

**CONVENIENCE RETAIL ASIA LTD :
TALK ABOUT A GAMBLE ...**

With a record of business failures since the launch of the Circle K convenient stores in 1985 throughout the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), and with Accumulated Losses of \$HK177.70 million, as at August 31, 2000, it would appear that the Directors of Convenience Retail Asia Ltd have a great deal of chutzpah -- if nothing else.

Maybe the Victor Fung Kwok King Family, the beneficial owner of more than 71 percent of the Issued and Fully Paid-Up Share Capital of this Company, has some Jewish blood?

Convenience Retail Asia, which operates 123 convenience stores on Hongkong Island, Kowloon and the New Territories, in direct competition to myriad fast-food shops, bakeries, fast-food pizza shops and food what-have-you, along with the stiffest competition of all, the 400-odd, 7-Eleven convenience stores, has thrown its hat into the ring of The Growth Enterprise Market (The GEM) of The Stock Exchange of Hongkong Ltd.

The reason: It wants lots of free money, in a hurry ... if you please.

The one salient point about this new listing is that it is, indeed, correct -- for it to be listed on the highly speculative GEM Board, rather than the Main Board.

That is, exactly, where it belongs, in TARGET's opinion.

Convenience Retail Asia (Code: 8052) has sought to raise about \$HK160 million, net of expenses, by Placing and Offering 163.90 million, 10-cent shares at a Premium of not more than \$HK1.15 per share.

The money, raised in this flotation, is to be used as follows, the Prospectus of the Company states:

1. \$HK94.30 million *'for the establishment of a convenience store chain comprising up to 100 new Circle K stores in Guangzhou and the Pearl River Delta area'*;
2. \$HK5.20 million *'for the establishment of the infrastructure of a distribution centre and administrative office in the Pearl River Delta area'*;
3. \$HK4.20 million *'for the acquisition and development of a computer system for the Group's operations in the PRC'*; and,
4. \$HK55.90 million *'for the opening of additional Circle K stores in the Eastern PRC and/or the Northern PRC'*.

So, the money, to be raised, is for a speculative foray into the PRC marketplace, even though the HKSAR's Circle K stores are still limping along, only just managing to stay out of the red.

According to the Accountants' Report, contained at Page 174 of the Prospectus, Convenience Retail Asia earned about \$HK28.24 million for the 8 months, ended August 31, 2000.

This compared with a 1999 full Year's Net Profit of about \$HK6.60 million, a figure which contrasted, markedly, to a loss of nearly \$HK23 million for the 1998 Financial Year.

In view of the Carried Forward Losses of about \$HK177.70 million, it would appear that the past 20 months trading results have broken the mould of continuous losses of this convenience store operator.

The following is the trading summary of this Company for the past 32 months:

	Year ended December 31		Eight Months to August 31, 2000
	1998	1999	2000
	All Figures are Denominated in \$HK'000		
Turnover	980,209	972,921	740,273
Cost of Sales	(743,219)	(736,290)	(553,931)
Gross Profit	236,990	236,631	186,342
Other Revenues	58,341	59,371	41,582
Store Expenses	(261,130)	(236,055)	(161,638)
Distribution Costs	(11,753)	(12,214)	(9,988)
Administrative Expenses	(28,416)	(32,150)	(23,957)
Other Operating Expenses	(4,868)	Nil	Nil
Operating Profit/(Loss)	(10,836)	15,583	32,341
Finance Costs	(12,146)	(8,980)	(4,102)
Profit/(Loss) Attributable to Shareholders	(22,982)	6,603	28,239

For the Financial Year, ended December 31, 2000, the Company forecasts that the Net Profit, excluding Extraordinary Items, will not be less than \$HK45 million.

What has helped this Company in turning the corner, so to speak, is the fact that finance costs of operations have decreased, most markedly, since 1998.

According to Note (c) at Page 176 of the Prospectus, finance costs have decreased from the 1998 figure of about \$HK12.15 million to about \$HK4.10 million for the 8 months to August 31, 2000.

Still on the matter of finances, it is noted that, as at November 30, 2000, Convenience Retail Asia had almost no debt.

The only substantive debt, amounting to about \$HK12.79 million, had been effectively *'forgotten forgiven'*, thanks to the generosity of the Principle Shareholders.

But, from hereon in, the Principle Shareholders will not be supporting Convenience Retail Asia as in the past, with cheap or free money on the turn of the tap.

The Finances

While total revenues of this Company exceed \$HK1 billion, annually, it is noted that this is, in essence, still a hand-to-mouth operation.

According to the Combined Net Assets of the Company, as at August 31, 2000, Current Liabilities exceeded Current Assets by about \$HK41.88 million.

The Book Cost of Fixed Assets are said to be about \$HK49.14 million, but these comprised \$HK7.16 million in leasehold improvements, \$HK41.96 million in furniture, fixtures and equipment, and \$HK13,000 in motor vehicles.

The Net Assets of this Company, therefore, amounted to about \$HK6.77 million as at August 31, 2000.

That makes this Company, one of the smallest ever, in terms of Net Assets, to go public in the 416 square miles that make up the HKSAR.

This Company does not own any of its stores, but leases them from third parties.

Thus, Convenience Retail Asia could be at the mercy of its landlords, at any moment.

A 10-percent upward movement in rents will cost the Company between \$HK7 million and \$HK8 million, annually, in operating costs.

The Adjusted Net Tangible Assets, as at August 31, 2000, were said to be \$HK191.64 million, a figure which includes the estimated net proceeds from this flotation of about \$HK159.64 million.

Also, the Adjusted Net Tangible Assets included a sum of \$HK12.79 million, being the assignment of a loan from the Principle Shareholders.

Clearly, this would indicate that this is, in essence, a terribly small company with a large cash, revenue base from selling ice creams, bakery items, cigarettes, instant noodles, soft drinks and the like.

Whenever there is a large amount of cash on the counter, there is bound to be a number of sticky fingers, wanting to grab that cash ... [CLICK TO ORDER FULL ARTICLE](#)

***While TARGET makes every attempt to ensure accuracy of all data published,
TARGET cannot be held responsible for any errors and/or omissions.***

If readers feel that they would like to voice their opinions about that which they have read in TARGET, please feel free to e-mail your views to editor@targetnewspapers.com or targnews@hkstar.com. TARGET does not guarantee to publish readers' views, but reserves the right so to do subject to the laws of libel.