

# Convenience Retail Asia Limited

利亞零售有限公司

(incorporated in the Cayman Islands with limited liability)



A member of the Li & Fung Retailing Group



Half Year Report 2003



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*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 GEM of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to Convenience Retail Asia Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this document is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*



## HALF YEAR RESULTS FOR THE PERIOD ENDED 30 JUNE 2003

Three Months Ended 30 June		2003	2002
• Group Turnover	+10%	<b>HK\$377,603,000</b>	HK\$343,435,000
• Group Profit	+2%	<b>HK\$16,589,000</b>	HK\$16,312,000 *
• Earnings Per Share (Basic)	–	<b>2.5 cents</b>	2.5 cents *
• Interim Dividend Per Share	N/A	<b>1 cent</b>	–
Six Months Ended 30 June		2003	2002
• Group Turnover	+9%	<b>HK\$727,203,000</b>	HK\$666,020,000
• Group Profit	-9%	<b>HK\$23,845,000</b>	HK\$26,200,000 *
• Earnings Per Share (Basic)	-10%	<b>3.6 cents</b>	4.0 cents *
• Interim Dividend Per Share	N/A	<b>1 cent</b>	–

### HIGHLIGHTS

- ☑ Satisfactory growth in turnover and slight increase in profitability in the second quarter despite challenging market conditions caused by the SARS outbreak.
- ☑ Number of stores in Hong Kong increased by four to 172 during the quarter and seven more stores are scheduled to open in the third quarter.
- ☑ Four stores are operating in Guangzhou and four more stores are scheduled to open soon.
- ☑ Retail market in Hong Kong has been recovering since May, but overall retail sales in the second half of 2003 are expected to remain in negative territory when compared to the same period in 2002.
- ☑ Strong cash position with HK\$433.7 million and no bank borrowings as at 30 June 2003.

\* Restated for income tax effect per Statement of Standard Accounting Practice No.12 (revised) "Income Taxes" issued by the Hong Kong Society of Accountants.



## CHAIRMAN'S STATEMENT

### Financial Overview

It gives me great pleasure to report the unaudited half year results of Convenience Retail Asia Limited (the "Company") and its subsidiaries (the "Group") for the period ended 30 June 2003.

The Group went through a very difficult period over the last quarter faced with the unprecedented challenge of the continued weakening of the Hong Kong economy and the SARS outbreak in Hong Kong and the Chinese Mainland. However, the Group managed to steer through this challenging period and achieved satisfactory growth in turnover and a marginal growth in profit. During the second quarter ended 30 June 2003, the Group's turnover increased by 10% to HK\$377.6 million when compared to the same period last year. Net profit attributable to shareholders increased by 2% to HK\$16.6 million. The Group has a net cash balance of HK\$433.7 million and no bank borrowings.

The Group has achieved a retained earning of HK\$5.7 million at the end of the current quarter after offsetting accumulated losses. In view of the Group's strong liquidity position and profitability, the Board of Directors has resolved to declare an interim dividend of 1 cent per share. It is expected that for the second half of 2003 a higher dividend payout will be made.

### Hong Kong Operation

The outbreak of SARS at the beginning of the second quarter dealt a heavy blow to the retailing industry in Hong Kong, resulted in a 15% drop in total retail value for the market in April and a 11% drop in May 2003, compared to the same period in 2002.

With the prompt implementation of responsive marketing strategies, the Group was able to minimise the negative impact on sales. The immediate introduction of face masks, antiseptic wet tissues and instant hand sanitizers in all Circle K stores to fulfill market demand helped to generate incremental sales and compensate for sales loss in the core categories such as cold drink, beer and ice-cream. As a result, even at the worst moment of the outbreak, the sales drop was contained to no more than 5%.

The implementation of a cost saving initiative and the successful launch of a private label meal box at the end of May further boosted sales and profitability. By the end of the second quarter, overall business performance was very much back on track in terms of sales.



A notable and commendable contribution was the courage and undaunted spirit demonstrated by the operation team of the Circle K stores located at the heavily SARS infected Amoy Garden, the United Hospital, the St. Margaret Hospital and the Tseung Kwan O Hospital, all right at the forefront of the outbreak. It was their professional discipline that enabled us to sustain normal service even at the most critical times, with the strictest observation of hygiene standards. I would like to take this opportunity to salute the dedication and loyalty of our frontline staff.

### **Guangzhou Operation**

The impact of SARS in the Guangzhou market was relatively less severe compared to Hong Kong and the sales performance of the Circle K stores in the second quarter was only mildly affected. Customers' response to the Circle K store format continue to be favourable with all four stores in operation recording strong transaction count.

Even though the extensive search for new store sites continued to be our key initiative, the intricacy of the real estate market, complications over site ownership verification and licensing procedures have somewhat slowed down the process. So far we have committed another four sites, all scheduled to be opened soon.

The Group has decided to purchase one of these four sites because of its ideal location right opposite to the exit/entrance of the mass transit system in a prime commercial area. The Group is convinced that it will be a good investment in the long term because the site offers great potential to become a flagship store with considerable exposure on a trunk road while enjoying a high traffic count of office workers who are our primary target customer group.

In response to this delay, the Group is stepping up the effort and has added resources to the store development area.

In view of the current progress, we believe that a realistic target store number at the end of 2003 will be around 10 to 15.

The loss incurred for the Guangzhou operation is more or less in line with our expectation. We will conduct a full review and further refinement of our business model before the end of the year.



## **Business Outlook**

According to “The Shopometer Survey”<sup>\*</sup> conducted in May 2003, consumer confidence level in Hong Kong’s overall economy has improved slightly compared to February 2003. This could be attributed to the end of the war in Iraq and the decreasing threat of SARS.

With the uncertainties in the economic outlook for the rest of the year and unemployment just hitting a record high of 8.3% and widening deflation, the Group will remain cautiously optimistic about the business outlook for the next six months in Hong Kong.

In Guangzhou our unique convenience store model with strong emphasis on food services is well received by our customers. We believe there is plenty of room for further growth in sales by broadening our product range, refining our product assortments and accelerating our store network expansion.

The signing of the Closer Economic Partnership Arrangement (CEPA) by the Hong Kong Special Administrative Region (HKSAR) and the Central People’s Government on 29 June 2003 heralded a new era of market liberalisation for trading in the Chinese Mainland for investors from Hong Kong. This is definitely a positive development as the Group will be able to expand faster with more flexibility. It is the Group’s intention to review and revisit our market entry strategy as soon as details of the implementation are finalised in order to capitalise on new opportunities.

### **Fung Kwok King, Victor**

*Chairman*

Hong Kong, 28 July 2003

<sup>\*</sup> *The Shopometer Survey presented by Hong Kong Retail Management Association and Asia Market Intelligence issued on 25 June 2003.*



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

During the three months ended 30 June 2003, the Group's turnover increased by 10% to HK\$377.6 million when compared to the same period last year. This was achieved despite a very severe operating environment in Hong Kong which was dually affected by the weak economy and the SARS outbreak. The increase in turnover in the past three months came primarily from sales at non-comparable stores. Comparable store turnover (stores in existence throughout the first and second quarters of 2002 and 2003) showed a decline in turnover of 1%.

The Group faced a lot of pressure on gross margin because of a change in sales mix which resulted in an increase in lower margin cigarette sales and a decrease in higher margin beverage and food services sales. The shift in sales mix was caused by stricter control over contraband cigarette sales, decrease in cross border shopping between Hong Kong and Shenzhen and changes in shopping habits after the SARS outbreak. Gross margin and other income (excluding interest income) decreased by 1% to 32.2% of sales during the quarter.

During the quarter, store operating expenses as a percentage of sales decreased by 0.5% to 22.1%. The decrease was achieved through cost reduction in rental, staff costs and advertising and promotion but was partly offset by the increase in store operating expenses in the Chinese Mainland.

Distribution costs increased by 0.3% to 1.6% of sales due to the increase in chilled delivery expenses as we started centralised distribution of chilled products during the quarter.

Administration expenses increased by 0.2% to 3.8% of sales during the quarter which was mainly caused by the increase in administration expenses for our operations in the Chinese Mainland.

For the second quarter of 2003, net profit attributable to shareholders increased by 2% to HK\$16.6 million. The savings in store operating expenses more than offset the unfavourable variance in gross margin and increases in other expenses.

The Group's financial position continues to be strong with a total cash balance of HK\$433.7 million and no borrowings. The Group had a limited foreign exchange exposure in RMB. The paid-in capital of the joint venture was injected in Hong Kong dollar. Conversion into RMB was kept to a minimal level by only converting the amount needed for working capital. In addition, any future borrowing of the joint venture will be denominated in RMB.

In the six months ended 30 June 2003, the Group recorded turnover of HK\$727.2 million and net profit of HK\$23.8 million, which represents an increase of 9% and a decrease of 9% respectively when compared to the results for the six months ended 30 June 2002.



## **Operation Review – Hong Kong**

### *Store Operations*

The retailing market in Hong Kong went through an extremely challenging phase during the second quarter of 2003, facing the full impact of the SARS outbreak.

Four new stores were opened during the last quarter as a result of a deliberate slowdown in the store expansion process. Only stores previously committed were scheduled for opening. With the conservation of budget and resources, the Group will be in a better position to select more suitable sites with more reasonable rental when the market adjustment takes place. It is anticipated that with such a wait-and-see approach, the original store expansion target of 200 stores by end of 2003 will need to be revised downwards to 190.

### *Employees*

As at 30 June 2003, the Group had a total of 1,753 employees of whom 1,585 were based in Hong Kong with the remaining 168 based in the Chinese Mainland.

Regular part-time staff accounted for about 50% of the total man-hours in May 2003, a further improvement from the 45% in December 2002. The increase in the ratio of part-time staff allows for more flexibility in human resources allocation and better control of labour costs.

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

The Group's remuneration packages include a performance-related bonus scheme and share options. During last year, a Chairman's Award Programme was introduced to provide recognition and reward to staff with excellent performance and outstanding commitment. A total of 62 employees were nominated and awarded 10,000 Convenience Retail Asia share options each.

### *Marketing and Promotion*

During the SARS outbreak, all advertising and promotion activities were scaled back since it would be almost impossible to induce any traffic or spending during that very difficult time. The loss of traffic and sales during the evening hours reflected general anxiety to return home after work/school and the wish to stay at home.





The only marketing program was devoted to the promotion of protective products against SARS, such as face masks, antiseptic hand sanitizers and wet tissue wipes, etc. The Circle K campaign to promote these popular products assumed an ethical stance by educating the consumers on the quality standard to ensure efficacy. The success of such a strategy not only generated substantial incremental sales but also enhanced the brand image of Circle K as a socially responsible corporate citizen.

As a contribution to the community, antiseptic product donations were promptly made to government hospitals where Circle K stores were located at the height of the outbreak.

#### *Category Excellence*

The timely launch of the protective product category against SARS was a good demonstration of category excellence. The challenge faced by the category management team was to ensure product availability under the pressure of great demand from the market.

Another successful new product launch was the private label meal box. The product concept was a chilled meal box of exceptional quality and taste that could be easily reheated in a microwave oven. With a shelf life of about a week, the meal box can be heated up and consumed in the store or kept in a refrigerator at home or in the office, providing a quality hot meal any time of the day.

During the first two days of the launch over 20,000 lunch boxes were sold as the result of a joint coupon promotion with one of the leading daily newspapers.

#### *Service Excellence*

Winning the Silver Prize of the Hong Kong Management Association's "Award For Excellence in Training 2003" was a due recognition of the high quality and standards of the Group's customer service training. The winning program was phone-card product training with "Better Knowledge, Better Service" as the theme. The excellent collaboration between the human resource team and the operation team is greatly appreciated by the Group.

During the past six months further efforts and resources have been put behind the enhanced training program for "Speed, Tidiness and Friendliness". "Adding Value to Customers" training theme was introduced in April to motivate suggestive selling by frontline staff. Over 1,280 frontline staff participated in the training program and a total of 26 classes were conducted.



### *Supply Chain Management and Logistics*

The introduction of centralised distribution services for chilled food and its successful implementation was the key achievement of the Supply Chain Management and Logistics team in the past six months.

In order to meet the growing demand of food services, an infrastructure was set up to centralise all logistics activities for chilled food products including fast food and meal boxes. With the new system in place, the daily ordering, product receiving and invoicing procedures at the store level were simplified and streamlined considerably. Store managers are now able to use the “smart store-order-monitoring system” to facilitate daily ordering processes, while an alert will be sent directly to the store as a reminder if no ordering information is received at headquarter.

### **Operation Review – Guangzhou**

During the second quarter, the Circle K operation in Guangzhou went through a period of intensive product development, experimentation and launch activities. The successful introduction of Baked Chicken with Rice in April and the Japanese Soup Noodle in June as meal solutions were results of these focused efforts. By enriching the range of our product offerings, incremental sales were achieved for each store day.

Products from the Hot & In food service have continued to be the main contributors to sales accounting for more than 36% of total sales and even higher contribution to margin dollars.

The consumer acceptance of the new food concepts under the Hot & In brand supports our belief that the market is ready for an upgrade in the overall shopping experience – a more refined quality product, better tasting meal with efficient and hygienic services. Novelty and premium quality have proven to be a very sellable consumer proposition which commands a premium pricing.

Since all Hot & In products are exclusive to Circle K, the strategic objectives of building customer loyalty with destination shopping and providing a better margin opportunity are duly achieved.

The market success of the Hot & In products is the most encouraging evidence that we have managed to create a competitive edge with our unconventional business model. It is a unique positioning that we will build on moving forward.

With the coming of hot season, sales of packaged drinks and ice cream are picking up nicely, with individual stores registering record sales on daily basis. Given the current sales growth momentum, our operation in Guangzhou should be able to generate significant volume increase during the first summer peak season.



## **Prospect**

In order to cope with the volatile market conditions and to be prepared for any further sales decrease, a cost saving initiative was implemented at the beginning of the second quarter with very encouraging results in Hong Kong. The full effect of the cost saving initiatives will become more evident by the end of 2003.

The Group was able to enjoy a one-off 30% rental concession from the Government Housing Estate stores as compensation for sales loss during the SARS outbreak for three months (from 1 April to 30 June 2003). Negotiations for permanent rental reduction are still being considered on a case by case basis upon lease renewal.

With the successful implementation of cost control measures, the Group is in a healthy position to maximise profit opportunities in the coming six months. Even though there are signs of a gradual recovery in the retailing market with the return of the Chinese Mainland visitors and the prevailing back-to-normal consumer sentiments, the Group remains cautiously optimistic about business performances for the rest of 2003. However, continued deflation together with the record high unemployment remain factors for concern and are likely to deter the consumers' spending mood. The overall retail market in Hong Kong will continue to be tough and retail sales in the coming six months, though gradually recovering, will remain in negative territory when compared to the same period in 2002.

The Guangzhou operation is in a totally different position from Hong Kong. The overall market maintains strong growth with consumers having increased disposable income and the propensity to spend. A scheduled pricing strategy review will further enhance margin improvement opportunities. The Group is also adding resources to expedite the store expansion process so as to open more stores in the second half of the year.

CEPA is the most exciting news for the Guangzhou operation. It is the Group's intention to follow up closely on further announcements regarding the details of implementation so that an overall review of the Group's entry strategy in China can be conducted in due course.

**Yeung Lap Bun, Richard**  
*Chief Executive Officer*

Hong Kong, 28 July 2003



## REVIEW OF BUSINESS OBJECTIVES FOR THE SIX MONTHS ENDED 30 JUNE 2003

### 1. Hong Kong Operations

#### Initiatives

- Enhance the CRA Group's capability of opening more new Circle K stores and at shorter lead time. This capability will be important to the CRA Group if it wishes to achieve a double-digit percentage increase in the total number of outlets.
- Further improve the CRA Group's core competencies in marketing, customer services, category management, supply chain management and information technology applications, all of which will have a major impact on the realisation of the CRA Group's vision of becoming the fastest-growing and preferred convenience store chain in Hong Kong and the People's Republic of China ("PRC").

#### Progress Update

- Total number of stores increased to 172 as at end of June 2003.
- New store fitting-out period was successfully reduced by more than 10%. Also formed alliance with four contractors to expedite store construction/renovation process.
- A total of 6 promotional campaigns were successfully carried out:
  - \* Jan – Lucky Star Card Promotion 888
  - \* Feb – CNY Promotion
  - \* Mar – Lucky Star Loyalty Program Promotion
  - \* Apr – Value Redemption Program
  - \* May – Snack Promotion
  - \* Jun – \$10 Promotion & Lucky Star Loyalty Program
- 26 sessions of enhanced STF training program called "Adding Value" were successfully developed and completed by Tiptop Consultants Ltd.
- Our in-house phone card training program "Better Knowledge, Better Service" was awarded the Silver Award of "Excellence Training 2003" organised by Hong Kong Management Association.
- A continuing learning culture supported by both in-house and external training programmes has been established, resulting in on-going improvement in the key core competencies.



## 2. PRC Operations

### Initiatives

- Build the network of Circle K stores of up to 100 outlets in Guangzhou and the Pearl River Delta Area.
- If the Pearl River Delta Area market becomes profitable, obtain the relevant business licences and commence expansion into other potential markets in the Eastern PRC and/or the Northern PRC.

### Progress Update

- Store openings were delayed due to the longer than expected PRC license approval process. The first Circle K store was opened in November 2002 and the revised plan is to have 10-15 stores in the Pearl River Delta by end of 2003.
- Opened a total of 4 stores in locations with different customer profiles, with four more store sites already committed.
- Sales results has indicated that our unique business model has been well received by customers.
- Earned field experience on real estate issues and redefined store growth strategy.
- Sharpened deployment strength on Food Services, Customer Services and SCML.
- Adding resources to expedite store development process so as to open more stores in the second half.
- Implementation of this initiative will be delayed to 2004 (after we have established a strong foothold in the Southern China market).



**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2003**

	Note	<b>(Unaudited)</b> <b>Three months</b> <b>ended 30 June</b>		<b>(Unaudited)</b> <b>Six months</b> <b>ended 30 June</b>	
		<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i> (Restated)	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i> (Restated)
Turnover	2	377,603	343,435	727,203	666,020
Cost of sales		(284,946)	(256,032)	(549,218)	(499,646)
Gross profit		92,657	87,403	177,985	166,374
Other revenues	2	30,483	28,237	55,402	50,820
Store expenses		(83,422)	(77,694)	(167,981)	(151,086)
Distribution costs		(5,956)	(4,628)	(11,402)	(9,024)
Administrative expenses		(14,507)	(12,404)	(27,277)	(23,143)
Start-up costs for China operations		–	(1,246)	–	(2,322)
Profit before taxation	3	19,255	19,668	26,727	31,619
Taxation	4	(3,798)	(3,440)	(5,271)	(5,571)
Profit after taxation		15,457	16,228	21,456	26,048
Minority interest		1,132	84	2,389	152
Profit attributable to shareholders		<u>16,589</u>	<u>16,312*</u>	<u>23,845</u>	<u>26,200*</u>
Dividend	5	<u>6,685</u>	<u>–</u>	<u>6,685</u>	<u>–</u>
Basic earnings per share	6	<u>2.5 cents</u>	<u>2.5 cents*</u>	<u>3.6 cents</u>	<u>4.0 cents*</u>
Diluted earnings per share	6	<u>2.5 cents</u>	<u>2.4 cents*</u>	<u>3.6 cents</u>	<u>3.9 cents*</u>

\* Restated for income tax effect per Statement of Standard Accounting Practice No. 12 (revised) "Income Taxes" issued by the Hong Kong Society of Accountants.



**CONDENSED CONSOLIDATED BALANCE SHEET**  
AS AT 30 JUNE 2003

	<i>Note</i>	<b>(Unaudited)</b> <b>30 June</b> <b>2003</b> <i>HK\$'000</i>	(Audited) 31 December 2002 <i>HK\$'000</i> (Restated)
Intangible assets	7	136	175
Fixed assets	8	82,410	77,382
Deferred tax assets		2,793	2,779
Current assets			
Inventories		50,106	50,556
Rental deposits		25,910	24,833
Trade receivable	9	11,551	15,687
Other receivables, deposits and prepayments		21,711	28,766
Bank balances and cash		433,744	407,489
		543,022	527,331
Current liabilities			
Amount due to immediate holding company		871	1,014
Trade payable	10	218,260	214,118
Other payables and accruals		24,936	39,039
Taxation payable		2,930	–
		246,997	254,171
Net current assets		296,025	273,160
Total assets less current liabilities		381,364	353,496
Financed by:			
Share capital		66,845	66,722
Reserves		304,174	285,830
Proposed dividend	5	6,685	–
Shareholders' funds		377,704	352,552
Minority interests		658	297
Deferred tax liabilities		3,002	647
		381,364	353,496



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2003**

**(Unaudited)**

**Six months ended**

**30 June**

	<b>2003</b>	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow from operating activities	41,305	28,642
Net cash outflow from investing activities	(16,934)	(9,928)
Net cash inflow from financing activities	1,984	8,913
Increase in cash and cash equivalents	26,355	27,627
Cash and cash equivalents at 1 January	407,489	354,567
Effect of foreign exchange rate changes	(100)	–
Cash and cash equivalents at 30 June	<u>433,744</u>	<u>382,194</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<u>433,744</u>	<u>382,194</u>



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### FOR THE SIX MONTHS ENDED 30 JUNE 2003

	(Unaudited)						
	Share capital	Share premium	Merger reserve	Capital reserve	Exchange reserve	Retained earnings/ (accumulated losses)	Total shareholders' equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002, as previously reported	65,560	103,915	177,087	13,433	-	(92,390)	267,605
Effect of changes in accounting policy (note 1(a))	-	-	-	-	-	13,798	13,798
At 1 January 2002, as restated	65,560	103,915	177,087	13,433	-	(78,592)	281,403
Issue of shares	969	7,946	-	-	-	-	8,915
Profit for the period attributable to shareholders	-	-	-	-	-	26,200	26,200
At 30 June 2002	<u>66,529</u>	<u>111,861</u>	<u>177,087</u>	<u>13,433</u>	<u>-</u>	<u>(52,392)</u>	<u>316,518</u>
At 1 July 2002	66,529	111,861	177,087	13,433	-	(52,392)	316,518
Issue of shares	193	1,583	-	-	-	-	1,776
Profit for the period attributable to shareholders	-	-	-	-	-	34,258	34,258
At 31 December 2002	<u>66,722</u>	<u>113,444</u>	<u>177,087</u>	<u>13,433</u>	<u>-</u>	<u>(18,134)</u>	<u>352,552</u>
At 1 January 2003, as previously reported	66,722	113,444	177,087	13,433	-	(20,273)	350,413
Effect of changes in accounting policy (note 1(a))	-	-	-	-	-	2,139	2,139
At 1 January 2003, as restated	66,722	113,444	177,087	13,433	-	(18,134)	352,552
Issue of shares	123	1,008	-	-	-	-	1,131
Exchange differences	-	-	-	-	176	-	176
Profit for the period attributable to shareholders	-	-	-	-	-	23,845	23,845
At 30 June 2003	<u>66,845</u>	<u>114,452</u>	<u>177,087</u>	<u>13,433</u>	<u>176</u>	<u>5,711</u>	<u>377,704</u>



## NOTES TO CONDENSED INTERIM ACCOUNTS

### 1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of GEM Listing Rules.

These condensed interim accounts should be read in conjunction with the 2002 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2002 except that the Group has changed its accounting policy following its adoption of the following SSAP issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1 January 2003:

SSAP 12 (revised) : Income Taxes

The changes to the Group’s accounting policy and the effect of adopting this revised policy is set out below:

#### (a) *Deferred taxation*

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. The principal temporary differences arise from depreciation on fixed assets and tax losses carried forward. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In prior year, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in the condensed consolidated statement of changes in equity, opening accumulated losses at 1 January 2002 and 2003 have been reduced by HK\$13,798,000 and HK\$2,139,000 respectively which represent the unprovided net deferred tax assets. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31 December 2002 by HK\$2,779,000 and HK\$647,000 respectively. The profit attributable to shareholders for the period ended 30 June 2002 has been reduced by HK\$5,576,000.



(b) *Segment reporting*

The Group has also adopted SSAP 26 “Segment Reporting” to report segment information.

In accordance with the Group’s internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format.

Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude item such as taxation. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the areas in which the assets are located. Total assets and capital expenditure are where the assets are located.

**2. Turnover, other revenues and segment information**

The Group is principally engaged in the operation of a chain of convenience stores. Revenues recognised during the three months and six months ended 30 June 2003 are as follows:

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover				
Merchandise sales revenue	377,603	343,435	727,203	666,020
Other revenues				
Promotion and support fund	25,969	23,933	45,992	41,517
Interest income	1,656	1,741	3,294	3,280
Service items income	2,858	2,563	6,116	6,023
	<u>30,483</u>	<u>28,237</u>	<u>55,402</u>	<u>50,820</u>
Total revenues	<u><u>408,086</u></u>	<u><u>371,672</u></u>	<u><u>782,605</u></u>	<u><u>716,840</u></u>

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.

Promotion and support fund are recognised in accordance with the terms of agreements with the vendors.

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

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



*Primary reporting format – geographical segments*

The Group operates in two geographical areas: Hong Kong and Chinese Mainland.

	(Unaudited)		
	Hong Kong	Chinese Mainland	Group
	Six months ended 30 June		
	2003	2003	2003
	HK\$'000	HK\$'000	HK\$'000
Turnover from external customers	723,888	3,315	727,203
Other revenues from external customers	51,774	334	52,108
	<u>775,662</u>	<u>3,649</u>	<u>779,311</u>
Segment results	<u>30,183</u>	<u>(6,750)</u>	23,433
Interest income			3,294
Profit before taxation			26,727
Taxation			<u>(5,271)</u>
Profit after taxation			21,456
Minority interest	71	2,318	<u>2,389</u>
Profit attributable to shareholders			<u>23,845</u>

	(Unaudited)		
	Hong Kong	Chinese Mainland	Group
	Six months ended 30 June		
	2002	2002	2002
	HK\$'000	HK\$'000	HK\$'000 (Restated)
Turnover from external customers	666,020	–	666,020
Other revenues from external customers	47,540	–	47,540
	<u>713,560</u>	<u>–</u>	<u>713,560</u>
Segment results	<u>30,661</u>	<u>(2,322)</u>	28,339
Interest income			3,280
Profit before taxation			31,619
Taxation			<u>(5,571)</u>
Profit after taxation			26,048
Minority interest	152	–	<u>152</u>
Profit attributable to shareholders			<u>26,200</u>

There are no sales between the geographical segments.



### 3. Profit before taxation

Profit before taxation is stated after crediting and charging the following:

	<b>(Unaudited)</b> <b>Three months</b> <b>ended 30 June</b>		<b>(Unaudited)</b> <b>Six months</b> <b>ended 30 June</b>	
	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
<i>Crediting</i>				
Net write-back of provision for inventories	32	–	32	–
<i>Charging</i>				
Amortisation of franchise licence	20	20	39	39
Depreciation of owned fixed assets	8,594	6,764	16,712	12,863
Loss on disposal of fixed assets	67	114	323	106
Provision for doubtful debts	–	199	–	351
Provision for inventories	–	10	–	10

### 4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the three months and six months ended 30 June 2003. No Hong Kong profits tax has been provided for the three months and six months ended 30 June 2002 as the Group has been able to utilise available tax losses brought forward from previous years to offset the assessable profit for the periods. No provision for overseas profits tax has been made as the Group has no overseas estimated assessable profit for the three months and six months ended 30 June 2003 and 2002.

The amount of taxation charged to the consolidated profit and loss account represents:

	<b>(Unaudited)</b> <b>Three months</b> <b>ended 30 June</b>		<b>(Unaudited)</b> <b>Six months</b> <b>ended 30 June</b>	
	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i> (Restated)	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i> (Restated)
<i>Current taxation:</i>				
– Hong Kong profits tax	2,930	–	2,930	–
Deferred taxation	868	3,440	2,341	5,571
	<u>3,798</u>	<u>3,440</u>	<u>5,271</u>	<u>5,571</u>



The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000 (Restated)
Profit before taxation	<u>19,255</u>	<u>19,668</u>	<u>26,727</u>	<u>31,619</u>
Calculated at a taxation rate of 17.5% (2002: 16%)	3,369	3,147	4,677	5,059
Effect of different taxation rates in other jurisdiction	(1,026)	–	(1,026)	–
Income not subject to taxation	(277)	(259)	(553)	(505)
Expenses not deductible for taxation purposes	321	656	(1,097)	193
Tax losses not recognised	1,796	390	2,535	774
Utilisation of previously unrecognised tax losses	(1,253)	(3,934)	(1,606)	(5,521)
Effect of change in tax rates	–	–	(200)	–
Utilisation of previously unrecognised temporary differences	700	(23)	2,294	(54)
Recognition of previously unrecognised temporary differences	<u>168</u>	<u>3,463</u>	<u>247</u>	<u>5,625</u>
Taxation charge	<u>3,798</u>	<u>3,440</u>	<u>5,271</u>	<u>5,571</u>

#### 5. Dividend

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Interim dividend – proposed after balance sheet date of 1 HK cent (2002: Nil) per share	<u>6,685</u>	<u>–</u>	<u>6,685</u>	<u>–</u>

This proposed dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected in the accounts for the year ending 31 December 2003.



## 6. Earnings per share

The calculation of the Group's basic and diluted earnings per share for the three months and six months ended 30 June 2003 is based on the respective unaudited consolidated profit attributable to shareholders of HK\$16,589,000 (2002: HK\$16,312,000 (restated)) and HK\$23,845,000 (2002: HK\$26,200,000 (restated)).

The basic earnings per share is based on the weighted average of 668,253,297 (2002: 664,622,198) and 667,948,011 (2002: 662,273,591) shares in issue during the three months and six months ended 30 June 2003 respectively.

The diluted earnings per share is based on the weighted average number of 668,253,297 (2002: 664,622,198) and 667,948,011 (2002: 662,273,591) shares in issue during the three months and six months ended 30 June 2003 plus the respective weighted average of 3,069,716 (2002: 6,756,577) and 3,396,066 (2002: 8,361,553) shares deemed to be issued at no consideration if all outstanding options had been exercised.

## 7. Intangible assets

	(Unaudited) 30 June 2003 HK\$'000	(Audited) 31 December 2002 HK\$'000
Franchise licence, at cost	1,559	1,559
Less: accumulated amortisation	(1,423)	(1,384)
	<u>136</u>	<u>175</u>

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

## 8. Fixed assets

	(Unaudited) Six months ended 30 June 2003 HK\$'000	(Audited) Twelve months ended 31 December 2002 HK\$'000
Opening net book value	77,382	58,979
Exchange adjustment	(63)	-
Additions	22,126	44,969
Disposals	(323)	(803)
Depreciation	(16,712)	(25,763)
	<u>82,410</u>	<u>77,382</u>
Closing net book value	<u>82,410</u>	<u>77,382</u>



## 9. Trade receivable

Majority of the Group's turnover are cash sales. The Group's credit terms on trade receivable from other revenues mainly range from 30 days to 60 days. At 30 June 2003, the ageing analysis of trade receivable was as follows:

	<b>(Unaudited)</b> <b>30 June</b> <b>2003</b> <i>HK\$'000</i>	(Audited) 31 December 2002 <i>HK\$'000</i>
0-30 days	9,294	12,428
31-60 days	2,105	2,591
61-90 days	40	514
Over 90 days	112	154
	<u>11,551</u>	<u>15,687</u>

## 10. Trade payable

At 30 June 2003, the ageing analysis of the trade payable was as follows:

	<b>(Unaudited)</b> <b>30 June</b> <b>2003</b> <i>HK\$'000</i>	(Audited) 31 December 2002 <i>HK\$'000</i>
0-30 days	104,525	104,313
31-60 days	68,116	65,435
61-90 days	31,880	30,709
Over 90 days	13,739	13,661
	<u>218,260</u>	<u>214,118</u>

## 11. Commitments

(a) *Capital commitments in respect of acquisition of fixed assets*

	<b>(Unaudited)</b> <b>30 June</b> <b>2003</b> <i>HK\$'000</i>	(Audited) 31 December 2002 <i>HK\$'000</i>
Contracted but not provided for	2,943	4,346
Authorised but not contracted for	13,970	4,951
	<u>16,913</u>	<u>9,297</u>



(b) *Commitments under operating leases*

At 30 June 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	<b>(Unaudited)</b> <b>30 June</b> <b>2003</b> <i>HK\$'000</i>	<b>(Audited)</b> 31 December 2002 <i>HK\$'000</i>
Not later than one year	87,386	82,464
Later than one year and not later than five years	71,930	73,378
Later than five years	389	—
	<u>159,705</u>	<u>155,842</u>

**12. Contingent liabilities**

	<b>(Unaudited)</b> <b>30 June</b> <b>2003</b> <i>HK\$'000</i>	<b>Company</b> <b>(Audited)</b> 31 December 2002 <i>HK\$'000</i>
Guarantees for bank loans and overdrafts of subsidiaries	<u>50,888</u>	<u>50,888</u>

**13. Related party transactions**

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

		<b>(Unaudited)</b> <b>Six months ended 30 June</b> <b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Net purchases from related companies	<i>a</i>	3,470	4,505
Management fee and reimbursement of office and administrative expenses to immediate holding company	<i>b</i>	4,887	4,642
Rental payable to group companies	<i>c</i>	<u>1,304</u>	<u>1,789</u>

*Notes:*

- (a) Purchases from an associated company of an intermediate holding company and a fellow subsidiary were carried out on normal commercial terms in ordinary course of business and on terms mutually agreed between the Group and the related companies.
- (b) Management fee and reimbursements payable to the immediate holding company in respect of office and administrative expenses incurred are charged on an actual cost recovery basis.
- (c) Rentals are payable to the immediate holding company and fellow subsidiaries in accordance with the terms of agreements.

In the opinion of the Directors, the above transactions were carried out on normal commercial terms in the ordinary course of business. They are expected to continue on an on-going basis, and will be conducted based on the terms of the relevant agreements governing these transactions.



## 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.

## SHARE OPTIONS

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

On 27 December 2000, a Pre-IPO Share Option Plan (the “Pre-IPO Share Option Plan”) was approved by a written resolution of the shareholders of the Company under which the board of Directors may, at its discretion, grant options to full-time or part-time employees of the Group entitling them to subscribe for shares of HK\$0.10 each (the “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 granted under the Pre-IPO Share Option Plan and remain outstanding as at 30 June 2003 were as follows:

	Options held at 1 January 2003	Options exercised during the period (Note 1)	Options lapsed during the period	Options held at 30 June 2003	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
Continuous contract employees	3,790,000	(500,000)	-	3,290,000	0.92	30 December 2000	10 January 2002	9 January 2006
	3,610,000	(730,000)	-	2,880,000	0.92	30 December 2000	10 January 2003	9 January 2006

#### Notes:

- 1,230,000 share options were exercised at an exercise price of HK\$0.92 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK\$1.91.



**(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. On 24 April 2002, the Scheme was amended 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. Details of the Scheme are as follows:

*(i) Purpose of the Scheme*

The purpose of the Scheme is to attract and retain the best quality employees for the development of the Company’s businesses and to provide additional incentives or rewards to selected qualifying participants of the Scheme for their contribution to the creation of the Company’s shareholders value.

*(ii) Qualifying participants*

Any employee (whether full time or part time employee including any executive or non-executive Directors of the Company or any Affiliate (the “Affiliate”) as defined in the Scheme) or any consultant, agent, advisor, business alliance, joint venture partner of or supplier of goods or services to the Group or any Affiliate or any employee of the business alliance, joint venture partner of or supplier of goods or services to the Group or any Affiliate.

*(iii) Maximum number of shares*

The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes (including the Pre-IPO Share Option Plan in (a) above) must not in aggregate exceed 10% of the Shares in issue as at 6 January 2001 being 65,560,000 Shares, which represent approximately 9.81% of the issued share capital of the Company as at the date of this Report.

The total number of Shares issued and to be issued upon exercise of the options (whether exercised or outstanding) in any 12-month period granted to each qualifying participant must not exceed 1% of the Shares in issue, unless specially approved by the independent shareholders of the Company.



(iv) *Option period*

In respect of any particular option, such period as 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”). The Commencement Date is deemed to have taken effect from the date on which that option was offered to the qualifying participants.

(v) *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 relevant 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.

(vi) *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 it shall not be less than whichever is the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the Commencement Date (ii) the average closing price of the Shares for the five business days immediately preceding the Commencement Date on which there were dealings in Shares on the Stock Exchange and (iii) the nominal value of a Share.

(vii) *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 remain outstanding as at 30 June 2003 were as follows:

	Options held at 1 January 2003	Options granted during the period (Note 2)	Options exercised during the period	Options lapsed during the period (Note 3)	Options held at 30 June 2003	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
(A) <i>Continuous contract employees</i>									
	242,000	-	-	-	242,000	2.42	21 September 2001	21 September 2002	20 September 2006
	472,000	-	-	-	472,000	2.42	21 September 2001	21 September 2003	20 September 2006
	2,436,000	-	-	-	2,436,000	2.785	24 May 2002	24 May 2003	23 May 2007
	620,000	-	-	(16,000)	604,000	2.785	24 May 2002	24 May 2004	23 May 2007
	94,000	-	-	-	94,000	2.15	23 September 2002	23 September 2003	22 September 2007
	66,000	-	-	-	66,000	2.15	23 September 2002	23 September 2004	22 September 2007
	-	1,398,000	-	-	1,398,000	1.69	20 May 2003	20 May 2004	19 May 2008
	-	748,000	-	-	748,000	1.69	20 May 2003	20 May 2005	19 May 2008



Options held at 1 January 2003	Options granted during the period (Note 2)	Options exercised during the period	Options lapsed during the period (Note 3)	Options held at 30 June 2003	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
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(B) Directors

1,800,000	-	-	-	1,800,000	2.785	24	24	23
(Note 1)						May 2002	May 2003	May 2007

Notes:

- (1) 1,300,000, 250,000 and 250,000 options were respectively granted to the Directors, Messrs. Yeung Lap Bun, Richard and Li Kwok Ho, Bruno and Ms. Wong Yuk Nor, Louisa. Please refer to the section headed "Interests and Short Positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations" for details.
- (2) During the period, options were granted on 20 May 2003. The closing price of the Shares immediately before the date on which the options were granted was HK\$1.66 on 19 May 2003.
- (3) 16,000 options were lapsed following the cessation of employment of certain grantees.
- (4) Rule 23.08 of the GEM Listing Rules stipulates that listed issuers are encouraged to disclose in its half year report the value of options granted to participants set out in (i) to (v) of Rule 23.07 during the financial period. The Directors consider it inappropriate to value the options as there are serious limitations in the application of the Black & Scholes Model and Binomial Model in the valuation of employee share options, especially in the case of the Company of which liquidity of its share trading is relatively low. Detailed explanations are given below on certain assumptions of the models which cannot be followed in the valuation of employee share options of the Company.
  - a. Options are freely tradeable in the market  
  
In the case of employee share option, it is not freely tradeable and transferable and a vesting period also applies.
  - b. European exercise terms are used  
  
European exercise terms dictate that the option can only be exercised on expiration date. Employee share option follows the American exercise term which allows the option to be exercised at any time during the option exercisable period. It is impossible to predict when the option will be exercised as it depends on the financial and tax considerations of the option holder concerned.



c. Returns are lognormally distributed

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

d. Estimating volatility

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

e. Value of underlying share

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

f. No tax and commissions are charged

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

g. Interest rates remain constant and known during the option’s life

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

Save as disclosed above, as at 30 June 2003, 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.



## INTEREST AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND CERTAIN MAJOR ASSOCIATED CORPORATIONS

As at 30 June 2003, the interests and short positions of each of the Directors, chief executives and their associates in the shares, underlying shares and debentures of the Company and certain of its major associated corporations\* (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as required to be recorded in the register maintained by the Company pursuant to section 352 of SFO or otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by the Directors under the GEM Listing Rules, were as follows:

### The Company

#### *Long positions in Shares and the underlying Shares of equity derivatives*

Name of Directors	Number of		Nature of interests/ Holding capacity	Approximate percentage of interests
	(i) Shares	(ii) underlying Shares		
Dr. Fung Kwok King, Victor	373,692,000	–	Corporate (Note 1)	55.90%
Dr. Fung Kwok Lun, William	373,692,000	–	Corporate (Note 1)	55.90%
Mr. Yeung Lap Bun, Richard	17,896,000	1,300,000 (Note 2)	Personal/ beneficiary	2.87%
Mr. Li Kwok Ho, Bruno	2,676,000	250,000 (Note 3)	Personal/ beneficiary	0.44%
Mr. Lau Butt Farn	2,676,000	–	Personal/ beneficiary	0.40%
Ms. Wong Yuk Nor, Louisa	1,338,000	250,000 (Note 4)	Personal/ beneficiary	0.24%
Dr. Ch'ien Kuo Fung, Raymond	1,000,000	–	Personal/ beneficiary	0.15%





## Major associated corporations

### Long positions in shares and the underlying shares of equity derivatives

Name of Directors	Name of associated corporations	Class of shares	Number of		Nature of interests/ Holding capacity	Approximate percentage of interests
			(i) shares	(ii) underlying shares		
Dr. Fung Kwok King, Victor	Li & Fung (Gemini) Limited	Ordinary shares	7,549,123	–	Corporate (Note 5)	
			871,052	–	Corporate (Notes 1 & 6)	84.80%
	Li & Fung (Distribution) Limited	Full voting ordinary shares	6,800,000	–	Corporate (Note 7)	
			–	130,000	Personal/ beneficiary (Note 8)	
			–	160,000	Personal/ beneficiary (Note 9)	70.55%
	Redeemable participating preferred shares	3,060,000	–	Corporate (Note 7)	10.41%	
Dr. Fung Kwok Lun, William	Li & Fung (Gemini) Limited	Ordinary shares	7,549,123	–	Corporate (Note 5)	76.02%
	Li & Fung (Distribution) Limited	Full voting ordinary shares	6,800,000	–	Corporate (Note 7)	67.66%
		Redeemable participating preferred shares	3,060,000	–	Corporate (Note 7)	10.41%
Mr. Lau Butt Farn	Li & Fung (Distribution) Limited	Full voting ordinary shares	–	32,500	Personal/ beneficiary (Note 8)	
				32,500	Personal/ beneficiary (Note 10)	0.65%



- \* *Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William, by virtue of their interests in King Lun Holdings Limited ("King Lun") and the Company are deemed to be interested in the shares and underlying shares of certain associated corporations of the Company under SFO. A waiver from full compliance from Rule 18.56 of the GEM Listing Rules for the disclosure of Directors' interests in the shares and underlying shares of the associated corporations has been granted by the Stock Exchange on 21 July 2003. Accordingly, the companies under the section headed "Interests and Short Positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations" are only the major associated corporations of the Company and are not intended to be exhaustive.*

*Notes:*

1. King Lun through its indirect wholly owned subsidiary, Li & Fung (Retailing) Limited ("LFR") (a wholly owned subsidiary of Li & Fung (1937) Limited ("LF (1937)")) held 373,692,000 Shares in the Company. 1,332,840 shares in King Lun, representing 50% of its issued share capital, are owned by J.P. Morgan Trust Company (Jersey) Limited, the trustee of a trust established for the benefit of the family members of Dr. Fung Kwok King, Victor. The remaining 50% of King Lun is owned by Dr. Fung Kwok Lun, William.
2. On 24 May 2002, Mr. Yeung Lap Bun, Richard was granted share options to subscribe for 1,300,000 Shares pursuant to the Scheme. The options are exercisable at a subscription price of HK\$2.785 per Share during the period from 24 May 2003 to 23 May 2007.
3. On 24 May 2002, Mr. Li Kwok Ho, Bruno was granted share options to subscribe for 250,000 Shares pursuant to the Scheme. The options are exercisable at a subscription price of HK\$2.785 per Share during the period from 24 May 2003 to 23 May 2007.
4. On 24 May 2002, Ms. Wong Yuk Nor, Louisa was granted share options to subscribe for 250,000 Shares pursuant to the Scheme. The options are exercisable at a subscription price of HK\$2.785 per Share during the period from 24 May 2003 to 23 May 2007.
5. King Lun through its wholly owned subsidiary, LF (1937) held 7,549,123 shares in Li & Fung (Gemini) Limited ("LFG"). Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun and LF (1937) as set out in note (1) above.
6. 871,052 shares in LFG are owned by a company which is held by J.P. Morgan Trust Company (Jersey) Limited.
7. LFG holds 6,800,000 full voting ordinary shares and 3,060,000 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 (5) above.



8. Dr. Fung Kwok King, Victor and Mr. Lau Butt Farn were respectively granted share options on 6 January 1999 and 13 December 1999 to subscribe for 130,000 and 32,500 full voting ordinary shares of US\$0.01 each in LFD (“LFD Shares”). Of these, options in respect of 105,500 and 26,000 LFD Shares are fully vested in Dr. Fung Kwok King, Victor and Mr. Lau Butt Farn respectively. The remaining share options are to be vested in Dr. Fung Kwok King, Victor and Mr. Lau Butt Farn on 31 December 2003. The share options are exercisable at US\$1 per LFD Share within 21 business days after the earliest of (a) the date of issuance of a notice for an initial public offering of LFD Shares, (b) the date of issuance of a notice of the sale of all or substantially all of the business or shares of LFD and (c) 31 December 2006.
9. On 6 January 1999, Dr. Fung Kwok King, Victor was granted share options to subscribe for 16,000 LFD Shares for each full percentage point by which certain LFD investors’ fully diluted aggregate estimated internal rate of return on a public share offer by LFD, or on a sale of all or substantially all of its business or shares, exceeds 30% per annum, subject to a maximum of 160,000 LFD Shares. The share options are exercisable at US\$1 per LFD Share within 21 business days after the date of issuance of a notice of public offer or sale (whichever is earlier) as described in note (8) above.
10. On 12 December 2002, Mr. Lau Butt Farn was granted share options to subscribe for 3,250 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 32,500 LFD Shares. The share options are exercisable at US\$1 per LFD Share within 21 business days after the date of issuance of a notice of public offer or sale (whichever is earlier) as described in note (8) above.

Save as disclosed above, as at 30 June 2003, none of the Directors, chief executives and their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations.



## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2003, the interests and short positions of the substantial shareholders in the Shares and underlying Shares of the Company as recorded in the register required to be kept under section 336 of SFO were as follows:-

### *Long positions in Shares*

Name	Number of Shares	Nature of Interests/ Holding capacity	Approximate percentage of interests
King Lun Holdings Limited	373,692,000	Corporate (Note 1)	55.90%
J.P. Morgan Chase & Co.	42,000,000	Investment Manager (Note 2)	
	7,056,000	Lending Pool (Note 3)	7.34%
Commonwealth Bank of Australia	33,500,000	Corporate (Note 4)	5.01%

### *Notes:*

- These shares are held by Li & Fung (Retailing) Limited ("LFR"). King Lun Holdings Limited ("King Lun") indirectly owns 100% interests in LFR through its wholly owned subsidiary, Li & Fung (1937) Limited ("LF (1937)"). All of King Lun, LFR and LF (1937) are taken to be interested in the shares under SFO. Please also refer to Note (1) in the above section headed "Interests and Short Positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations".
- These shares are held directly by JF Asset Management Limited ("JF"). J.P. Morgan Chase & Co. ("JPMC") holds 100% interests in J.P. Morgan Fleming Asset Management Holdings Inc. ("JPMF"), which in turn holds 100% interests in J.P. Morgan Fleming Asset Management (Asia) Inc. ("JPMF (A)"). JPMF (A) holds 99.99% interests in JF. All of JF, JPMC, JPMF and JPMF (A) are taken to be interested in the shares under SFO.



3. These shares are held on behalf by JPMorgan Chase Bank (“JPM Bank”), which is 100% held by JPMC. Both JPM Bank and JPMC are taken to be interested in the shares under SFO.
4. These shares are held directly by First State Investment Management (UK) Limited, which is indirectly 100% held by Commonwealth Bank of Australia through a chain of 100% held companies, Colonial Ltd, Colonial Holding Company Pty Ltd, Colonial Holding Company (No.2) Pty Limited, The Colonial Mutual Life Assurance Society Ltd, Colonial First State Group Ltd, First State Investment (UK Holdings) Limited and SI Holdings Limited. All of these companies are taken to be interested in the shares under SFO.

Save as disclosed above, as at 30 June 2003, the Company had not been notified of any substantial shareholders’ interests or short positions which are required to be recorded in the register kept under section 336 of SFO.

### **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 30 June 2003.

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

### **BOARD PRACTICES AND PROCEDURES**

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

### **AUDIT COMMITTEE**

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

The audit committee has reviewed with management this unaudited half year report for the period ended 30 June 2003.



## **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.

## **INTERIM DIVIDEND**

At a meeting held on 28 July 2003, the Board of Directors has resolved to declare an interim dividend of 1 HK cent (2002: Nil) per Share for the six months ended 30 June 2003 absorbing a total of HK\$6,684,500 on 668,450,000 Shares issued as at 28 July 2003 (2002: Nil).

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed from 13 August 2003 to 18 August 2003, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrars, Abacus Share Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 12 August 2003. Dividend warrants will be despatched on 20 August 2003.