



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



First Quarterly Report 2002



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

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

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

This document, for which the directors of Convenience Retail Asia Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Convenience Retail Asia Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: - (1) the information contained in this document is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2002

		2002	2001
• Group Turnover	+7 %	HK\$322,585,000	HK\$301,905,000
• Group Profit	+7 %	HK\$12,024,000	HK\$11,256,000
• Earnings Per Share	—	1.8 cents	1.8 cents

HIGHLIGHTS

- Ⓚ Satisfactory growth in turnover and profitability despite adverse retail environment in Hong Kong.

- Ⓚ Number of stores in Hong Kong increased by two to 148 during the quarter with an additional four store openings planned.

- Ⓚ Some volatility in rate of profit growth is expected due to uncertainty in the Hong Kong retail environment.

- Ⓚ Entry into the Southern China market progressing according to plan.

- Ⓚ It is anticipated that the Company will continue to incur start-up costs from new operations in the Mainland of China.

- Ⓚ Strong cash position with HK\$351.6 million cash on hand and no bank borrowings as at 31 March 2002.



CHAIRMAN'S STATEMENT

Financial Review

It gives me great pleasure to report the unaudited first quarterly results of 2002 of Convenience Retail Asia Limited and its subsidiaries (the "Group"). During the period ended 31 March 2002, the Group recorded a satisfactory increase in both turnover and profit in the face of an economic downturn and adverse retail environment in Hong Kong.

For the first quarter of 2002, the Group's turnover increased by 7% to HK\$322.6 million when compared to the same period last year. Comparable stores (stores in existence throughout the first quarter of 2001 and 2002) showed a decrease in sales turnover of 5% reflecting the very difficult retail environment in Hong Kong. As at the end of the first quarter of 2002, there were a total of 148 stores compared to 126 stores as at the end of the first quarter of 2001.

As a result of closer collaboration with suppliers in product promotion, category management and smarter pricing, the Group continued to improve its gross margins and other income (excluding interest income) which increased by 0.4% of sales to 31% of sales during the quarter. Our store operating expenses and administrative expenses declined by 0.4% of sales due to tighter expense control.

Increased sales turnover, lower operating and administrative expenses and higher gross margins combined to contribute to an increase in the Group's net profit of 7% to HK\$12 million during the quarter. Earnings per share remained unchanged at 1.8 cents per share during the quarter.

China Update

On the 28 February 2002, the Commercial Bureau of the Guangzhou Municipal Government formally accepted our Joint Venture Proposal. The application process for the business license began in March at the Provincial and Central Government level. If everything proceeds as scheduled, we should be able to obtain final approval around the middle of the year.

In preparation for new store openings, we have committed to acquiring two new store sites located at prime retail areas with high pedestrian traffic. Two other potential store sites are currently under negotiation.

After devoting substantial resources to enable us to better understand consumer behavior in Guangzhou, we have developed a modified store model to position Circle K as the premium convenience store chain in Guangzhou. In this new model, food services will play a very important role and offer an innovative range of quality food and drink products to give consumers an exciting and novel experience while shopping at Circle K.



Business Outlook

For the Hong Kong market, overall consumer sentiment improved slightly but consumers are still cautious on spending, according to the findings of a consumer survey (Shopometer Survey, Spring 2002) conducted by the Hong Kong Retail Management Association in the first quarter of 2002.

Steady investment in advertising and promotion proved to be effective in increasing overall sales turnover in an unfavorable economic environment in the first quarter. This provided us with a competitive edge to generate repeat purchases and increase value per transaction. We will continue to implement an aggressive marketing program to encourage customer spending by providing novelty offers, innovative services and unparalleled value.

Potential savings from overall cost reductions will also help to improve prospects for future net margin improvement.

With the start of the warm weather, we are beginning to see some healthy growth in the seasonal product categories such as packaged drinks and ice creams. If the trend continues and is supported by further indications of an economic rebound in the United States, we have every reason to believe that retail conditions should improve in the second half of 2002.

Victor Fung Kwok King

Chairman

Hong Kong, 24 April 2002.

OUR VISION

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



RESULTS

The Board of Directors (“the Board”) is pleased to announce the unaudited results of the Group for the three months ended 31 March 2002, together with the comparative unaudited figures for the corresponding period ended 31 March 2001 as follows:

	<i>Note</i>	Three months ended 31 March	
		2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover	2	322,585	301,905
Cost of sales		(243,614)	(228,189)
Gross profit		78,971	73,716
Other revenues	2	22,583	21,600
Store expenses		(73,392)	(69,018)
Distribution costs		(4,396)	(4,251)
Administrative expenses		(10,739)	(10,931)
Start-up costs for China operations		(1,076)	—
Operating profit		11,951	11,116
Minority interest		73	140
Profit attributable to shareholders		12,024	11,256
Basic earnings per share	4	1.8 cents	1.8 cents

Notes:

1. Basis of preparation

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. Turnover

The Group is principally engaged in the operation of a chain of convenience stores. Revenues recognised during the three months ended 31 March 2002 are as follows:

	Three months ended 31 March	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover		
Merchandise sales revenue	314,016	291,494
Bakery sales revenue	8,529	10,003
E-fulfillment service income	40	408
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
	322,585	301,905
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Other revenues		
Rebate income	17,584	16,956
Interest income	1,539	3,031
Others	3,460	1,613
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	22,583	21,600
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Total revenues	<hr style="border-top: 1px solid black;"/> 345,168	<hr style="border-top: 1px solid black;"/> 323,505

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.

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

Rebate income is recognised on an accrual basis.

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

3. Taxation

No Hong Kong profits tax has been provided for the three months ended 31 March 2002 and 2001 as the Group has been able to utilise available tax losses brought forward from previous years to offset the assessable profit for the periods.



4. Earnings per share

The calculation of the Group's basic earnings per share for the three months ended 31 March 2002 is based on the Group's profit attributable to the shareholders of HK\$12,024,000 (2001: HK\$11,256,000) and the weighted average number of 659,898,889 ordinary shares (2001: 624,641,111 ordinary shares) in issue during the respective periods.

Diluted earnings per share for the three months ended 31 March 2002 and 2001 are not shown as there is no dilutive effect arising from the share options granted by the Company.

5. Interim dividends

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2002 (2001: Nil).

6. Movements in reserves

For the three months ended 31 March 2002, options to subscribe for 7,590,000 ordinary shares in the Company were exercised at a price of HK\$0.92 per share. The excess of the exercise price over the par value of the shares issued amounting to approximately HK\$6.2 million was credited to the share premium account.

For the three months ended 31 March 2001, 163,900,000 shares of HK\$0.10 each were issued to the public at a premium of HK\$1.05 per share (the "New Issue"). The excess of the issue price over the par value of the shares issued, net of share issuance expenditure, amounting to approximately HK\$146 million was credited to the share premium account of the Company. Immediately after the New Issue, 424,010,000 shares of HK\$0.10 each were issued, allotted at par and fully paid to Li & Fung (Retailing) Limited and four directors, namely Mr Yeung Lap Bun, Richard, Mr Li Kwok Ho, Bruno, Mr Lau Butt Farn and Ms Wong Yuk Nor, Louisa, 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.

7. Comparative figures

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

COMPETING INTERESTS

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



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

As at 31 March 2002, the interests of each of the directors, chief executives and their associates in the equity or debt securities of the Company and certain of its 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 <i>(Note 1)</i>	—	467,114,000
Company	Dr. Fung Kwok Lun, William	—	—	467,114,000 <i>(Note 1)</i>	—	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 <i>(Note 2)</i>	1,500,000 <i>(Note 4)</i>	14,500,000
Li & Fung (Gemini) Limited	Dr. Fung Kwok Lun, William	—	—	13,000,000 <i>(Note 2)</i>	—	13,000,000



Name of the Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Li & Fung (Distribution) Limited	Dr. Fung Kwok King, Victor	(i) 130,000 (Note 5)	—	(i) 6,800,000 (full voting ordinary shares) (Note 3)	—	7,090,000 (full voting ordinary shares)
		(ii) 160,000 (Note 6)	—	(ii) 10,200,000 (redeemable participating preferred shares) (Note 3)	—	10,200,000 (redeemable participating preferred shares)
Li & Fung (Distribution) Limited	Dr. Fung Kwok Lun, William	—	—	(i) 6,800,000 (full voting ordinary shares) (Note 3)	—	6,800,000 (full voting ordinary shares)
		—	—	(ii) 10,200,000 (redeemable participating preferred shares) (Note 3)	—	10,200,000 (redeemable participating preferred shares)
Li & Fung (Distribution) Limited	Lau Butt Farn	32,500 (Note 5)	—	—	—	32,500 (full voting ordinary shares)
Li & Fung Limited	Dr. Fung Kwok King, Victor	—	—	1,180,500,000 (Note 7)	50,750,000 (Note 8)	1,231,250,000



Name of the Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Li & Fung Limited	Dr. Fung Kwok Lun, William	68,502,300	8,000	1,180,500,000	—	1,250,450,300
		480,000 (Note 10)	(Note 9)	(Note 7)		
		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 18.69 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 11 April 2002. Accordingly, the companies under the section headed "Directors' interests in equity or debt securities in the Company and certain associated corporations" are only the major associated corporations of the Company and are not intended to be exhaustive.

Notes:

1. King Lun Holdings Limited ("King Lun") through its indirect wholly owned subsidiary, Li & Fung (Retailing) Limited ("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) & (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) & (2) above.
8. 50,750,000 LF Shares are held by Chase Bank & Trust Company (CI) Limited, the trustee of a trust established for the benefit of the family members of Dr. Fung Kwok King, Victor.
9. 8,000 LF Shares are owned by the wife of Dr. Fung Kwok Lun, William.
10. In 2000, Dr. Fung Kwok Lun, William was granted share options to subscribe for 480,000 LF Shares. The options are exercisable at a subscription price of HK\$15.26 per LF Shares during the period from 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 March 2002, none of the directors, chief executives, or any of their associates had any interests in any equity or debt securities of the Company or any of its associated corporations.



DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT DEBENTURES

Pursuant to the share option scheme (“Share Option Scheme”) adopted by the Company on 6 January 2001, and as amended on 24 April 2002 to comply with the changes to Chapter 23 of the GEM Listing Rules which came into effect on 1 October 2001 in relation to the share option schemes of listed issuers on the Stock Exchange, the board of directors may, at its discretion, grant options to any qualifying participants (including but not limited to any employee, whether full time or part time employees including any executive or non-executive directors, of the Company or any affiliate as defined in the Share Option Scheme) entitling them to subscribe for shares representing up to a maximum of 10% of the shares in issue as at 6 January 2001 being 65,560,000. As at 31 March 2002, no share options have been granted to the directors by the Company.

Save as disclosed in the section headed “Directors’ interests in equity or debt securities in the Company and certain major associated corporations” and apart from the above, at no time during the period up to 31 March 2002 was the Company, its holding companies, its fellow subsidiaries or its subsidiaries a party to any arrangements to enable the directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2002, the register of substantial shareholders maintained by the Company under section 16(1) of the SDI Ordinance showed that Li & Fung (Retailing) Limited held 467,114,000 shares in the Company. Other than such interests and those as disclosed in the section headed “Directors’ interests in equity or debt securities in the Company and certain major associated corporations” above, the Company has not been notified of any substantial shareholders’ interests, being 10% or more of the Company’s issued share capital.

SPONSOR’S INTERESTS

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 March 2002.

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



AUDIT COMMITTEE

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

The audit committee has reviewed with management this unaudited quarterly report for the period ended 31 March 2002.

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

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