce development, it was decided to take a more prudent approach and to focus on trimming back operating expenses instead of expansion.
Brand Building:	
• Review and plan brand building strategies for 2002	• No expense was incurred in this area because the Company's strategy has been modified at this point due to the latest e-commerce development. The revised initiative is to provide inhouse service to Circle K rather than to pitch for outside business.
Developing Operation Excellence:	
• Implement productivity and service standards	• The team continued to improve both the quality and efficiency of the operations by developing new delivery method i.e. the Direct Hub Delivery which reduce the store delivery cycle time.

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 31 December 2001, the Group's use of proceeds was substantially in accordance with the intended use stated in the Prospectus and the comparison is set out below.

	Intended use	**Actual use**
	HK$'000	*HK$'000*
Establishment of a convenience store chain comprising up to 100 new Circle K stores in Guangzhou and the Pearl River Delta area	94,300	3,367
Establishment of the infrastructure of a distribution centre and administrative office in the Peal River Delta area	5,200	776
Acquisition and development of a computer system for the Group's operation in the PRC	4,200	138
Opening of additional Circle K stores in the Eastern PRC and/or the Northern PRC	55,900	—

The deferred use of proceeds is due to delay in opening new Circle K stores in Guangzhou and the Pearl River Delta area. The first batch of stores is expected to be opened in the middle 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.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Yeung Lap Bun, Richard – *Chief Executive Officer*

Mr. Yeung, aged 45, 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 52, 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 and Toys "R" Us. 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 more than 20 years of professional experience in finance and accounting.

NON-EXECUTIVE DIRECTORS

Dr. Fung Kwok King, Victor – *Chairman*

Dr. Fung, aged 56, is the Group Chairman of the Li & Fung group of companies, which includes the major subsidiaries, Li & Fung (Distribution) Limited, Li & Fung (Retailing) Limited, and the publicly listed Li & Fung Limited and Convenience Retail Asia Limited. 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 is currently Chairman of the Hong Kong Airport Authority and the Hong Kong University Council. He was appointed by Government to serve as the Hong Kong Representative on the APEC Business Advisory Council (ABAC) in 1996. From 1991 to September 2000, he was Chairman of the Hong Kong Trade Development Council. Dr. Fung is also active on a number of Government advisory boards including the Judicial Officers Recommendation Commission.

NON-EXECUTIVE DIRECTORS (continued)

Dr. Fung Kwok Lun, William

Dr. Fung, OBE, JP, aged 53, brother of Dr. Fung Kwok King, Victor, is the Managing Director of Li & Fung Limited and Li & Fung (Retailing) Limited. 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, CLP Holdings Limited, chinadotcom corporation and VTech 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 54, joined Li & Fung Group in 1981 as the Financial Controller. Between 1985 and 1998, he was the Operations Director for the Li & Fung Retailing Group. 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 52, joined Li & Fung (Retailing) Limited in April 1998 as a director responsible for strategic planning, marketing and communication for the Li & Fung Retailing Group. Ms. Wong graduated from the University of Hong Kong with a Bachelor of Arts Degree and has more than 20 years' professional experience in Marketing and Advertising. Prior to joining Li & Fung (Retailing) Limited, Ms. Wong was the Managing Director of a leading 4A advertising agency Foote, Cone and Belding Limited for many years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Ch'ien Kuo Fung, Raymond

Dr. Ch'ien, aged 50, is Executive Chairman of chinadotcom corporation as well as Chairman of its subsidiary, hongkong.com corporation. He is also non-executive Chairman of HSBC Private Equity (Asia) Limited and serves on the boards of HSBC Holdings plc; the Hongkong and Shanghai Banking Corporation Limited; MTR Corporation Limited; Inmarsat Ventures plc and Inchcape plc. In public service, Dr. Ch'ien is a member of the Executive Council of the Hong Kong SAR; Chairman of the Hong Kong/Japan Business Cooperation Committee; and Chairman of the Advisory Committee on Corruption of the Independent Commission Against Corruption. Dr. Ch'ien is an honorary President and past Chairman of the Federation of Hong Kong Industries. He was previously Chairman of the Industry and Technology Development Council and the Hong Kong Industrial Technology Centre Corporation Ltd. Dr. Ch'ien received a doctoral degree 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 52, 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 – Southern China*

Mr. Kan, aged 50, 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. After joining the Group he was appointed as General Manager for Southern China and responsible for the Group's expansion into the PRC market. He graduated from the McGill University of Canada with a Bachelor's degree in Mechanical Engineering. He also holds a Master degree in Business Administration from the University of East Asia, Macau.

Ko Kam Cheong – *Business & Store Development Manager – Business Development*

Mr. Ko, aged 61, has been with the Circle K stores since 1991. He has over 41 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 successfully led a very strong and effective operations team in Hong Kong as the Operations Manager before he assumed the new role as Business & Store Development Manager.

SENIOR MANAGEMENT (continued)

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

Mr. Tsui, aged 44, 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 43, 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 49, has been with the Li & Fung Retailing Group since 1985. He has over 27 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 41, is responsible for overseeing the buying, merchandising and marketing strategies of the Company. He has 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 43, has over 19 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 40, 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 42, has over 18 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.

Fung Chiu Ming, Danny – *Divisional Manager – Business Systems Development*

Mr. Fung, aged 41, has over 15 years experience in information technology gained from various companies including ABN AMRO Bank, Theme International Holdings Ltd., PolyU Technology Ltd. and U-Campus.com. He is responsible for the overall management of the MIS function and project implementation in support of business strategies and operations. He graduated from the Brigham Young University of U.S.A. with a Bachelor of Science degree in Finance and a Master of Science degree in Information/Administrative Management with Computer Science emphasis.

Lee Hon Choi – *Divisional Manager – Operations, Southern China*

Mr. Lee, aged 39, has been with Circle K stores since 1985. He has over 16 years solid operation experience in the retailing industry. Prior to his appointment to the present position, he spent 10 years as District Manager in Circle K Hong Kong and has acquired valuable first hand experience and knowledge in the management of our store operations. He is currently responsible for store operations in the PRC market.

Directors' Report

The directors submit their report together with the audited accounts for the year ended 31 December 2001.

GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 23 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 12 to the accounts on 29 December 2000. The shares of the Company were listed on the GEM of the Stock Exchange on 18 January 2001.

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 40.

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 17 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets during the year are set out in note 11 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 16 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2001 calculated under the Companies Law (2000 Revision) of the Cayman Islands, amounted to HK$121,757,000 (2000: HK$12,763,000).

PRE-EMPTIVE RIGHTS

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

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2001 are set out in note 12 to the accounts.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year.

SHARE OPTIONS

(a) **Pre-IPO Share Option Plan**

On 27 December 2000, a Pre-IPO Share Option Plan 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 representing up to maximum 19,930,000 shares. On 30 December 2000, options to subscribe 19,930,000 shares were granted to 228 employees.

Details of the share options outstanding as at 31 December 2001 which have been granted under the Pre-IPO Share Option Plan are as follows:

	Options held at 1 January 2001	Options lapsed during the year *(Note)*	Options held at 31 December 2001	Exercise price *HK$*	Grant date	Exercisable from	Exercisable until
Continuous contract employees	16,020,000	(530,000)	15,490,000	0.92	30 December 2000	10 January 2002	9 January 2006
	3,910,000	(100,000)	3,810,000	0.92	30 December 2000	10 January 2003	9 January 2006

Note:

During the year, 630,000 share options were lapsed following the cessation of employment of certain grantees.

SHARE OPTIONS (continued)

(b) **Share Option Scheme**

On 6 January 2001, a Share Option Scheme (the "Scheme") was approved by a written resolution of the shareholders of the Company. Details of the Scheme are as follows:

(i) Qualifying participants

Any full-time employees including any executive director of the Company or its subsidiaries.

(ii) Maximum number of shares

The total number of shares subject to the Scheme must not when aggregated with any shares subject to any other share option schemes exceed 10% of the shares in issue from time to time (excluding any shares which have been duly allotted and issued upon the exercise of options granted pursuant to the Scheme and any other schemes (including the Pre-IPO Share Option Plan in (a) above) and any pro-rata entitlements to further shares issued thereof). The total number of shares available for issue under the Scheme as at the date of the annual report is 65,560,000, representing approximately 9.9% of the issued share capital of the Company as of that date.

No qualifying participant shall be granted an option which, if exercised in full, would result in such person's maximum entitlement exceeding 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

(iii) Option period

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

(iv) Amount payable on application or acceptance

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

SHARE OPTIONS (continued)

(b) **Share Option Scheme** (continued)

(v) Subscription price

The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option but shall not be less than whichever is the highest of (i) the closing price of the shares on the Commencement Date (ii) the average closing price of the shares for the five business days immediately preceding the Commencement Date (iii) the nominal value of a share.

(vi) The remaining life of the Scheme

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

Details of the share options granted and outstanding as at 31 December 2001 are as follows:

	Options held at 1 January 2001	Options granted during the year *(Note)*	Options held at 31 December 2001	Exercise price *HK$*	Grant date	Exercisable from	Exercisable until
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

Note:

At the date before the options were granted, 20 September 2001, the market value per share was HK$2.2.

Rule 23.08 of the GEM Listing Rules stipulates that the listed issuer is encouraged to disclose in its annual report and half-year report the value of options granted to participants set out in (i) to (v) of Rule 23.07 during the financial year/period. The Directors consider it inappropriate to value the options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the options based on various speculative assumptions would be meaningless and misleading to the shareholders. Therefore, the Directors believed that the cost for disclosing the value of options do not justify for the benefit it provides for the shareholders.

As at 31 December 2001, none of the directors, chief executives, management shareholders or substantial shareholders of the Company or their respective associates have been granted options under the Pre-IPO Share Option Plan and the Scheme.

DIRECTORS

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

Dr. FUNG Kwok King, Victor+
Dr. FUNG Kwok Lun, William+
Mr. LAU Butt Farn+
Mr. LI Kwok Ho, Bruno
Mr. YEUNG Lap Bun, Richard
Ms. WONG Yuk Nor, Louisa+
Dr. CH'IEN Kuo Fung, Raymond*
Mr. AU Man Chung, Malcolm*

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

In accordance with Articles 86 and 87 of the Company's Articles of Association, Mr. Yeung Lap Bun, Richard and Mr. Li Kwok Ho, Bruno 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 1 January 2001 and will continue thereafter subject at all times (including the initial three years period) to termination by not less than three months' prior notice in writing by either party on the other.

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

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the 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 IN THE COMPANY AND CERTAIN MAJOR ASSOCIATED CORPORATIONS

As at 31 December 2001, 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	—	—	—	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
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)

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES 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 (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
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)*	—	1,250,450,300
		480,000 *(Note 10)*				
		480,000 *(Note 11)*				
		480,000 *(Note 12)*				
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 18.15 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 31 January 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.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES IN THE COMPANY AND CERTAIN MAJOR ASSOCIATED CORPORATIONS (continued)

Notes:

1. King Lun Holdings Limited ("King Lun") through its indirect wholly owned subsidiary, Li & Fung (Retailing) Limited ("LFR") (a wholly owned subsidiary of Li & Fung (1937) Limited ("LF (1937)") held 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.

2. 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.

3. 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) and (2) above.

4. 1,500,000 shares in LFG are owned by a company which is held by Chase Bank & Trust Company (CI) Limited.

5. 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.

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) and (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.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES IN THE COMPANY AND CERTAIN MAJOR ASSOCIATED CORPORATIONS (continued)

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 7 July 2001 to 6 July 2003.

11. 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.

12. 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 31 December 2001, 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 31 December 2001, 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 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 31 December 2001.

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.

CONNECTED TRANSACTIONS

During the year, the Group had various transactions with related parties (details are set out on page 62). Some of these transactions, as set out below, are expected to continue on an on-going basis and will constitute non-exempt connected transactions of the Company:

		HK$'000
1.	Services agreement with LFR *(note 1)*	7,480
2.	Net purchases of products from JDH (Hong Kong) Limited *(note 2)*	8,223
3.	Provision of photofinishing services by Nice Image Limited *(note 3)*	949
4.	The Circle K Convenience Stores (HK) Limited ("Circle K (HK)") lease *(note 4)*	1,410
5.	The Web-Logistic (HK) Limited ("Web-Logistic (HK)") lease *(note 5)*	862

Notes:

1. 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).

2. This refers to the net purchases of various products (being both food and non-food products) by Circle K (HK) from JDH (Hong Kong) Limited, an indirect subsidiary of LF (1937) which has an effective interest in it of 51.44%, on its standard terms of business.

3. This refers to the provision of photo-finishing services by Nice Image Limited, a former subsidiary of LFR, to Circle K (HK) on its ordinary trade terms. Nice Image Limited was disposed of to a third party by LFR in July 2001.

4. This refers to the lease payment from Circle K (HK) to Bomaron Limited, an indirect subsidiary of LF (1937), 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.

5. This refers to the lease payment from Web-Logistic (HK) to Bomaron Limited, an indirect subsidiary of LF (1937), 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 17 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 9 January 2001).

The independent non-executive Directors confirmed that the transaction in relation to the provision of services with LFR have been entered into in accordance with the terms of the services agreement, the purchase of products from JDH (Hong Kong) Limited has been entered into on terms no less favourable to the Group than terms available from 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 cap at which these two transactions may be conducted for the year ending 31 December 2002 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 year ending 31 December 2002.

MANAGEMENT CONTRACTS

Save as disclosed above, 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.

COMPETING INTERESTS

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

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	18%
— five largest suppliers combined	48%

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

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.

During the year, the audit committee met four times in conjunction with auditors to review the internal control, quarter results and final financial statements of the Group prior to recommending such accounts to the Board 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, 4 March 2002

Auditors' Report

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 40 to 63 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 31 December 2001 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, 4 March 2002

Consolidated Profit and Loss Account

For the year ended 31 December 2001

	Note	2001 HK$'000	2000 HK$'000
Turnover	*3*	**1,305,124**	1,140,671
Cost of sales		**(981,395)**	(856,611)
Gross profit		**323,729**	284,060
Other revenues	*3*	**98,200**	71,621
Store expenses		**(288,602)**	(249,956)
Distribution costs		**(18,037)**	(17,390)
Administrative expenses		**(46,878)**	(36,921)
Start-up costs for China operations		**(3,367)**	—
Other operating income		**—**	480
Operating profit	*4*	**65,045**	51,894
Finance costs	*5*	**—**	(4,106)
Profit for the year		**65,045**	47,788
Minority interests		**412**	331
Profit attributable to shareholders	*7 & 17*	**65,457**	48,119
Basic earnings per share	*8*	**10.1 cents**	9.8 cents
Diluted earnings per share	*8*	**9.9 cents**	N/A

Apart from the profits 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 31 December 2001

	Note	**2001** HK$'000	2000 HK$'000
Intangible assets	*10*	**253**	331
Fixed assets	*11*	**58,979**	50,098
Current assets			
Inventories		**35,521**	35,554
Rental deposits		**24,104**	21,426
Trade receivable	*13*	**8,121**	11,221
Other receivables, deposits and prepayments		**30,357**	28,043
Bank balances and cash		**354,567**	114,896
		452,670	211,140
Current liabilities			
Amount due to immediate holding company	*14*	**721**	1,267
Trade payable	*15*	**204,000**	192,882
Other payables and accruals		**37,991**	25,131
Other loans		**—**	850
		242,712	220,130
Net current assets/(liabilities)		**209,958**	(8,990)
		269,190	41,439
Financed by:			
Share capital	*16*	**65,560**	6,769
Reserves	*17*	**202,045**	32,673
Shareholders' funds		**267,605**	39,442
Minority interests		**1,585**	1,997
		269,190	41,439

On behalf of the Board

Fung Kwok King, Victor
Director

Yeung Lap Bun, Richard
Director

Balance Sheet

As at 31 December 2001

	Note	2001 HK$'000	2000 HK$'000
Investment in subsidiaries	*12*	**20,314**	15,153
Current assets			
Other receivables, deposits and prepayments		**6,166**	6,553
Bank balances and cash		**321,371**	—
		327,537	6,553
Current liabilities			
Other payables and accruals		**1,034**	2,174
Net current assets		**326,503**	4,379
		346,817	19,532
Financed by:			
Share capital	*16*	**65,560**	6,769
Reserves	*17*	**121,757**	12,763
Shareholders' funds		**187,317**	19,532
Loans from a subsidiary	*18*	**159,500**	—
		346,817	19,532

On behalf of the Board

Fung Kwok King, Victor
Director

Yeung Lap Bun, Richard
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2001

	Note	2001 HK$'000	2000 HK$'000
Net cash inflow from operating activities	*20(a)*	**99,026**	101,205
Returns on investments and servicing of finance			
Interest received		**9,955**	2,187
Interest paid		**—**	(4,106)
Net cash inflow/(outflow) from returns on investments and servicing of finance		**9,955**	(1,919)
Investing activities			
Purchase of fixed assets		**(31,544)**	(25,760)
Proceeds from disposal of fixed assets		**378**	—
Net cash outflow from investing activities		**(31,166)**	(25,760)
Net cash inflow before financing		**77,815**	73,526
Financing	*20(b)*		
Net proceeds from issue of ordinary shares		**162,706**	—
Loans from immediate holding company		**—**	91,704
Increase in share capital of a subsidiary before reorganisation		**—**	50,300
Capital contribution from a minority shareholder		**—**	2,808
Repayment of other loans		**(850)**	(1,700)
Net cash inflow from financing activities		**161,856**	143,112
Increase in cash and cash equivalents		**239,671**	216,638
Cash and cash equivalents at 1 January		**114,896**	(101,742)
Cash and cash equivalents at 31 December		**354,567**	114,896
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**354,567**	114,896

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 23 October 2000.

(b) On 29 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 shares of the Company were listed on the GEM on 18 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 had been prepared on the basis of merger accounting as if the Company had been the holding company of the Group throughout the year ended 31 December 2000. All significant inter-company transactions and balances within the Group had 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 was regarded as a merger reserve included in the shareholders' equity of the Group.

(d) 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 consolidated accounts include the accounts of the company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the 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 unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Consolidation (continued)

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

In the company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the company on the basis of dividends received and receivable.

(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.

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Leasehold improvements are 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 $33\frac{1}{3}$%
Motor vehicles	25%

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Fixed assets (continued)

Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

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. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(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.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(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

Since 1 December 2000, the Group selected to contribute to the Mandatory Provident Fund Scheme ("MPF Scheme") in substitute of its defined contribution retirement scheme ("the Scheme") for its employees in Hong Kong.

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).

The Group's contributions to the MPF Scheme are charged to the profit and loss account as incurred.

(k) Cash and cash equivalent

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cashflow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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:

	Group	
	2001	2000
	HK$'000	HK$'000
Turnover		
Merchandise sales revenue	**1,265,632**	1,094,986
Bakery sales revenue	**38,491**	44,799
E-fulfillment service income	**1,001**	886
	1,305,124	1,140,671
Other revenues		
Rebate income	**80,315**	62,944
Interest income	**9,955**	2,187
Others	**7,930**	6,490
	98,200	71,621
Total revenues	**1,403,324**	1,212,292

No activity analysis and geographical analysis are presented for the years ended 31 December 2001 and 2000 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:

	Group	
	2001	2000
	HK$'000	HK$'000
Crediting		
Recovery of bad debts previously written off	**392**	—
Gain on dilution in shareholding of a subsidiary	**—**	480
Charging		
Amortisation of franchise licence	**78**	78
Auditors' remuneration	**366**	200
Cost of inventories sold	**966,050**	841,749
Depreciation of owned fixed assets	**22,055**	18,024
Loss on disposal of fixed assets	**230**	1,401
Operating leases rental for land and buildings	**86,855**	76,154
Provision for doubtful debts	**1,301**	2,214
Provision for inventories	**300**	—
Retirement benefit costs	**2,763**	2,710
Staff costs (including directors' emoluments)	**153,750**	128,294

5. FINANCE COSTS

	Group	
	2001	2000
	HK$'000	HK$'000
Interest on bank loans and overdrafts	**—**	4,106

6. TAXATION

No Hong Kong profits tax has been provided for the years ended 31 December 2001 and 2000 as the Group has been able to utilise available tax losses brought forward from previous years to offset the assessable profit for the years.

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$5,079,000 (2000: loss of HK$29,000).

8. EARNINGS PER SHARE

The calculation of the Group's basic and diluted earnings per share is based on the consolidated profit attributable to shareholders of HK$65,457,000 (2000: HK$48,119,000).

The basic earnings per share is based on the weighted average of 647,966,301 (2000: 491,700,000) ordinary shares in issue during the year. In determining the weighted average number of ordinary shares, a total of 67,690,000 ordinary shares issued on the establishment of the Company and the reorganisation of the Group and a further 424,010,000 ordinary shares being the capitalisation issue immediately following the new issue of shares to the public were deemed to have been issued since 1 January 1999.

The diluted earnings per share is based on the weighted average number of 647,966,301 ordinary shares in issue during the year plus the respective weighted average of 11,095,146 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

Diluted earnings per share for the year ended 31 December 2000 was not shown as there were no dilutive potential ordinary shares.

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2001	2000
	HK$'000	HK$'000
Fees	**240**	—
Basic salaries, housing allowances, other allowances and benefits in kind	**2,861**	1,950
Discretionary bonuses	**2,737**	—
Retirement benefits scheme contributions	**24**	84
	5,862	2,034

In addition to the directors' emoluments disclosed above, certain directors of the Company had emoluments receivable from the immediate holding company, which totals HK$3,377,000 (2000: HK$7,712,000), part of which is in respect of their services to the Company and its subsidiaries. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services to the Group and their services to the Company's immediate holding company.

Directors' fees disclosed above include HK$60,000 (2000: Nil) payable to independent non-executive directors.

No options were granted to the directors under the Share Option Scheme approved by a written resolution of the shareholders of the Company on 6 January 2001.

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

(a) Directors' emoluments (continued)

The emoluments of the directors fell within the following bands:

	Number of directors	
	2001	2000
HK$ Nil - HK$1,000,000	**7**	1
HK$2,000,001 - HK$2,500,000	**—**	1
HK$4,500,001 - HK$5,000,000	**1**	—
	8	2

The individual emoluments of the executive directors for the year ended 31 December 2001 were approximately HK$4,990,000 (2000: HK$2,034,000) and HK$692,000 (2000: Nil) respectively.

No director waived or agreed to waive any of their emoluments in respect of the years ended 31 December 2001 and 2000.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2000: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2000: four) individuals during the year are as follows:

	2001	2000
	HK$'000	HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**4,196**	3,081
Retirement benefits scheme contributions	**48**	127
Bonuses	**793**	1,382
	5,037	4,590

The emoluments of the employees fell within the following bands:

	Number of individuals	
	2001	2000
HK$ Nil - HK$1,000,000	**1**	1
HK$1,000,001 - HK$1,500,000	**3**	3
	4	4

(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.

10. INTANGIBLE ASSETS

	Group	
	2001	2000
	HK$'000	HK$'000
Franchise licence, at cost	**1,559**	1,559
Less: accumulated amortisation	**(1,306)**	(1,228)
	253	331

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.

11. FIXED ASSETS

	Group			
	Equipment, furniture and fixtures	**Leasehold improvements**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Costs				
At 1 January 2001	129,982	57,023	2,688	189,693
Additions	24,330	6,698	516	31,544
Disposals	(6,612)	(7,686)	—	(14,298)
At 31 December 2001	147,700	56,035	3,204	206,939
Accumulated depreciation				
At 1 January 2001	88,056	49,335	2,204	139,595
Charge for the year	17,348	4,492	215	22,055
Disposals	(6,383)	(7,307)	—	(13,690)
At 31 December 2001	99,021	46,520	2,419	147,960
Net book value				
At 31 December 2001	48,679	9,515	785	58,979
At 31 December 2000	41,926	7,688	484	50,098

12. INVESTMENT IN SUBSIDIARIES

	Company 2001 HK$'000	Company 2000 HK$'000
Investment at cost:		
Unlisted shares	**6,769**	6,769
Loan to a subsidiary	**12,792**	12,792
Amounts due from subsidiaries	**788**	—
Amount due to a subsidiary	**(35)**	(4,408)
	20,314	15,153

The loan to and amount due from/to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

The following is a list of the subsidiaries of the Company as at 31 December 2001:

Name	Place of incorporation	Principal activities and place of operation	Issued and fully paid up capital	Interest held
Directly held:				
Convenience Retail Asia (BVI) Limited	British Virgin Islands	Investment holding in Hong Kong	10,000 ordinary shares of US$1 each	100%
Indirectly held:				
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%
Circle K Convenience Stores PRC Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK$1 each	100%
Circle K Convenience Stores PRC (BVI) Limited	British Virgin Islands	Inactive	1 ordinary share of US$1 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%

13. TRADE RECEIVABLE

Majority of the Group's turnover are cash sales. At 31 December 2001, the ageing analysis of trade receivable was as follows:

	Group	
	2001	2000
	HK$'000	HK$'000
Current	**6,189**	4,953
30-60 days	**997**	4,247
60-90 days	**383**	938
Over 90 days	**552**	1,083
	8,121	11,221

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. TRADE PAYABLE

At 31 December 2001, the ageing analysis of the trade payable was as follows:

	Group	
	2001	2000
	HK$'000	HK$'000
Current	**106,871**	77,471
30-60 days	**57,594**	53,291
60-90 days	**28,049**	33,227
Over 90 days	**11,486**	28,893
	204,000	192,882

16. SHARE CAPITAL

	Note	2001 Ordinary shares of HK$0.1 each No. of shares	2001 HK$'000	2000 Ordinary shares of HK$0.1 each No. of shares	2000 HK$'000
Authorised:					
At 1 January / 23 October	*(a)*	**2,000,000,000**	**200,000**	3,800,000	380
Increase in authorised ordinary share capital	*(b)(i)*	**—**	**—**	1,996,200,000	199,620
At 31 December		**2,000,000,000**	**200,000**	2,000,000,000	200,000
Issued and fully paid:					
At 1 January / 23 October	*(a)*	**67,690,000**	**6,769**	1	—
Issue of shares	*(b)(ii) & (c)*	**163,900,000**	**16,390**	67,689,999	6,769
Capitalisation issue	*(d)*	**424,010,000**	**42,401**	—	—
At 31 December		**655,600,000**	**65,560**	67,690,000	6,769

(a) The Company was incorporated on 23 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 1 November 2000.

(b) 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 29 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, Li & Fung (Retailing) Limited ("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 Convenience Retail Asia (BVI) Limited ("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.

16. SHARE CAPITAL (continued)

(c) On 18 January 2001, 163,900,000 ordinary 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”). The excess of the issue price over the par value of the shares issued was credited to the share premium account of the Company.

(d) 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.

(e) Details of the Pre-IPO Share Option Plan (the “Plan”) and the movements of the share options during the year are set out under the “Share Options” section in the Directors’ Report. Subsequent to the year end, a total of 5,640,000 options were exercised in accordance with the terms of the Plan.

(f) Details of the Share Option Scheme (the “Scheme”) and the movements of the share options during the year are set out under the “Share Options” section in the Directors’ Report. No additional share options were granted by the Company up to the date of this report.

17. RESERVES

(a) Group

	Share premium *HK$'000*	Merger reserve *HK$'000*	Capital reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 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	—	—	12,792	—	12,792
At 31 December 2000	—	177,087	13,433	(157,847)	32,673
Premium arising from issue of shares	172,095	—	—	—	172,095
Capitalisation issue	(42,401)	—	—	—	(42,401)
Expenses incurred in connection with the issue of shares	(25,779)	—	—	—	(25,779)
Profit for the year attributable to shareholders	—	—	—	65,457	65,457
At 31 December 2001	103,915	177,087	13,433	(92,390)	202,045

17. RESERVES (continued)

(b) Company

	Share premium *HK$'000*	Capital reserve *HK$'000*	Retained earnings/ accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2000	—	—	—	—
Loss for the year attributable to shareholders	—	—	(29)	(29)
Reserve arising from group reorganisation	—	12,792	—	12,792
At 31 December 2000	—	12,792	(29)	12,763
Premium arising from issue of shares	172,095	—	—	172,095
Capitalisation issue	(42,401)	—	—	(42,401)
Expenses incurred in connection with the issue of shares	(25,779)	—	—	(25,779)
Profit for the year attributable to shareholders	—	—	5,079	5,079
At 31 December 2001	103,915	12,792	5,050	121,757

18. LOANS FROM A SUBSIDIARY

The loans from a subsidiary are unsecured, interest free and have no fixed terms of repayment.

19. DEFERRED TAXATION

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

	Group	
	2001	2000
	HK$'000	HK$'000
Accelerated depreciation allowances	**5,805**	6,644
Tax losses	**(15,398)**	(23,559)
	(9,593)	(16,915)

20. NOTE TO THE CASH FLOW STATEMENT

(a) Reconciliation of profit for the year to net cash inflow from operating activities

	2001	2000
	HK$'000	HK$'000
Profit for the year	**65,045**	47,788
Interest income	**(9,955)**	(2,187)
Interest expense	**—**	4,106
Depreciation of owned fixed assets	**22,055**	18,024
Loss on disposal of fixed assets	**230**	1,401
Amortisation of franchise licence	**78**	78
Gain on dilution in shareholding of a subsidiary	**—**	(480)
Decrease/(increase) in inventories	**33**	(5,729)
Increase in trade receivable, rental deposits, other receivables, deposits and prepayments	**(1,892)**	(7,946)
(Decrease)/increase in amount due to immediate holding company	**(546)**	1,155
Increase in trade payable, other payables and accruals	**23,978**	44,995
Net cash inflow from operating activities	**99,026**	101,205

20. NOTE TO THE CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital including premium		Minority interest		Loans	
	2001	2000	**2001**	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Balance at 1 January	**6,769**	5,856	**1,997**	—	**—**	49,638
Proceeds from issue of shares	**162,706**	913	**—**	—	**—**	—
New loan from immediate holding company	**—**	—	**—**	—	**—**	91,704
Capital contribution from a minority shareholder	**—**	—	**—**	2,808	**—**	—
Non-cash movements						
Minority interest's share of loss for the year	**—**	—	**(412)**	(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)
Balance at 31 December	**169,475**	6,769	**1,585**	1,997	**—**	—

21. COMMITMENTS

(a) Capital commitments

	Group 2001 HK$'000	Group 2000 HK$'000
Contracted but not provided for		
- in respect of acquisition of fixed assets	**3,925**	7,489
- in respect of investment in a joint venture in China	**33,000**	—
	36,925	7,489
Authorised but not contracted for		
- in respect of acquisition of fixed assets	**3,033**	—
	39,958	7,489

(b) Commitments under operating leases

At 31 December 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group 2001 HK$'000	Group 2000 HK$'000
Not later than one year	**77,928**	72,301
Later than one year and not later than five years	**56,309**	57,425
	134,237	129,726

22. CONTINGENT LIABILITIES

	Company 2001 HK$'000	Company 2000 HK$'000
Guarantees for bank loans and overdrafts of subsidiaries	**50,888**	—

23. 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 year:

		Group	
	Notes	**2001**	2000
		HK$'000	HK$'000
Income			
Management fee from Bakehouse Company Limited ("Bakehouse")		**—**	12
Recharge of office and administration expenses from Bakehouse		**—**	438
Expenses			
Net purchases from:			
- Li & Fung (Trading) Limited	*a*	**561**	203
- JDH (Hong Kong) Limited	*b*	**8,223**	8,850
- Nice Image Limited	*b*	**949**	2,055
Management fee to LFR	*c*	**6,979**	9,362
Rental payable to:	*d*		
- LFR		**605**	576
- Albinina Limited		**168**	168
- Bomaron Limited		**2,272**	1,122
Reimbursement of office and administration expenses to LFR	*e*	**1,465**	7,368
System development costs to LFR		**—**	304

Note:

(a) Li & Fung (Trading) Limited is an associated company of an intermediate holding company of the Company.

(b) JDH (Hong Kong) Limited and Nice Image Limited are fellow subsidiaries of the Company. Nice Image Limited 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.

24. ULTIMATE HOLDING COMPANY

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

25. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 4 March 2002.

Financial Summary

FOUR YEAR FINANCIAL SUMMARY

The following table summaries the results, assets and liabilities of the Group for the four years ended 31 December 2001.

	2001	2000	1999	1998
	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**1,305,124**	1,140,671	972,921	980,209
Profit/(loss) attributable to shareholders	**65,457**	48,119	6,603	(22,982)
Total assets	**511,902**	261,569	139,843	117,588
Total liabilities	**(242,712)**	(220,130)	(339,312)	(323,660)
Minority interests	**(1,585)**	(1,997)	—	—
Surplus/(deficit) on shareholders' funds	**267,605**	39,442	(199,469)	(206,072)

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