

(Translation)

- Preliminary Prospectus-

C.P. Seven Eleven Public Company Limited

**Public Offering
by C.P. Seven Eleven Public Company Limited
of the new 40,000,000 Ordinary Shares of Baht 5 Par Value,
at the price of Baht [●] per share**

**and by existing Shareholders:
Bangkok Produce Merchandising Public Company Limited
N.T.K. Technology Co., Ltd.
and
Thaivest Pte, Limited.**

**of up to 31,500,000 Existing Ordinary Shares with of Baht 5 Par Value
at the price of Baht [●] per share**

**Financial Advisor
Merrill Lynch Phatra Securities Company Limited**

Submission date of the Registration Statement: 22 August 2003

Date of distribution of the draft Prospectus: 22 September 2003

Effective date for the Registration Statement: _____

The translation of this preliminary prospectus dated 22 September 2003 has been prepared for your convenience only. It should not be relied upon as a complete description of the preliminary prospectus in the official Thai language, and is subject to changes. For a complete description of the offering, you must refer to the prospectus, which you should note will only be available in Thai. A copy of the preliminary prospectus in the official Thai language is being provided to you together with this translation.

Warning:

Before making any investment decision, investors must exercise due care in considering information relating to the issuer and conditions of the securities as well as investment soundness and related risks. The effectiveness of this Registration Statement does not indicate that the Securities and Exchange Commission or the Office of the Securities and Exchange Commission recommends an investment in the offered securities, nor does it guarantee a price or a return of the offered securities, completeness or accuracy of information contained in this Registration Statement. It is the responsibility of the securities offeror to certify the accuracy of the information contained in this Registration Statement.

If this Registration Statement contains any untrue statement or omit to state any material statement that should have been disclosed, securities holders are entitled to claim for damages from the Company or the securities owner as stipulated in Section 82 of the Securities and Exchange Act, B.E. 2535 within one year from the date on which the Registration Statement became effective.

“This document is not a prospectus. It has been prepared to provide information on the securities being offered to investors to allow reasonable time for investors to consider the information before making investment decisions. The information contained in this document is identical to the information in the draft prospectus which has been filed with the Office of the Securities and Exchange Commission but has not yet become effective. Therefore, the information contained in this document is subject to changes.

The offer may be made only after the registration statement and the draft prospectus, which have been filed with the Office of the Securities and Exchange Commission, became effective and can be made by delivering or distributing the prospectus to the investors.”

General public may examine or request a copy of this Registration Statement and draft Prospectus filed with the Office of the Securities and Exchange Commission on any business day and during business hours of the Office of the Securities and Exchange Commission.

INVESTMENT IS SUBJECT TO RISKS. INVESTORS SHOULD CONSIDER THE INFORMATION BEFORE MAKING INVESTMENT DECISIONS.

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Section 1

Executive Summary

CP Seven Eleven Public Company Limited (the “Company”) is a flagship company in the marketing and distribution group of business of the Charoen Pokphand Group. The Company’s main business is convenience store retail outlets operation under the trademark of “7-Eleven” in Thailand. The Company also operates large-scale retail outlets or the so-called supercenter under the name of “Lotus” in China and other businesses that support the convenience store retail outlet business in Thailand. (Please see detail in the Section “business of each product line”.) Currently, the senior executives are Mr. Korsak Chairasmisak, Mr. Pittaya Jearavisitkul and Mr. Piyawat Titasattavorakul. At present, the Company is registered with Baht 2,250 million capital, which is divided into 450 million shares at Baht 5 par value per share. Of this, Baht 2,000 million is paid-up capital. The major shareholder being the Charoen Pokphand Group holds an aggregate 53.54% of the total paid up capital (pre-IPO) of the Company.

This offering covers a total of up to 71,500,000 ordinary shares, comprising of 40,000,000 new ordinary shares offered by the Company of which the proceeds of approximately Baht ● will be used for expanding the retail business in the future, and up to 31,500,000 existing ordinary shares offered by the existing shareholders, viz. Bangkok Produce Merchandising Public Company Limited, N.T.K. Technology Co., Ltd. and Thavest Pte, Limited.

As of 30 June 2003, the Company has 2,242 7-Eleven branches nationwide (this make Thailand being 4th in terms of 7-11 stores count being behind only Japan, USA and Taiwan), of which 978 are in Bangkok and 1,264 are in the provinces. Of the 2,242 7-Eleven outlets, 1,557 are company-owned whereas the remaining 573 are franchisees and 112 are sub-area licensees. On average, 2 million customers walk into 7-Eleven outlets each day. The Company plans to open around 320 branches of 7-Eleven each year in 2003-2005, of which 200-240 branches will be in normal locations and around 80-120 branches in PTT gas stations to cover areas where target customers live both in Bangkok and the provinces.

Regarding the supercenter business in China (“Lotus”), the Company operates the Lotus business through Shanghai Lotus Supermarket Chain Store Co., Ltd. (“SLS”). As at 30 June 2003, SLS operates 11 Lotus branches, of which ten are located in Shanghai and the other in Hangzhou. Of the 11 Lotus branches, SLS owns ten of them and is hired to manage the other one. On average, around 10,000-16,000 customers visit each Lotus branch a day. SLS plans to open up to 16 branches by the first quarter of 2004 both in Shanghai area and other cities in the Yangtze River Delta area.

Based on the results of operations under the consolidated financial statements for the year ending 31 December 2002, the Company and its subsidiaries had total income at Baht 45,918 million, net sales and service income at Baht 43,765 million, and net profit at Baht 964 million or Baht 2.41 per share. As at 31 December 2002, the Company had total assets at Baht 17,305 million, total liabilities at Baht 10,900 million and shareholders’ equity at Baht 6,404 million. On 28 May 2003, the Company paid dividends for the year 2002 to shareholders whose names were in the register of shareholders on 9 April 2003 in the total amount of Baht 400 million or at Baht 1.00 per share, (paid prior to the IPO).

Along with this offering of shares, the Company requests for approval of the Office of the Securities and Exchange Commission to allocate no more than 10 million units of warrants to purchase ordinary shares to the directors and employees of the Company and its subsidiaries. Such warrants will have a term of no more than 5 years, each of which will grant the right to buy 1 ordinary share at the exercise price per unit equivalent to the offering price for the ordinary shares in this public offering.

(Investors should read information in Section 2 and Section 3 before making decision to subscribe the securities.)

Section 2

Securities-Issuing Company

C.P. Seven Eleven Public Company Limited (the “Company”)’s main business is retailing. Its head office is at 283 Siboonruang Building 1, Silom Road, Kwaeng Silom, Khet Bangrak, Bangkok 10500, Tel. 0-2677-9000, Fax. 0-2631-1082. Registered Number: Bor Mor Jor 649. Homepage: www.7eleven.co.th.

The Company intends to use approximately Baht [●] million proceeds raised from the securities offering as follows.

Objectives of spending	Amount (Million Baht)	Tentative period when proceeds will be spent
1. The 7-Eleven outlet expansion project in normal locations and PTT gas stations, and the installation of Store System project	900	2004
2. The system upgrade and store renovation project	150	2004
3. The new distribution center project	835	2003-2004
4. The improvement of Store Assortment System project	165	2004
Total	2,050	

If the Company cannot proceed with the projects stated in the objectives above, the Company will invest money raised from securities offering in other projects which are related or complementary to the Company’s main business. However, investment in any other projects must be proposed to the Company’s Board of Directors and/or Chief Executive Officer according to their authority for consideration.

1. Risk factors

Investment in the offered shares is risky. Investors should exercise their discretion to make a thorough investment decision which includes considering information stated in the Registration Statement and risk factors regarding the investment in the offered shares before making any investment decision. Further to the risks described in this document, there may be other risks which are not presently known to the Company or which, in the Company's opinion, may not significantly affect the results of operations or businesses of the Company. Therefore, in the investment in ordinary shares offered by the Company, investors should thoroughly consider and assess the risks that may arise to the Company other than the risk factors stated below.

1.1 Risk relating to convenience stores

If the Area License Agreement is terminated, the Company will lose the right to use the "7-Eleven" trademark and may have to pay damages to 7-Eleven, Inc USA. In addition, if the Company's or Charoen Pokphand Group Co., Ltd. ("CPG")'s relationship with 7-Eleven, Inc. turns sour, the Company may not obtain appropriate assistance from 7-Eleven, Inc.

The Company operates its convenience store business under the Area License Agreement entered with 7-Eleven, Inc. in the US (formerly was "The Southland Corporation"). Under its terms, the Company is granted license to operate convenience store in Thailand under the "7-Eleven" trademark including related trademarks such as "Slurpee" and "Big Gulp" and to obtain training and technical assistance in convenience store business as well as other technical assistance from 7-Eleven, Inc. On 20 August 2003, 7-Eleven, Inc. entered into the "Consent Agreement" ("Consent Agreement") which is an agreement among the Company, CPG and 7-Eleven, Inc. under which 7-Eleven, Inc. has agreed to give consent to the public offering of shares and the listing of shares for trading on the Stock Exchange. In the Consent Agreement, the Company and 7-Eleven, Inc. have also agreed to amend some material provisions of the Area License Agreement. (Please consider summary of the Area License Agreement and Consent Agreement in 13.1 of 13).

The Area License Agreement does not specify the term of the Agreement. However, both parties have a right to terminate the Agreement if any event stipulated in its conditions does occur or if there is any event which constitutes a cause of termination under the Consent Agreement and also results in termination of the Area License Agreement. In case the Area License Agreement is terminated, the Company will lose its right to use the trademark, which will significantly affect the Company's business. In such case, the Company may also be required to pay damages to 7-Eleven, Inc. (Please consider details of the causes of termination, consequences of termination and damages in 13.1 of 13.)

In addition, if the relationship between the Company or CPG and 7-Eleven, Inc turns sour, the Company may not obtain appropriate assistance from 7-Eleven, Inc. The Company believes that the relationship of itself and CPG with 7-Eleven, Inc remains good and that its business operation under the "7-Eleven" trademark is the mutual interest. So far, the business relationship and assistance have been satisfactory. A chance that such relationship will turn sour is unlikely. At present, there is no reason to believe that there would be any event that may negatively affect the relationship of the Company and CPG with 7-Eleven, Inc.

Competition among convenience stores may affect the Company's sales volume and profits

The business of convenience store in Thailand remains highly competitive. In Bangkok, the Company is to compete with large retail operators especially foreign retailers as well as those having small retail networks and other independent stores. However, the Company believes that supercenters, supermarket and independent mom and pop stores are not direct competitors of the Company's business as these operators offer products to different target groups of customers compared to that of the Company. The Company believes that other convenience stores are instead

its main competitor. At present, the number of these convenience stores remains smaller than the Company's.

As the government has an increasing role to protect small retailers through an establishment of ART Co., Ltd. to assist small retail operators to compete with larger retailers by joining force to buy products together and by offering business and management advice, ART Co., Ltd. will select members who are ready to develop into a retail network under the name of ART. If this measure turns fruitful, the competition in the retail scene may become fiercer. However, such an assistance remains at a very early stage and the Company can't clearly foresee any impact from the policy. Yet, it remains alert to handle any potential competition.

Although the Management believes that the Company is capable to adjust its business strategy and use its investment and management resources to remain competitive in this business, this does not guarantee that future competition will not negatively affect the Company's operating results.

Effects of the law governing trade competition and the law on prices of goods and services to the Company's business and operating results

The general objectives of both the Trade Competition Act, B.E 2542 and the Prices of Goods and Services Act, B.E 2542 are to be applied with commercial, agricultural, industrial and service businesses with an intention to promote free trade and prevent any unfair practices while doing business. These laws may, more or less, directly and indirectly affect the Company's business and other retailers in general. However, the Company believes that it has taken into account the appropriateness and fairness according to nature and characteristic of a retail business in general when conducting its business. To date, the Company has never received complaints nor faced any disputes relating to those Acts.

If the Company's relationship with PTT Public Company Limited and PTT gas station licensees turns sour, the Company's plan to expand its business in PTT gas station may be affected.

Since the first quarter of 2002, the Company has cooperated with PTT Public Company Limited ("PTT") in a project to set up 7-Eleven convenience store in the existing and future PTT gas stations (Gas-station store or "G-Store"). The concept of G-Store will be similar to the normal 7-Eleven stores and the major difference is that it is situated in the gas station. The master agreement on the cooperation to set up convenience store in gas stations was signed on 7 February 2003 with a term of 10 years. The Company plans to use 7-Eleven stores in the PTT gas stations as one of the channels to expand its branches in the gas stations operated by PTT and PTT's licensees. As of 30 June 2003, there are 171 7-Eleven stores situated in PTT gas stations.

As a result, the Company's relationship with PTT and its licensees is one of the factors for the Company to achieve its expansion target. If the relationship is turning into a wrong direction, the Company will not be able to open G-Stores to achieve its target and this may affect its plan to expand business in the gas stations as well as its sales volume and profits. However, the Company believes that opening G-Store will be mutual benefit to both the Company and PTT as well as its licensees. The business relationship so far has been satisfactory, which means chances for the relationship to turn sour is very little. Besides, an opportunity to open branches in normal locations remains high and therefore can compensate any negative effect resulted from any future change.

Mistake or problem in the operation of the distribution center and/or delivery of products by manufacturers and distributors may affect the ability to manage inventory and display products as well as results of operations of the Company.

To ensure efficient management of both inventory and display products, most products in 7-Eleven outlets are delivered via the Company's distribution center. As such, the distribution center management is materially important to the 7-Eleven business. Damages resulted from the

distribution center due to mismanagement, natural disasters, failure of communication system and information technology or other force majeure will have adverse impact on the supply of products to 7-Eleven outlets and may negatively affect Company's operation.

The Company believed that it has proper management plans and appropriate back up plan to handle unforeseeable damage. The Company also plans to set up new main distribution centers and sub-distribution centers in provinces. In addition, it has taken out insurance against damages those may be caused by such risks as deemed appropriate, however, the Company has yet to suffer major setbacks. Yet, there still are other risks that even plans and insurance may not be absolutely prevent and compensate. Besides, the Company has to depend on manufacturers and distributors to send their products to the centers and branches. Mistakes of both manufacturers and distributors may also negatively affect the Company's sales volume.

If there is mistake or problem in the Company's information technology system, the ability to manage the 7-Eleven outlets on a normal basis would be affected.

Information technology has played a major role assisting the Company to achieve higher efficiency in dealing with inventory, purchasing, data storage and analysis. The Company has invested and developed in various information technology systems, such as store system and distribution center management system in order to gain competitive advantage. As a result, any mistake or problem of the information technology will affect the Company's ability to manage its 7-Eleven outlets on a normal basis and may have impact on its results of operations. Realizing the importance of this information technology, the Company has set up a prevention and data backup system that meet generally accepted standard. In order to distribute that risk, the Company is now setting up its second computer center. Yet, the Company cannot fully guarantee that this will absolutely prevent any damage that may occur.

Majority of 7-Eleven Stores rental agreement is on a short-term basis. There is a risk of increase in rental fees upon contract renewal.

Due to the Company's policy to increase the simplicity of new stores births and deaths, renting is preferred than acquiring the locations for stores since this would lower the investment cost. However, majority of the rental agreements is 3 year period. This gives rise to the risk that the rental fees may be increased after the initial contract has expired or the landlord may terminate the contract. Despite this, the Company currently has more than 2000 branches nationwide, therefore the risk is well diversified and the effects to the operating results should not be significant.

1.2 Risks relating to the business of Supercenter

Risk relating to permission to conduct retail business which may affect operating results and expansion of business of SLS

At present, to conduct a retail business in China, a foreign operator is required to seek permission from the central government agency via the Ministry of Commerce of People Republic of China. In addition, it has to apply for permission from the State Administration of Industry and Commerce (SAIC), a local government agency, after obtaining permission from the above central government agency. At present, Shanghai Lotus Supermarket Chain Store Co., Ltd. ("SLS"), a subsidiary of the Company, is operating the Supercenter business in China and has obtained permission from the state to operate retail business with a total of 12 branches, 8 of which in Shanghai, 2 in Hangzhou and 2 in Nanjing. SLS has also obtained permission from the local government agency to open another 5 branches, which permission is pending approval of the central government agency. Therefore, the expansion of branches in addition to those already permitted is dependent on permission to operate retail business from agencies concerned. At present, SLS is applying for such permission according to its future expansion plan.

The fact that SLS, which is a foreign joint venture, is hired to manage one Lotus outlet in accordance with an agreement to manage an outlet between SLS and Shanghai Changfa

Supercenter Co., Ltd. who receives retail permit in such particular branch may be seen by China's authorities as not being in line with the law (which came into force after SLS was hired to manage such outlet). However, the Chinese Government is well aware of these facts and problems. Besides, up to the present, SLS has never run into any problem or is inspected by a government agency due to its operation whatsoever. Yet, SLS cannot guarantee either that SLS will not face a problem or will not be inspected or subject to legal proceedings taken by an auditing agency of the government. This may adversely affect SLS's status as manager of that particular Lotus branch which may negatively affect its business operation.

Change in various business factors may cause SLS to be unable to operate its business as anticipated.

Most of the SLS's business expansion depends on its ability to open new branches of Lotus and its capability to generate profit from those stores. Main factors that affect the opening and operation of a Lotus store are (1) procurement of the right location; (2) permission to operate a Lotus store from the state and/or local government; (3) employment, training and recruitment of personnel; (4) adequacy of management and financial resources; (5) changes in distribution, management and administration systems to coincide with business expansion plan and market's demands. Despite the fact that SLS business prospect is positive and the Company's believe that SLS has an efficient planning and decision-making process aimed for the growth of the business, in practice, there remains a risk that SLS may not achieve what it expects due to several factors as mentioned above, which may affect its sales volume and profits.

High Competition in retail business may affect the results of operations of SLS

Retail business in China remains very competitive. At present, Lotus has to compete with other large retailers who sell the same products that Lotus offers. In addition, there are several competition factors which may affect the results of operations of SLS and its financial status, including (1) increase of competitor's business efficiency; (2) pricing strategy; (3) expansion of the existing competitors; (4) entry of new competitors; and (5) change in a form of retail store and retailing manners.

Under an agreement made with the World Trade Organization ("WTO"), China is to revoke its restrictions currently applied to most foreign companies within five years following its WTO ascension. The Company believes that cancellation or reduction of restrictions will change the competition scene from what it is at present, which will also be SLS's opportunity to expand its business easier. On the other hand, it will also allow new competitors to enter into China more easily.

While the Company truly believes that SLS has pursued the right merchandising and marketing policy to ensure that the Lotus store remains competitive, still, there is a risk that such a policy may not be right for future competition such that it may affect the results of operations of SLS and SLS will have to adjust and change its business policy later.

Uncertainty to the Chinese government's economic policy and exchange rate risk may affect the results of operations of SLS

The Chinese government has announced an economic reform policy with an objective to create the "Socialist Market Economy" that emphasizes on extensive power distribution and promotion of private sector economy, which so far has attracted tremendous amount of foreign investment into China as well as national and local economic growth, still, the Company cannot guarantee that the Chinese government will continue this economic reform policy. In case the policy change, which will negatively affect the economic growth of the areas where Lotus stores are located, then, it may also affect the sales volume and profits of SLS.

Although, there is no plan to take the profit from investment in China back to Thailand as SLS's business is still expanding, things might change in the future. The Company may need to

exchange SLS' revenue which is in RMB into other currencies for debt payment or for re-investment in Thailand. At present, exchange and transfer of foreign currencies in China are quite restricted and the Company cannot guarantee either which direction China's policy on foreign exchange will become. More stringent terms and practices will be a negative factor to the Company's ability to manage financial transactions between China and Thailand. Besides, volatility in RMB (currently, RMB is pegged to the US Dollars) is another factor that may harmfully affect the results of operations of SLS when converted into the Baht currency.

Risk from the joint ventures to operate business in China may affect the results of operations of SLS

The Company's business in China is in the form of business joint venture, which is risky in the sense that the joint venture partners may (1) have business and economic objectives that do not correspond with those of the Company's; (2) do any thing that is in conflict with the Company's investment policy or objective; (3) fail to proceed as agreed in the joint venture agreement or other agreements (including funding of investment proportionately as agreed); and (4) face with financial and other problems. Even though the Company can control major decision regarding SLS's business and management, it cannot act alone without consulting with the partners. Any conflicts between the Company and its joint venture partners therefore may pose negative impact to SLS's business.

Mistake or problem in the operation of the distribution center in China and/or delivery of products by manufacturers and distributors may affect the ability to manage inventory and display products as well as results of operations of the Lotus stores.

To ensure efficient management of both inventory and display products, most products in Lotus stores are delivered via the Company's distribution center in Shanghai. Therefore, the distribution center management is materially important to SLS's business. Damages resulted from the distribution center due to mismanagement, natural disasters, failure of communication system and information technology or other *force majeure* will negatively affect the management of inventory and display products and sales volumes of Lotus stores.

SLS believed that it has proper management plan and appropriate back up plan to handle unforeseeable damage. In addition, it has taken out insurance against loss as deemed appropriate (SLS' distribution center have yet to suffer a major setback). Yet, there still are other risks that even plans and insurance may not be absolutely prevent and compensate. Besides, SLS has to depend on manufacturers and distributors to send their products to the centers and branches. Mistakes of both manufacturers and distributors may also negatively affect the sales volume of Lotus stores.

If there is mistake or problem in SLS's information technology systems, the ability to manage the Lotus stores on a normal basis would be affected.

SLS has invested in several information technology systems; namely RAMS ("Richtor Automatic Merchandising System"), POS (Point of Sales), and SAP etc.. The information technology has helped SLS to manage its merchandise flows more efficiently and therefore ensure that its purchasing, distribution and display is rightly done at a speedy time. These information technology systems are therefore important to the operation of Lotus. Any mistake or defect to the systems will affect the ability to manage the Lotus stores on a normal basis. This may affect the sales volume of SLS. Realizing the importance of these systems, SLS has set up a prevention and data backup system that meet generally accepted standard. Yet, SLS cannot fully guarantee that this will absolutely prevent any damage that may occur.

If The China Retail Fund, LDC ("CRF") exercises its put option under the term of agreement as specified in the YSI Deed of Shareholders Agreement, the Company and/or Lotus Distribution Investment Limited ("LDI") may have to buy shares in Yangtze Supermarket Investment Co., Ltd. ("YSI") which are held by CRF.

When the Company decided to invest in retail business in China, the Company entered into a Deed of Shareholder's Agreement on 18 February 2000 with LDI, YSI and CRF. The agreement specified that CRF has the right to sell YSI's shares back to LDI and/or the Company (Put Option) upon the occurrence of any of the events specified in clause 13.3 of part 13 which includes a breach of non-competition provision. In such events, CRF is allowed to exercise the Put Option, forcing the Company and/or LDI to buy 45% of the shares, which CRF currently holds in YSI at the price which CRF have originally invested (US\$ 26,090,000) plus compounding interest of 10% per annum calculated from the time of initial investment in March 2000.

LDI has entered into the agreement licensing the use of its trademark to Wuhan Chia Tai Trading Company Limited ("Wuhan") for the operation of retail business in Hubei, China. Wuhan is a subsidiary of Hong Kong Fortune Limited ("HKF") which is a listed company on the Stock Exchange of Hongkong and has shareholders who are related to the majority shareholders of the Charoen Pokphand Group. At present, Wuhan is operating retail business in Hubei. Thus, it may be considered that the Company and LDI might be in breach of the term concerning prohibition from engagement in competing business as prescribed in the Deed of Shareholders Agreement

However, the Company and LDI have negotiated with CRF in order to find a solution by proposing that Wuhan pays remuneration for the use of trademark to YSI at the agreed rate. Such proposal has already been approved by the Board of Directors of YSI, and jointly considered and approved by CRF's representative. The parties concerned are still negotiating details and conditions in order to make an agreement in writing.

Any other events include the failure to list on the stock exchange and the failure to reach the benchmark profit level. The Company recognized the possibility of the events occurring despite the improving results in China. However, CRF's decision to sell YSI shares to the Company and/or LDI depends on various factors including the confidence in China's growth potential and SLS' operating results.

1.3 Other risks

If the capital and resource management plan fails to meet the expectation, the Company may not be able to achieve its business expansion plan.

In the past, the Company mainly emphasized its convenience store business. It was not until 1999 when the Company started formulating a retail policy that extensively covered Thailand and China. The Company intends to use its expertise and experiences in retail business which it has accumulated over the years to manage the retail business and other newly established related businesses developed by itself or provided by the Charoen Pokphand Group. Part of the Company's policies is to invest in a supercenter business under the "Lotus" trademark in China through an investment in its subsidiary, i.e. SLS.

The Company's business expansion requires both capital and resources. A fast expansion may lead to negative impact to its ability to seek funding sources and resource allocation. However, the Company truly believes that it has thoroughly studied expansion feasibility by taking into account its potentiality to secure capital and allocate resources in order to avoid such impact as described above. The Company also believes that with ample cash in hands, its nature of its business which enjoys constant cash flows as well as its ability to seek additional funding sources, the Company will be able to continue its business without having any material impact in financial problem whatsoever. However, the Company cannot guarantee that such an effect won't happen.

Controlling influence of the Charoen Pokphand Group that may affect the Company's future operation

The Charoen Pokphand Group has direct and indirect control power in the Company. In the Consent Agreement, CPG agrees to maintain its minimum shareholding ratio as well as its power to appoint and control the Company's majority directors. (Please consider additional details in the

summary of the Consent Agreement in clause 13.1 of Section 13). After the IPO, Charoen Pokphand Group will continue to hold in aggregate 46.40% stake. Therefore, the Charoen Pokphand Group will be able to appoint majority directors and remain influential to the management and administration of the Company, including in making consideration or pushing for matters that require approval from the Company's shareholders. At present, there is no agreement between the Company and the Charoen Pokphand Group and its affiliates that will prohibit the Charoen Pokphand Group to expand business or invest in other retail operations. Therefore, there may be a risk that the Charoen Pokphand Group will not consider allocating an opportunity and resources that will best benefit the Company and its shareholders. However, the Company is aware of the risk and has set up an audit committee to monitor the shareholders' benefits as appropriate.

Risk of Dilution Effect

The Company has allocated a total of 10,000,000 ordinary shares (representing 2.22 per cent of the paid-up ordinary shares after this offering) to support the exercise of right under the warrants to purchase ordinary shares issued to the Company's and its subsidiaries' directors and employees. The holders of those warrants can exercise the right to purchase the Company's ordinary shares according to the price in this public offering of capital-increasing ordinary shares. The first exercise date is 15 March 2005. Thereafter, the right can be exercised every 6 months throughout the 5-year term of the warrants. Therefore, if the warrants are fully exercised, there will be a dilution effect at the rate of 2.22 per cent.

2. Nature of Business

2.1 Background

Formerly named as “C.P. Convenience Store Co., Ltd.,” the Company was established by the Charoen Pokphand Group in 1988 to be a company of Thai people in order to conduct a business of convenience store in Thailand under the “7-Eleven” trademark. The Company was granted a license to use the trademark from 7-Eleven, Inc, a company incorporated in the US, (formerly named “The Southland Corporation”), on 7 November 1988. (Please see details in 13.1).

The Company has continuously expanded its investment in businesses that complement to retail business in Thailand, such as the commencement of business of payment of goods and services service in the name of Counter Service Co., Ltd. (“CS”) in 1994, the commencement of business of manufacture and sale of frozen food and bakery in the name of C.P. Retailing and Marketing Co., Ltd. (“CPRAM”) in 1996 and the commencement of business of sales and maintenance of retail equipment in the name of Retailink (Thailand) Co., Ltd. (“RTL”) in 1999. In late 1999, the Company expanded its investment into large retail business or the so-called “supercenter” under the trademark of “Lotus” (“Lotus”) in the People’s Republic of China. (Please see details under the topic of “business of each product line.”)

Brief history of the Group

- 1988 Established a company to engage in convenience store business under the name “7-Eleven” and opened the first branch in Soi Patpong in 1989.
- 1989 Changed the name from “C.P. Convenience store Co., Ltd.” to “C.P. Seven Eleven Co., Ltd.
- 1994 Commenced the business of payment of goods and services service in the name of Counter Service Co., Ltd. (“CS”) through counters within 7-Eleven outlets and then expanded the service to outlets in department stores and other stores.
- 1996 Commenced the manufacture and sale of frozen food and bakery in the name of CP Retailing and Marketing Co., Ltd. (“CPRAM”) and started the sale in 7-Eleven outlets and then expanded the market to outside stores and exportation.
- 1996 Joined with the Friendship Group to establish Shanghai C.P. Friendship Enterprise Development Co., Ltd. (“SFC”) in order to operate department store in China. At present, this company sells sanitary ware in China.
- 1998 Established Lotus Distribution Investment Limited (“LDI”) in British Virgin Islands in order to invest in retail business in foreign countries.
- 1999 Became a public limited company.
- 1999 Commenced the business of sales and maintenance of retail equipment in the name of Retailink (Thailand) Co., Ltd. (“RTL”). The service was initially provided in 7-Eleven outlets only, and then expanded to outside stores.
- 1999 LDI purchased shares of Ek Chor Distribution System Co., Ltd. (“ECDS”) from the Charoen Pokphand Group. ECDS engages in investment business and has 2 subsidiaries, Ek Chor Distribution Co., Ltd. Shanghai (“ECD”) which operates retail business in China and Ek Chor Trading (Shanghai) Co., Ltd. (“ECT”) which operates trading business in China.
- 2000 Joined with The China Retail Fund, LDC, a fund under the management of American International Group (“AIG”) to establish Yangtze Supermarket Investment Co., Ltd. (“YSI”) in order to invest in the Lotus business in China by buying the investments in ECD and ECT from ECDS.

- 2000 Established Shanghai Lotus Supermarket Chain Store Co., Ltd. (“SLS”) with the local partners, i.e. Shanghai Vegetable (Group) Co., Ltd. and Yangtze River Economy United Development (Group) Co., Ltd. (“YUD”) (the shareholder was later changed from YUD to Shanghai China Commerce Investment Corporation (“SCCIC”) in order to operate the Lotus stores in Shanghai, Jiangsu and Zhejiang area of China.
- 2001 Established Thai Smart Card Co., Ltd. (“TSC”) jointly with Krung Thai Bank Public Company Limited, Bank of Ayudhya Public Company Limited, the Government Savings Bank, Krung Thai Card Co., Ltd., TelecomAsia Corporation Public Company Limited, Loxley Public Company Limited and SVOA Public Company Limited with the objective to have TSC as a joint venture to operate the business of payment of goods and services service through the smart card.
- 2001 Restructured the business group in foreign countries by establishing Emerald Innovation Management Co., Ltd. (“EIM”) under the same shareholders’ structure as YSI in order to manage the debts of the Lotus group in China.
- 2001 ECT sold assets and transferred its liabilities to SLS.
- 2001 YSI sold its 100% investment in ECT to EIM.
- 2001 YSI invested in Shanghai Bakerrich Foodstuff Co., Ltd. (“SBF”) in order to manufacture and sell bakery through the sales channel in Lotus stores in China. Later, the business was temporarily suspended.
- 2001/2 ECD sold assets and transferred its liabilities to SLS.
- 2003 Established Gosoft (Thailand) Co., Ltd. (“GOSOFT”) to operate the services of information technology system.
- 2003 Established M A M Heart Co., Ltd. to provide marketing services, including design and production of advertisements.

2.2 Business overview

At present, the Company’s main business is the convenience store in Thailand under the “7-Eleven” trademark managed by the Company. The Company also invests in several subsidiaries per details in the Notes to Financial Statements, which are large-scale retail businesses in China under the “Lotus” trademark and other businesses that complement to convenience store business in Thailand. Details of the Company’s subsidiaries as at 30 June 2003 can be summarized as follows:

a. Companies in Thailand

- 1) C.P. Retailing and Marketing Co., Ltd. (“CPRAM”), having paid-up registered capital of Baht 170 million, in which the Company holds 97.76 per cent of its total issued shares. CPRAM manufactures and distributes frozen foods and bakery. In 2002, CPRAM sales volume in 7-Eleven outlets was around 65 per cent. The remaining are sales from both domestic retail and exports. As of 2002, CPRAM’s total revenue is Baht 1,121 million.
- 2) Counter Service Co., Ltd. (“CS”), having paid-up registered capital of Baht 70 million, in which the Company holds 99.99 per cent of its total issued shares. CS offers payment of goods and services service and acts as ticket distributor. About 77 per cent of CS’s service is made through counters within 7-Eleven outlets while the remaining 23 per cent are conducted outside 7-Eleven. As at 30 June 2003, CS has a total 2,769 counters nationwide. As of 2002, CS’ total revenue is Baht 331 million.
- 3) Retailink (Thailand) Co., Ltd. (“RTL”), having paid-up registered capital of Baht 20 million, in which the Company holds 99.99 per cent of its total issued shares. RTL distributes and repairs retail tools and equipment. As of 2002, RTL’s total revenue is Baht 573 million.

- 4) Thai Smart Card Co., Ltd. (“TSC”), having paid-up registered capital of Baht 197.6 million, in which the Company holds 32.25 per cent of its total issued shares. TSC was established as a joint venture among the Company, the financial institutions and the communications and technology companies in order to operate the service business of payment of goods and services through the Smart Cards. After the completion of joint investment process, the Company anticipates to reduce its shareholding in TSC to 24.35 per cent of its registered capital.
- 5) Gosoft (Thailand) Co., Ltd. (“GOSOFT”), having paid-up registered capital of Baht 1 million, in which the Company holds 99.99 per cent of its total issued shares. GOSOFT was established on 9 January 2003 with the objective to provide services of information system.
- 6) M A M Heart Co., Ltd. (“MAM”), having paid-up registered capital of Baht 1 million, in which the Company holds 99.99 per cent of its sold shares. MAM was established on 5 February 2003 with the objective to operate business of marketing activities, including designing and production of advertisements.

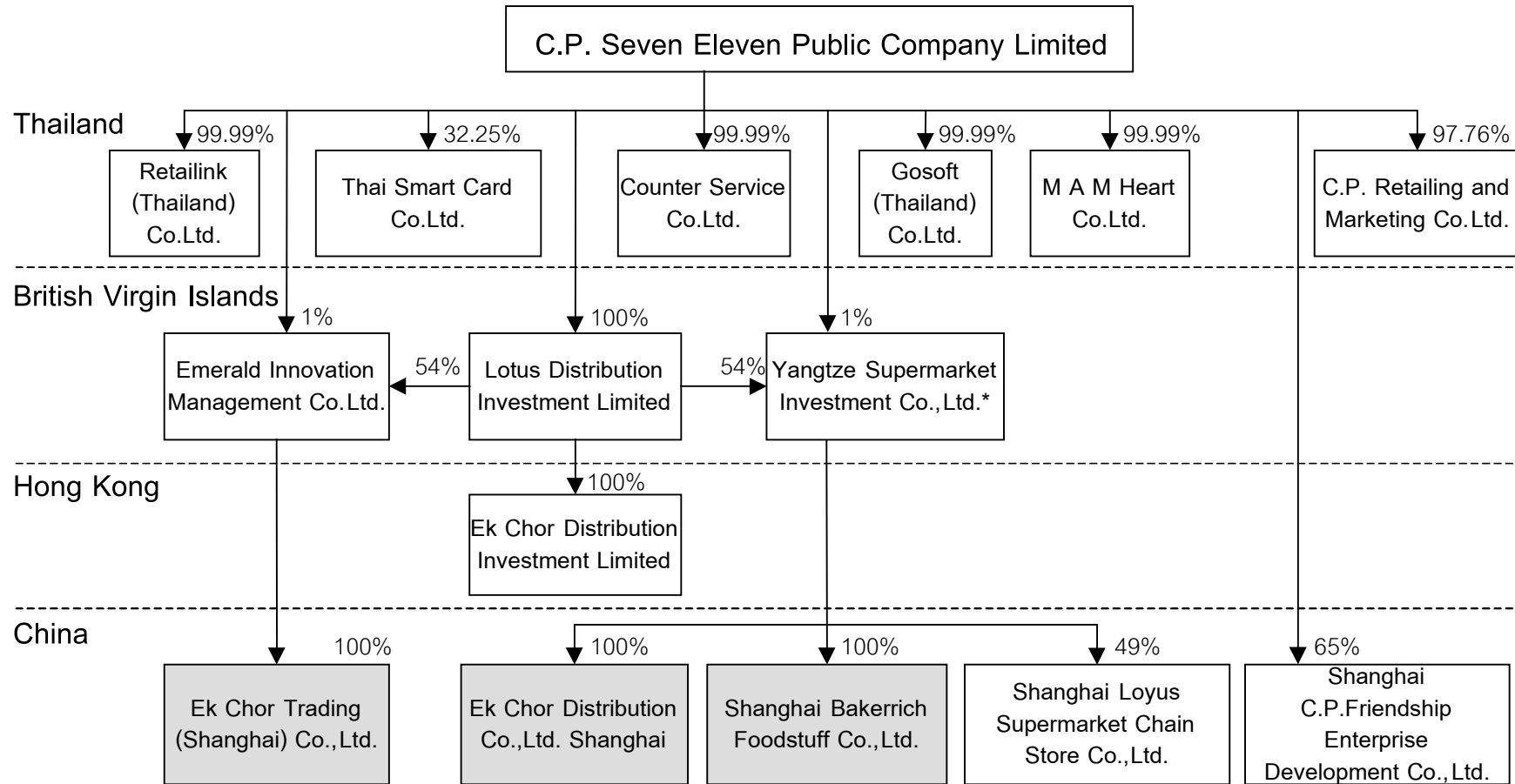
b. Companies in Foreign Countries

- 1) Lotus Distribution Investment Limited (“LDI”), having paid-up registered capital of USD 30.9 million, in which the Company holds 100 per cent of its paid-up capital. LDI engages in investment business.
- 2) Yangtze Supermarket Investment Co., Ltd. (“YSI”), having paid-up registered capital of USD 100, in which the Company directly and indirectly holds 55 per cent of its paid-up capital. YSI engages in investment business.
- 3) Shanghai Lotus Supermarket Chain Store Co., Ltd. (“SLS”), having paid-up registered capital around USD 38 million, in which the Company indirectly holds 26.95 per cent of its paid-up capital through Yangtze Supermarket Investment Co., Ltd. (“YSI”). SLS engages in large-scale retail business in China under the “Lotus” trademark.
- 4) Emerald Innovation Management Co., Ltd. (“EIM”), having paid-up registered capital of USD 100, in which the Company directly and indirectly holds 55 per cent of its paid-up capital. EMI engages in investment business.
- 5) Ek Chor Distribution System Co., Ltd. (“ECDS”), having paid-up registered capital of HKD 2, in which the Company holds 100 per cent of its paid-up capital through LDI. ECDS engages in investment business.
- 6) Ek Chor Trading (Shanghai) Co., Ltd. (“ECT”), having paid-up registered capital of USD 6.5 million, in which the Company holds 55 per cent of its paid-up capital through EIM. At present, ECT has ceased its business operation and is in the process of dissolution.
- 7) Ek Chor Distribution Co., Ltd. Shanghai (“ECD”), having paid-up registered capital of USD 32 million, in which the Company holds 55 per cent of its paid-up capital through YSI. At present, ECD has ceased its business operation and is in the process of restructuring.
- 8) Shanghai Bakerrich Foodstuff Co., Ltd. (“SBF”), having paid-up registered capital of USD 52,500, in which the Company holds 55 per cent of its paid-up capital through YSI. At present, SBF has temporarily suspended its business operation.
- 9) Shanghai C.P. Friendship Enterprise Development Co., Ltd. (“SFC”), having paid-up registered capital of USD 15 million, in which the Company holds 65 per cent of its paid-up capital. SFC has the objective to operate department store business, which is not yet commenced. At present, SFC sells sanitary ware in China.

The Company registered and converted itself into a public limited company with Registration No: Bor Mor Jor 649, on 12 March 1999. As at 19 August 2003, its major shareholder is CPG which holds 28.54 per cent of its paid-up registered capital.

As at 16 September 2003, the Company’s group structure is as follows.

**Shareholders' Structure
of C P Seven Eleven Public Company Limited's Group of Companies
As at 16 September 2003**



Ceased Operation

*Please see details of other shareholders in 3, business of each product line – large retail stores.

2.3 Revenue structure

Majority of revenues is Net Sales and Revenues from Services, which can be divided into 3 main groups of business as follows. (Please refer to part 12: Financial status and Operating results)

Groups of Business	Company's shareholding (%)	2000		2001		2002		Ending 30 June 2003	
		Million Baht	%	Million Baht	%	Million Baht	%	Million Baht	%
Convenience store: C P Seven Eleven Plc.	N/A	18,046	68.9%	21,914	69.5	30,165	68.9%	19,585	69.1%
Supercenter: Shanghai Lotus Supermarket Chain Store Co., Ltd.	26.95%**	7,231	27.6%	9,038	28.6%	12,712	29.1	8,208	28.9%
Other businesses*	N/A	929	3.5%	598	1.9	888	2.0%	564	2.0%
Net sale and service incomes		26,206	100%	31,550	100%	43,765	100%	28,357	100%

*Other businesses consist of manufacture and sale of frozen food and bakery operated by CPRAM, payment of goods and services by CS and sales and maintenance of retailing equipment by RTL and incomes from other subsidiaries

**The Company holds shares through YSI (the Company directly and indirectly holds 55 per cent of the shares in YSI), and YSI holds 49 per cent of the shares in SLS and has appointed 5 out of 10 directors of SLS. Currently, profit sharing from SLS to the Company is around 31% according to the investment proportion, due to the fact that partners in China have yet to pay their investment in full. The Company expected that this process will be completed in 2003.

2.4 Business objectives

The Company has a goal to become a leader in the convenience store business in Thailand that can respond to the customers' demand at all times. The Company focuses on the offering of "convenience" to customers in the purchase of goods and use of various services through expansive locations of the 7-Eleven stores. The Company plans to open 320 new 7-Eleven stores each year during 2003 – 2005, with an overall target to achieve 3,000 7-Eleven stores in Thailand within 2005. The Company emphasizes on positioning the 7-Eleven stores as convenient food stores, focusing on consumable products, which are generally yielding higher margins. This will also differentiate the 7-Eleven stores from other retail stores. Meanwhile, the Company can use the 7-Eleven network to provide value added services for the convenience of customers, such as the service of payment of goods and services of the Counter Service, the 7-Catalog mailing order etc.

In China, the Company plans to become a leader in the supercenter business in 2 cities and 7 precincts, namely the cities of Shanghai and Chonging, and the precincts of Anhui, Hubei, Hunan, Sichuan, Jiangxi, Jiangsu and Zhejiang which are potential areas in the Yangtze River delta of China. The Company plans to open up 16 Lotus branches within the first quarter of 2004.

3. Business of each product line

a. Convenience Store

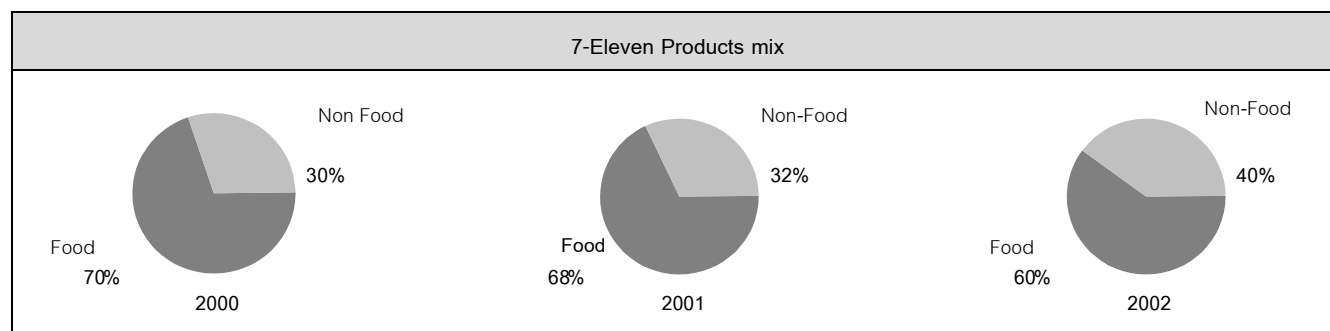
3.1.a Types of product and service

The Company is the sole operator of 7-Eleven convenience stores in Thailand where it was granted the exclusive license from 7-Eleven, Inc on 7 November 1988 to conduct a business or sub-license the 7-Eleven trademark in Thailand. The Company is to pay a percentage from the sales it receives from 7-Eleven outlets to 7-Eleven, Inc. The 7-Eleven stores mostly open 24-hour and emphasize on convenient and speedy service to customers. The Company's net sale from convenience store business was Baht 30,165 million and Baht19,585 million in 2002 and for the six-month period ending 30 June 2003 respectively. During 2000-2002, the Company experienced continuous expansion where its 7-Eleven outlets rose on average 239 branches per annum. As at 30 June 2003, there were 2,242 branches of 7-Eleven outlets nationwide. This covers all 76 provinces or 40% of the total numbers of the districts.

Product mix in 7-Eleven outlet

Products sold in every branch of 7-Eleven outlet have been selected to ensure premium quality and up to a required standard. The line of products is also tailored to meet customer's needs in each community. Of 3,000 items of products available in an outlet, they can be categorized into two major groups as follows.

1. Non-food product and services: Non-food products are, among a few, personal care items, household ware, telephone cards and films, while the service is offered by the Company's subsidiary under the so-called "Counter Service," which will receive payment of electricity, water, telephone and payment of other goods and services including ticket sales. As at 30 June 2003, there are 2,134 7-Eleven outlets offering this service, which prompts the 7-Eleven business to offer more comprehensive service and meet customer's demands. During 2002, non-food items accounted for 40 per cent of total sales volume.
2. Food and beverage: This can be divided into three major categories as follows: (a) fast food and special items, part of which are sold under brand names found only at 7-Eleven such as "Slurpee" ice drink, "Big Gulp" soda and "Big Bite" sausage; (b) processed and semi-processed food such as snacks and lollipops; and (c) beverage. During 2002, the food and beverage item accounted for 60 per cent of the total sales volume.



The Company has a target to position the 7-Eleven stores as convenience food stores that emphasize on processed food and beverage more than non-food items because food and beverage items generally yield higher returns than non-food items. This will also differentiate the 7-Eleven stores from other retail stores. The Company anticipates that the stock keeping unit (“SKU”) for food and beverage will be increased from the current ratio of around 70 per cent.

In addition, during the first quarter of 2002, the Company improved its catalog-based mail order when the “7 Catalog” project was officially launched. 7 Catalog is the new service which covers more than 5,000 items of selected products of quality that meet the demands of customers. Customers will have an opportunity to buy products from the catalog, pay and receive the products they order throughout 24 hours at more than 2,000 branches of 7-Eleven outlets all over the country. Customers can save traveling time and have more convenience. Customers in Bangkok and vicinity can pick up the products within 3 days and those in other provinces within 5 days. Most products in 7 Catalog project are non-food items which have more variety than those sold in the 7-Eleven outlets.

From the end of 2001, the Company has expanded its retail business by opening shops for selling books, printed matters, electronic devices, stationary, entertaining media such as music tapes, CDs, videos, and potential E-Business transactions, under the name “Book Smile” (formerly was “7-Today”). Book Smile outlets have modern design and decoration and are located in communities or department stores with average area of 50-100 square meters and around 3,000 to 5,000 items of products. (as of 30 June 2003 there are 21 branches of Book Smile Store.)

Types of 7-Eleven stores

The 7-Eleven store is categorized into three types based on ownership as follows.

Table of Types of 7-Eleven Stores

(Unit: Stores)	2000	2001	2002	31 March 2003	30 June 2003
1. Corporate Stores	1,137	1,278	1,503	1,550	1,557
Bangkok	619	690	747	767	755
Provinces	518	588	756	783	802
2. Franchise Stores	303	355	437	501	573
Bangkok	107	128	166	189	223
Provinces	196	227	271	312	350
3. Sub-Area License Stores	81	89	102	107	112
Provinces	81	89	102	107	112
Total	1,521	1,722	2,042	2,158	2,242

1. Corporate stores: The stores are wholly owned and managed by the Company. The Company invests in tools and equipment as well as costs of product. As at 30 June 2003, the Corporate Stores account for 69 per cent of all 7-Eleven outlets.
2. Franchise stores: The 7-Eleven stores that the Company has entered into an agreement to allow the third party to open a store. Each contract governing each franchise store may have different terms and conditions in terms of operating duties and store management, expenses and investment of franchisees, costs of product as well as profit sharing. However, sales of products and the service offered to customers will always at the same standard. As at 30 June 2003, franchise stores, which can be divided into five categories as follows, account for 26 per cent of all 7-Eleven outlets. (Please see details in 13.2.)

- (a) A-typed franchise store: This is a store of the third party who applies for a sub license to manage and administer the 7-Eleven outlet. The sub licensee must be responsible for investment in store decoration, fees and costs of products. At the same time, the Company will loan tools and equipment, provide assistants on store design, shelf display, staff training, and arrange sales promotion and nationwide advertisement on a constant basis.
- (b) A-modified franchise store: This is an A-typed franchise store but an agreement is amended to the point that the Company will be responsible for the costs of products whereas other material terms and conditions will be similar to those in the B-typed and C-typed franchise stores, with an exception of profit-sharing details.
- (c) B-typed franchise store: This is the store where a sub licensee manages the 7-Eleven outlet while the Company remains ownership of the store. The sub licensee will pay an entrance fee to enter into an agreement for managing the outlet while the Company will procure and be responsible for the costs of products and all tools and equipment.
- (d) C-typed franchise store: This is quite similar to the B-typed and A-modified category but is rather different in material contents related to investment sum, scope of responsibilities, certain types of expenses and profit-sharing.
- (e) Franchise store in PTT gas station: This is similar to A-modified typed category which the Company is responsible for cost of products. The differences are the entrance fee and profit sharing. Franchise stores of this category are located in PTT gas stations where the Company has agreed on the terms and conditions with PTT or PTT dealers, as the case may be.

As a result, the five types of franchise stores are diverse substantially in terms of costs of products, duties and responsibilities in store management, expenses and investment sum for sub licensees, which lead to different terms and conditions of profit-sharing process. Yet, the sales and service are conducted within the same standard.

3. Sub-area license stores: The stores that the Company enters into sub-area license agreements with the third parties to open 7-Eleven outlets in the territory where the sub-area licensees themselves will be responsible in the management of 7-Eleven outlets, while the Company will assist and support under the agreed conditions. As at 30 June 2003, Sub-area license stores account for 5 per cent of all 7-Eleven's outlets, specifically these stores are located in Phuket, Yala Chiang Mai and Ubol-Ratchathani.

Criteria to open a new outlet and shut down an old one

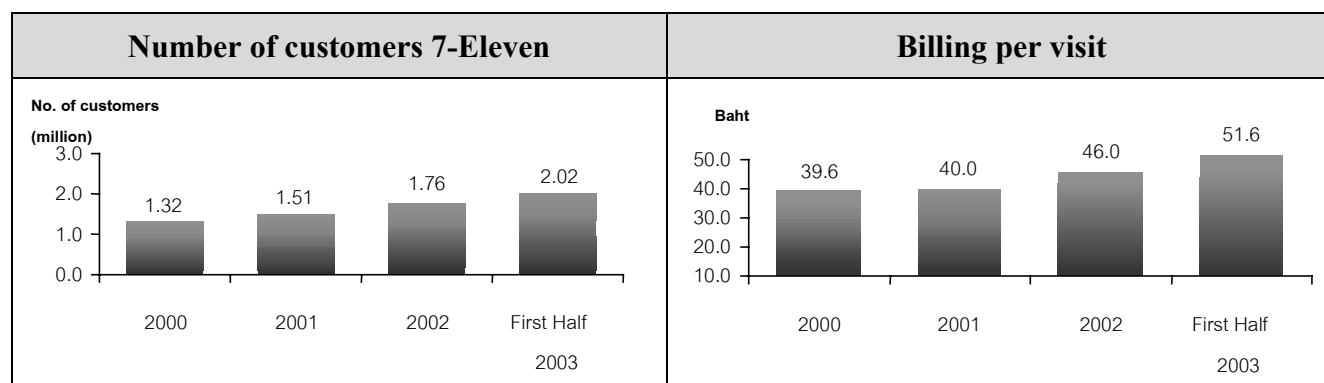
Since location is crucial to the business of convenience store, the Company has a special team to select new locations with a purpose of branch expansion. (The 7-Eleven stores in normal locations normally have an average sales area of 80-100 square meters.) For the Corporate Store, the Company emphasizes on residential areas, city communities and concentrated areas with huge population. For franchise stores, aside from the above factors, the Company also considers a franchisee's background and qualifications, his experiences and initial investment capabilities. The Company will constantly assess and evaluate each branch's operation in order to find ways to improve its operation. Any 7-Eleven outlet with lower-than-target sales and profits may have to be shut down. From the commencement of business, the Company has shut down a total of 105 outlets which is 4.7% of 7-Eleven stores as of 30 June 2003 (there were reasons other than the lower-than-target sales and profits in shutting down the stores, such as change of town plan, road cutting, expropriation of building).

In addition, during the first quarter of 2002, the Company has cooperated with PTT under the master agreement on the cooperation to set up convenience stores in gas stations. Under this agreement, PTT grants the Company an exclusive right to open 7-Eleven outlets and operate other businesses under the “7-Eleven” trade name in PTT gas stations and/or distributors’ gas stations of its as well as in current areas where the PTT operates or participates or any that it will in the future as PTT and the Company mutually consider suitable based on commercial viability. The Company believes that the 7-Eleven outlets in PTT gas stations will be one of important channels to speedily expand 7-Eleven outlets in Thailand and make the 7-Eleven brand and outlet widely recognized among customers. In addition, those outlets will also facilitate PTT’s clients seeking convenience to buy 7-Eleven products at PTT gas stations. The outlets in PTT gas stations have an average sales area of 80-120 square meters. As at 30 June 2003, there are 171 7-Eleven outlets at PTT gas stations.

3.2.a Market conditions and competition

Nature of customers

The Company’s target customers are consumers in communities or offices who wish to buy products conveniently and in no time. Since the Company has opened the 7-Eleven stores at PTT gas stations, the Company’s target customers have expanded to include drivers and commuters who pop into PTT gas stations. On average, about 2 million customers (with average billing of Baht 50 per customer per visit) drop in at the 7-Eleven outlets each day.



Pricing policy

The Company determines retail price tag of the products sold in 7-Eleven outlets on the basis of retail prices offered by manufacturers, customer’s demands and competition atmosphere. Prices of some products are controlled by the authorities; for example, sugar, vegetable oil and rice, which it must seek the state’s permission before raising the price. However, the Company believes the price control policy does not materially affect the Company’s sales.

In addition, the Company has bought almost all products from domestic manufactures and distributors and thus is hardly exposed to any foreign exchange rate risk. In the past, the price hike of products sold in the 7-Eleven outlets was mostly coincided with domestic inflation level.

Marketing expenses

Marketing expenses such as advertising fees, public relations and sales promotion on average account for 0.75 per cent of the Company’s annual sale. Of this, most are geared towards TV ad as it covers most of the target groups. Market promotions include advertisements and public relations in order to emphasizes an image of 7-Eleven as a modern, convenient and safe store, which offers 24 hours service to nearby communities. In addition, the Company also actively uses sales promotion

strategies especially during new store opening by distributing flyovers and pamphlets in the communities to inform target customers as well as through promotion campaign by handing out discount coupons and premiums.

Business strategies

The Company's strengths in its convenience store business are as follows.

1. Location of 7-Eleven stores: Most 7-Eleven stores are situated in areas attracting a large number of passers-by. An ability to select the right location enables the Company to provide customers with convenience in buying goods and helps promote 7-Eleven's brand among consumers.
2. Distribution system: The Company has its own state-of-the-art main distribution center and therefore can efficiently manage and control product distribution. The result is that products in 7-Eleven stores are always fresh and sufficiently stocked to meet customers' demand.
3. Competency of high-level management: Most executives are well-versed and have years of experiences in retail business. They blend the management model from 7-Eleven, Inc, of which it has been continuously developed, with the locally-developed system. In addition, the Company's executives also have significant role when it comes to participating in activities organized by 7-Eleven, Inc and representatives from 7-Eleven worldwide for information exchange, marketing strategies, store display and others.
4. State-of-the-art information technology: The Company boasts advanced computer system where each store can summarize daily sales amount and its monthly inventory levels before reporting through a computerized system to the headquarters. This way, the headquarters will be able to access information to make timely and efficiently inventory management decision.
5. Interconnected store network: The Company has an expansive network of 7-Eleven outlets which are connected with its head office and the distribution center via an information system. The Company can use such network to offer new products and services such as the payment service of the Counter Service, 7-Catalog etc. This helps improve revenue generation of the 7-Eleven outlets and attract more customers.

Industry outlook and competitions

Retail business in Thailand during the past 5-6 years has changed significantly, especially in terms of structure of the operators and form of operation due to intense competition and the effort to meet changing customers' demands . Number of traditional trade operators has dropped from around 84 per cent (of retail operators in VAT system) in 1999 to 81 per cent in 2002, while modern trade operators has increased from 16 per cent to 19 per cent.¹

In the past, the convenience store business faced quite strong competition. Operators needed to adjust themselves for survival and improve their ability to compete, whether by opening of new branches, using sales promotion, adjusting their mix of goods and services to meet the demands of customers. During the past 4 - 5 years, a number of store operators have changed to modern trade format both in the form of independent store and franchise system.

Since competition has become more intense and affected small retailers, the government has increased its role in protecting small retailers through an establishment of ART Co., Ltd. with an aim

¹ Source: The Thai Retailer Association and the Bank of Thailand

to help these small operators to compete more efficiently with large operators by offering help in an area of administration and management and purchasing. ART Co., Ltd. will select qualified members then develop them into retail chain stores under the ART name. If this measure becomes fruitful, the competitiveness of small-time retail operators will increase.

The government has also implemented measures on retail business to ensure fairness on both the operator and consumer sides, including measures on market controlling operators as well as retail business zoning measures, especially in regard to permission to construct commercial buildings for retail and wholesale business.

Competition within the retail industry is becoming fiercer as seen from rapid expansion of large and deep-pocketed, and modernized retail operators especially in supercenter segment. The government has also put more control on large retail operators, thus causing them to change the format and adjust the size to reach more customers. Smaller stores in a combined form between a convenience store and a supermarket have emerged. This kind of store emphasizes on fast-selling and fresh products similar to what a supermarket offers. Small discount stores with an increasing proportion of house brand products have also crept in. However, these kinds of stores are still in a trial period.

The Company believes that the large retail stores and new forms of smaller stores that are now expanding are not its direct competitors because they are emphasizing on pricing while the Company emphasizes on convenience and quality of goods and services. Instead, the Company's direct competitors are other convenience stores. The Company has continuously differentiated itself in terms of goods and services in order to be able to meet the demands of customers, especially in processed food and beverage items.

Types of Stores in Thailand

Type of stores	1999	2000	2001	2002	2003
Specialty store*	N.A.	N.A.	300	400	500
Convenience store/Minimart	4,525	5,537	5,750	6,127	6,700
Department store	112	103	108	109	109
Supercenter/Hypermart	63	77	97	113	127
Supermarket	138	150	170	208	227
Mom and pop store	350,000	330,000	300,000	<300,000	<300,000

Source: Thai Retailers Association, January 2003

* Specialty store means a store selling specific items such as Boots, Watson, bookstore, house decoration store, electrical store, sports store, car care etc.

New Major Retail Store Operators for Food and Non-Food Items in Thailand (Information until the end of second quarter of 2003)

Convenience Store	Branches
7-Eleven (excluding G-Store)	2,035
V-Shop	262
Family Mart	260
Fresh Mart	117
G-Store	1,296*

* Information as at the end of March 2003. Please details in Table on following page.

Supermarket	Branches
Tops, Market Place	45
FoodLion	36
Foodland	9
Home Fresh Mart	6
Tesco Lotus Supermarket	1

Supercenters/Cash&Carry	Branches
Tesco Lotus	43
Big C	35
Carrefour	17
Makro	21

New Form of Retail Store	Branches
Tesco Lotus Express	9
Leader Price (Big C)	4
Lotus Koomkha	2

Source: Compiled by C.P. Seven Eleven Public Company Limited

The opening of convenience stores in gas stations is one of the channels to reach more consumers. As a result, during the first quarter of 2002, the Company has started conducting the G-Store business (convenience store in gas station) with its business ally -- PTT Public Company Limited, in PTT gas stations so that the network of 7-Eleven will be capable to cover broader area and provide services to more customers, both passers-by and drivers.

**Tables Showing Number of Retail Stores in Gas Stations
(as at the end of the first quarter of 2003)**

Company's Name	Number of Gas Stations	Name of Convenience Stores in the Gas Stations	Number of G-Store	Ratio (%)
PTT	1,406	7-Eleven	154*/191**	10.95
SHELL	676	Select	145	21.45
BANGCHAK	1,114	Lemon Green, Bai Chak	124	11.13
CALTEX	509	Star Mart	202	39.68
ESSO	672	Tiger Mart/Louts Express	350	52.08
JET	139	Jiffy	139	100.00
Q8	128	Everyday	97	75.78
TPI	71	TPI Mart	47	66.20
Total	4,715		1,295	27.47

*Only stores at PTT gas stations. ** There are 37 G-Store which are located on other gas stations rather than PTT, these store were erected prior to joining the campaign with PTT.

Source: Energy Business Department, Ministry of Energy and C.P. Seven Eleven Public Company Limited.

3.3 Procurement of Products or Services

Procurement of Products

As of 30 June 2003, The Company has ordered approximately 88% of the value of at 7-Eleven stores from distributors who are not related with the Company. The Company places a purchasing order with a distributor to deliver products to the Company's distribution centers or directly to 7-Eleven stores depending on types of the products. Although the Company purchases products from distributors but the Company does not rely on any distributor more than 20% of the purchasing volume. Another 3% of the products are frozen food and bakery items purchased from CPRAM, our affiliate, and the remaining 9% is other products such as dairy products or sausages are ordered from other related parties.

Product Distribution

As at 30 June 2003, the Company has operated the following 4 distribution centers to keep, store, and distribute dry goods and fresh food to 7-Eleven stores:

- 1) Bang Bua Thong Distribution Center (DC Bang Bua Thong) is the Company's main distribution center where consumer products are kept and distributed nationwide. In 2002, the Company invested in the expansion of this Distribution Center in order to increase its storage and distribution capacity to support up to around 2,800 branches (from the previous 2,000 branches) to accommodate future growth.
- 2) Chokechai Ruammitr Distribution Center (DC Chokchai Ruammitr) is a distribution center rented from a third party, where printing materials are kept for distribution to Bangkok and vicinity;
- 3) Khon Kaen Controlled-Temperature Products Distribution Center (CDC Khon Kaen) is a distribution center where fresh food such as pasteurized milk is stored for distribution to the upper North Eastern area;
- 4) Bang Bua Thong Controlled-Temperature Products Distribution Center (CDC Bang Bua Thong) is a distribution center where fresh food such as pasteurized milk is stored for distribution to Bangkok and vicinity of 200 kilometers from Bangkok.

At present these 4 distribution centers are in charge of receiving products from the distributors and distributing about 90% of the total purchasing value. The remaining products are directly distributed by distributors. By doing so, the Company is able to manage its inventory with higher efficiency, this was made apparent by the decrease of the average inventory turnover.

	2000	2001	2002	6 Months Ending 30 June 2003
Portion of products from the Distribution Center (% of COGS)	64%	78%	87%	90%
Average Inventory Turnover (Day)	25.7	24.6	25.3	23.0

*From Company's financial statements

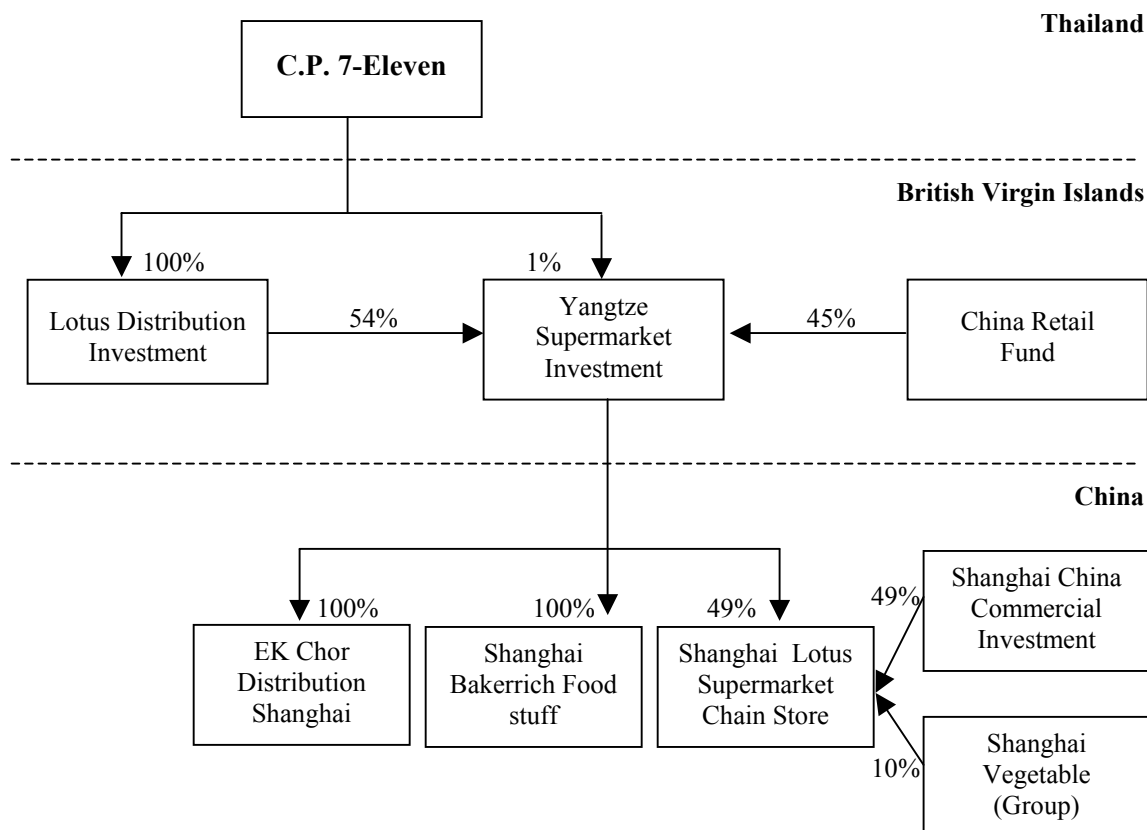
b. Large-Scale Retail Business ("Supercenter")

The Company has invested in a large-scale retail business or the so-called supercenter in China by indirectly holding 26.95% of shares in the subsidiary company i.e. Shanghai Lotus Supermarket

Chain Store Co., Ltd. (“SLS”) - the business operator of supercenter under the trademark “Lotus”. The Company indirectly holds the shares via its affiliates namely Lotus Distribution Investment Limited (“LDI”) and Yangtze Supermarket Investment Co., Ltd. (“YSI”). (Details are as provided in the shareholding chart). As at 30 June 2003 SLS has operated 11 Lotus Supercenters in China. Approximately 25,000 – 30,000 products are offered in each branch in order to give one-stop shopping service to the consumers.

Shareholding Structure

Below is the current shareholding structure of Lotus Supercenter:



SLS was established on 20 November 2000 with the registered capital of US\$ 84 million (as at 30 June 2003, having paid-up registered capital around US\$ 38 million and shareholders’ equity around US\$ 43 million), with the purpose to carry out business of Lotus Supercenter in China. YSI is a major shareholder holding 49% of the total shares and the remaining shares are held by two local companies at 41% and 10% respectively. Lotus Supercenter was originally operated by Ek Chor Distribution Co., Ltd. Shanghai (“ECD”) and Ek Chor (Shanghai) Trading Co., Ltd. (“ECT”). In 2000, YSI purchased the shares of both companies from Ek Chor Distribution System Co, Ltd. (“ECDS”). In 2001-2002, ECT and ECD sold assets and transferred liabilities in relation to the business undertaking of Lotus Supercenter to SLS (the transfer of leasehold right in the building of the 1st branch of Lotus Supercenter being under the legal processes). YSI, a parent company of SLS, was established on 8 July 1998 in British Virgin Island for the purpose of undertaking investment business, with the registered capital of US\$ 50,000 (as at 30 June 2003, having shareholders’ equity around US\$ 56 million). The Company directly and indirectly holds 55% of shares in YSI and 45% of the total shares are held by China Retail Fund (“CRF”), a fund under the administration of American International Group (“AIG”), which was established to invest in retail business in China. LDI, the parent company of YSI, was

established on 20 October 1998 in British Virgin Islands with the purpose to carry out investment business with the registered capital of US\$ 35 million (as at 30 June 2003, having paid-up registered capital around US\$ 31 million and shareholders' equity around US\$ 52 million). LDI's shares are wholly owned by the Company.

Retail Business License in China

At present, to conduct a retail business in China, a foreign joint venture is to seek permission from the central government agency via the Ministry of Commerce of People Republic of China. In addition, it has to apply for permission from the State Administration of Industry and Commerce (SAIC) which is a local government agency after receiving a permission from the central government agency. The Central Government of China granted such permission to SLS since June 2000 permitting SLS to open 12 Lotus Supercenters in China. Eight of which are in Shanghai, 2 in Hangzhou and 2 in Nanjing. SLS has also obtained permission from the local government agency to open another 5 branches, which permission is pending approval of the state. The licenses granted by the State remain valid for approximately 28 years. The licenses issued by local government to carry out retailing business of all branches must be renewed as required by the local authority.

The first branch of Lotus Supercenter was opened in June 1997. At present SLS has operated 11 branches of Lotus Supercenter, ten of which are managed under the license of SLS and the other 1 branch is operated under the agreement made between SLS and Shanghai Changfa Supercenter Co., Ltd. ("Chang Fa"). The Company plans to expand Lotus Supercenters in 2 cities and 7 precincts, namely the cities of Shanghai and Chonging, and the precincts of Anhui, Hubei, Hunan, Sichuan, Jiangxi, Jiangsu and Zhejiang. The Company plans to open up 16 Lotus branches within the first quarter of 2004, and is applying for permission to carry out additional branches with the central government for future expansion.

Trademarks and License to Use Operating Technology System

The trademarks that SLS uses in the supercenter business in China can be divided into 2 types, i.e. the "Lotus" trademark for 7 items and other related trademarks for 90 items. The "Lotus" trademark is owned by Ek-Chai Distribution System Co., Ltd. ("Ek-Chai"), the proprietor of the trademark who has entered into the Service Mark License Agreement with LDI. Under such agreement, LDI has the non-exclusive right to use trademark "Lotus" in China. LDI may also give a sub-license to use such trademark to Lotus affiliates under the terms and conditions therein. The terms and conditions stated that there will be no fees charged to the LDI affiliates and LDI has agreed to pay the fee for the rights to Ek-Chai in the amount of US\$70,000. This agreement is effective until the termination of the Service Mark License Agreement by LDI or Ek-Chai on the terms to be agreed. Later, LDI made the Service Mark Sub-License Agreement of "Lotus" and Trademark Main License Agreement of its own trademarks with SLS in order to grant the non-exclusive right to use trademarks in the 2 cities and 7 precincts of China, namely the cities of Shanghai and Chonging, and the precincts of Anhui, Hubei, Hunan, Sichuan, Jiangxi, Jiangsu and Zhejiang. LDI has agreed not to grant the right to use such trademark to any other person in the city of Shanghai and the precincts of Jiangsu and Zhejiang. LDI has already registered the trademarks of both types as used by SLS with the Chinese authority.

LDI also entered into the agreement to grant non-exclusive right to use 3 trademarks to Wuhan Chia Tai Trading Company Limited ("Wuhan"), a subsidiary of Hong Kong Fortune ("HKF") which is a listed company on the Stock Exchange of Hongkong and has shareholders who are related to the majority shareholders of the Charoen Pokphand Group, in order to restrict Wuhan's use of those trademarks to Hubei. Wuhan has used those trademarks for operating the two large retail stores which were formerly opened in the form of membership stores operated by Wuhan since 2001. Later, Wuhan

found that the membership store business was not suitable for the market in Hubei, and therefore changed the stores into the large retail stores under the name “Lotus” with SLS’s assistance in the management and procurement of products. LDI and YSI are still negotiating with Wuhan in order to fix remuneration for the use of those trademarks by Wuhan.

As for the right to use operating and technology systems software in Lotus Supercenters in China, SLS obtains the right under (1) the agreement made among (a) the Company, (b) CPG and (c) LDI; (2) License Agreement for Operating Technology System made between Ek-Chai Distribution System Co., Ltd. and LDI; and (3) Share Purchase Agreement between Charoen Pokphand Group and Tesco Group from England.

Restructuring

In order for the expansion of Lotus business and to prepare YSI for the listing on the stock exchange according to the YSI Deed of Shareholders Agreement, the Company, YSI, LDI and CRF, on 11 July 2003 entered into the Restructuring Agreement in order to restructure the group structure, assets and liabilities of the group of companies and determine the preliminary principles regarding (a) management of assets and liabilities of ETC and ECD, (b) payment for the price of assets and liabilities related to the Lotus Supercenter business which ECT and ECD transferred to SLS (as mentioned above), (c) lending of fund by YSI to SLS, (d) fixing of rate of fee for various assistance between YSI and SLS, i.e. management fee, technological and computer knowledge, trademark license, whereby YSI is to charge the fee on an annual basis at the agreed rate. The parties concerned will enter into necessary agreements for the above arrangements. It was agreed among the parties that all the debts of ECT and ECD with the Company and its subsidiaries at an approximate sum of US\$ 26.7 million shall be repaid from the source of fee income, which YSI will receive from SLS as mentioned above.

3.1.b Products and Services of Lotus Supercenter

Lotus Supercenters are open everyday from 8.30 – 22.00 hours except festival period such as Chinese’s New Year, during which the service hours are extended. For the past 3 years the sales volume of Lotus Supercenters according to the consolidated financial statement have increased from Baht 7,213 million (from the 4 branches) in 2000 to Baht 8,995 million (from the 6 branches) and Baht 12,712 million (from the 10 branches) in 2001 and 2002 respectively.

Product Mix

Each branch of Lotus Supercenter offers approximately 25,000 – 30,000 products in 4 major groups as follows:

- 1) Fresh food which accounts for approximately 17 per cent of the sales volume;
- 2) Dry Groceries which account for approximately 49 per cent of the sales volume;
- 3) Hard lines which account for approximately 22 per cent of the sales volume;
- 4) Apparels which account for approximately 12 per cent of the sales volume.

Classification of Lotus Stores

- (1) Lotus Supercenters invested and operated by SLS consists of 10 stores with the following details:
 - a) The 1st Branch (Yanggao Store): The operation of this first branch was commenced in June 1997 by ECD. The store is located at Pudong New Area in Shanghai. This store is 2 stories building with the retailing area of approximately 11,000 square meters. A local company,

Shanghai Vegetable Group, is the owner of the right to use the land where the store is located. Investment on construction of the building was made by ECD. Subsequently, SLS entered into the agreement to lease the right to use the land and building from ECD. The transfer of right is now under legal process.

- b) The 2nd Branch (Zhoujiazui Store): The operation of this store was commenced in January 1998 by ECD. This single story store is located at Yangpu area in Shanghai and covering the retailing area of 7,000 square meters. SLS has leased the land and building from a local company;
 - c) The 3rd Branch (Chuanchang Store): Operated since December 1998 by ECD. This single story store is located at Xuhui in Shanghai and covering the retailing area of 7,000 square meters. SLS has leased the land and building from a local company;
 - d) The 5th Branch (Shangnan Store): Operated since September 2001, this 2 stories building with the retailing area of approximately 12,000 square meters is located at Pudong New Area in Shanghai. SLS has leased the land and building from a local company;
 - e) The 6th Branch (Hangzhou Heping Store): Operated since October 2001. This single story building with the retailing area of approximately 7,500 square meters is located at Hangzhou. SLS has leased the land and building from ECT;
 - f) The 7th Branch (Caoan Store): Operated since January 2002. This single story store with the retailing area of approximately 7,000 square meters is located in Jia Ding area, Shanghai. SLS has sub-leased the land and building from ECT which leased the land and building from a local company;
 - g) The 8th Branch (Tianshan Store): Operated since May 2002, this 2 stories building with the retailing area of approximately 11,000 square meters is located in Chang Ning area, Shanghai. SLS has sub-leased the land from ECD and the building from a local company.
 - h) The 9th Branch (Kinghill Store): Operated since July 2002, this branch with the retailing area of approximately 13,000 square meters is located in the Super Brand Mall in Lujiazui area, Shanghai. SLS has sub-leased the land and building from ECD.
 - i) The 10th Branch (Wenshui Branch): Operated since December 2002, this single story building with the retailing area of approximately 7,500 square meters is located in Zha Bei area, Shanghai. SLS has leased the land and building from a local company.
 - j) The 11th Branch (Jin Qiao Store): Opened since April 2003, this two stories building with the retailing area of approximately 15,000 square meters is located in Pudong New Area, Shanghai. SLS has leased the land and building from a local company.
- (2) The Lotus Supercenter, which SLS is hired to manage, is the 4th branch (Wuzhong Store). The operation of the 4th branch (Wuzhong Store) was commenced in December 1999. This single story store with the retailing area of approximately 11,000 square meters is located in Minhang, Shanghai. Shanghai Changfa Supercenter Co., Ltd., a local company, is the owner of a business license.

There are the other 2 branches of Lotus Supercenter for which LDI has entered into the agreement to license the use of trademarks in Hubei. Those branches are operated by Wuhan Chia Tai Trading Company Limited (“Wuhan”) with SLS’s assistance in the management and procurement of products. LDI and YSI are still negotiating with Wuhan to fix the remuneration rate for the use of those trademarks by Wuhan.

Criteria to Open Lotus Supercenter

SLS will consider whether the location of a new branch is appropriate or not by conducting a survey on number of potential customers in the surrounding area and mass transportation facilities. SLS may solicit a real estate company to be a partner by asking such company to wholly or partly absorb a construction cost in order to reduce investment cost of SLS in opening new branch and to shift the investment to expand other branches instead.

3.2.b Marketing and Competition Situation

Nature of Customers

Lotus's customers are people who need to conveniently buy consumer products in a one-stop shopping store. Everyday approximately 10,000 – 16,000 customers visit each branch of Lotus.

Pricing Policy

Lotus implements the Every Day Low Prices (“EDLP”) as its selling-point. In order to build up the image and grasp customers' attention, Lotus offers low price everyday rather than offering special promotion from time to time.

Marketing Expenses

Advertising campaigns and promotions of Lotus focus on selling the full range of high-quality products at special price everyday under the slogan “EDLP”. The Company believes that maintaining products at low price everyday is better than giving special discount in a short period of time in term of attracting customers with a various levels of income. In addition, SLS has a well-organized distribution center which enables SLS to keep its inventory at optimized level. Therefore SLS can appropriately offer products to response to customers' demands during any festival seasons.

The marketing promotion will be largely made through printing materials by distributing pamphlets or leaflets presenting products to customers within the area of 3-5 kilometers around the store to draw the customers' attention. Expenses incurred from this medium are mostly paid by owners of the products advertised in such printing items. Apart from printing materials, Lotus also runs its advertisements at bus stops, on bus body, in newspaper and radio. Special activities and promotion are held in Lotus by promotion staffs and advertising agency. Moreover Lotus has provided the shuttle bus service for the convenience of consumers in densely populated area.

Competitive Strategies

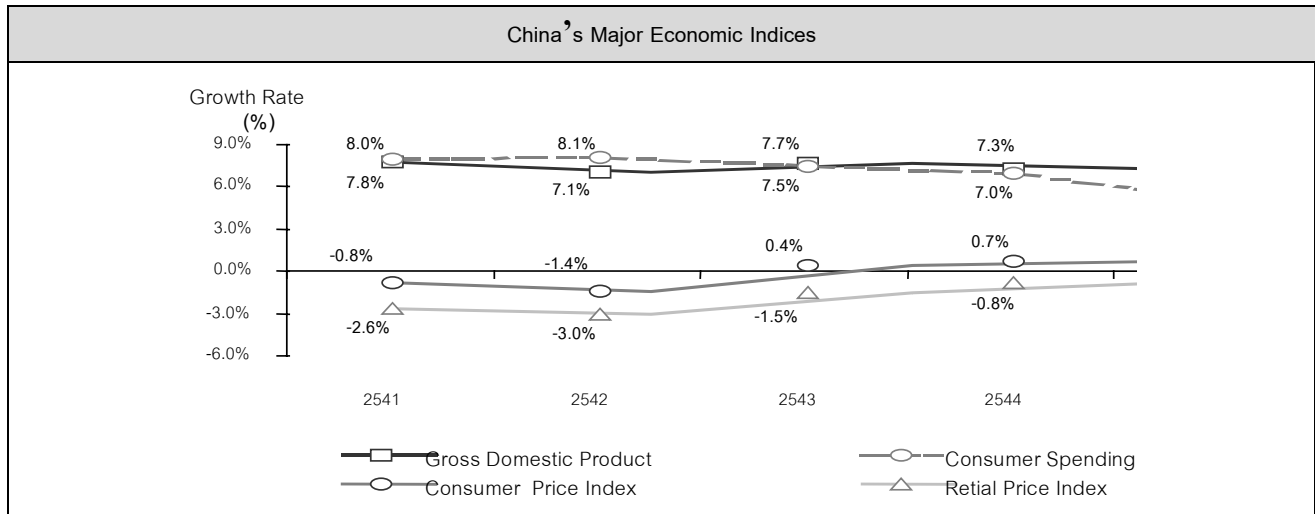
- 1) Reasonable price structure Consumers of retail business barely has brand loyalty to any retail store. Therefore they will not have strong determination to buy products from certain operator. Therefore with its reasonable price structure, Lotus is well positioned to gain market share in retailing market;
- 2) Varieties of products Lotus has developed marketing data and consumers' information in each area to ensure that Lotus can response to the need of customers in all levels. Lotus believes that in adjusting varieties of products in each branch to accommodate with consuming behavior of customers in certain area will help maintaining the number of its customers. Lotus has also set up a policy to improve the variety of products by increasing products which generate high gross profit (this includes House Brand which currently occupied only 1% of total sales).
- 3) Creating a pleasant shopping atmosphere Lotus tries to display products in the store to serve the convenience of its customers. In addition to its attractive design, Lotus also emphasizes on providing satisfactory customer services and engaging skillful employees. Lotus has a policy

to increase consignment area by focusing on well-known shops in order to enhance its image and attract customers to shop in Lotus.

- 4) Building and maintaining good relationship with manufacturers and distributors Lotus has constantly practiced this strategy in order to increase gross profit from placing order of goods in appropriate quantity and high enough to give Lotus bargaining power to with the manufacturers and distributors, as well as to ensure efficient coordination and delivery of products.
- 5) Costs and Expenses Control such as reducing common expenses by merging working units in charge of similar tasks into one unit, increasing house branded products which have lower cost, enlarging packages of certain products to reduce damages, and attempting to reduce the inventory levels by stocking inventories only at the distribution center etc.
- 6) Utilizing Information Technology System Lotus is equipped with a state-of-the-art product management system and distribution system such as RAMS (“Richter Automatic Merchandising System”), POS (“Point of Sales”) and SAP to ensure that the product management will be done efficiently.

Industry Outlook and Competitions of Supercenter Business in China

During the past 10 years the retail business in China has drastically grown due mainly to the economic development and increase of consumer demands. With the population of 1.3 billion, China becomes the large retail market for various consumer products. The growth rate of retail sales was equivalent to 8.8 per cent in 2002 compared to the GDP growth of 8.0 per cent (source: CEIC). However, despite the high growth rate of retail business, but products’ prices are likely to decrease according to the Consumer Price Index and Retail Price Index from the past 5 years. The Retail Price Index has been on the continuous decline, due to the drop in production cost, especially technological and electrical appliances.



Source World Bank/Asian Development Bank

Based on the study conducted by the Company, as at the end of 2001, it is anticipated that there were around 2,100 domestic retail chain operators consisting of approximately 32,000 retail stores. However only about 90 operators or 5% of all those operators earned income more than RMB 100 million.

Out of about 360 foreign retail operators, only approximately 40 operators have obtained a retail business license from the central government of China while the rest of them have obtained a license from local authorities. At present, several retail operators with worldwide recognition, such as Wal-Mart, Carrefour and Metro, have entered to carry out its business in China. However, the gross revenue of those retail operators is about 3% of the gross revenue of the whole retail business in China. Therefore, an opportunity to expand retail business by foreign operators is still positive. By bringing experiences and professional expertise from overseas to China, foreign retail operators could operate with higher efficiency, which could reduce their operating costs and allow them to offer lower retail price. The role of these operators will increase and their business will eventually get more attention from consumers.

In China, competition in retail and supercenter business is intense because an operator has to compete with local competitors and foreign competitors. Our direct archrival in China is Carrefour which is one of the French leading companies. It operates 28 stores in several large cities in China. Six of which are located in Shanghai. Lotus has operated its 10 supercenters in Shanghai and 1 in Hangzhou. Lotus also has other competitors who are not carrying out supercenter business but has the similar target group, such as local supermarket business operator, namely Lian Hua, which is the largest operator in China with 1,225 branch throughout the country, and Hua Lin, which is the second major operator with 818 stores throughout the country. Moreover, Lotus Supercenter has to compete with other retail business operators such as Metro, RT Mart, Happy Mart, Auchan, Trustmart and Hymart. The Chinese government has also implemented a policy to control the growth of supercenter business. For example, in Shanghai, the supercenters must be located not less than 3 kilometers in distance from each other and must pass the process of public hearing.

At present, a foreign retail business operator is required to first obtain permission from central government of China prior to entering into the business, which is one of the restrictions to undertake the business. Moreover, a foreign operator is required to have a local company as its joint venture partner and the shareholding of foreigner in the joint venture operating more than 3 stores must not exceed 50 per cent. The locations of retail businesses operated by foreigners are restricted to towns and municipalities under the direct supervision of the central government, the municipalities that have their own development plan and the special economic zones only. Based on the foregoing, we believe that a new foreign operator, who wants to invest in China needs to have not only capability to do the business but also good relationship and supports from government agencies and local people as well. We also believe that a sizeable amount of investment is required for opening new stores for investment in land and construction, sophisticated equipment so as to reduce costs and expenses, and know-how in management and equipment from experienced working group in order to conduct the operation with efficiency.

However, under an agreement made with the World Trade Organization (“WTO”), China is to revoke its restrictions currently applied to most foreign companies within 5 years following its WTO ascension. In addition, the prohibition of foreigners to have majority control must be revoked within such 5-year period as well. The Company believes that cancellation or reduction of restrictions will drastically change the competition scene from what it is at present. It will be a great opportunity of Lotus to expand the business in other market aside from Shanghai. However, this will be a chance for other competitors to enter into China as well.

3.3 Procurement of Products or Services

Procurement of Products

SLS purchases most of the products from manufacturers or distributors in China. At present, the policies to order products in each store are systematically planned and supervised by SLS’s head

office in Shanghai. During 2002, SLS did not purchase products from a single distributor for more than 20% of its purchasing value. SLS has constantly improved variety of products in each store in order to boost the sale volume and gross profit by compiling and analyzing data from customers and business competitors in order to study on the change of consumer behavior.

Each Lotus's store will send information concerning sales volume and inventories via computer system to the head office which will then send a purchase order to distributors except some certain types of products e.g. fresh food or some products, which the store directly orders from distributors or manufacturers. However, each store is to send information about such products to the head office afterwards so that SLS can manage the inventories with efficiency.

Product Distribution

SLS has leased land and building in Jin Qiao for its distribution center. The center covers the area of approximately 21,000 square meters and can support about 18 stores. Distribution and storing system implemented through such distribution center helps delivering products on time and assisting inventory management to be more efficient particularly during festive seasons. Therefore, Lotus can stock products in the sufficient number to match with demand and can offer an appropriate promotion

Currently, 62% of the product purchase by SLS are received and distributed through the distribution center. SLS plans to increase this portion in order to increase the effectiveness of inventory management.

	2000	2001	2002	6 months ending 30 June 2003
Stock Turnover* (Day)	29.6	33.1	29.9	24.8

From LDI financial statement

4. Research & Development

The Company's research and development is a study on customers' demand by based on analysis of market research prepared and data compiled by in-house units and external agencies in order to monitor what the customers want. The Company also cooperates with manufacturers or service providers providing specific service business to ensure that products and services offered are appropriate to be offered by the convenience store and that the Company can differentiate itself from competitors. Moreover, the Company's research and development aims to upgrade standards of products and services from production process or product assortment process, delivery of products, product management, and services offered in the stores to the end-customers. In addition, the Company has been receiving transfers of know-how and technologies in convenience store business from 7-Eleven, Inc. in accordance with the terms and conditions of Area License Agreement, such as the new management system developed by 7-Eleven, Inc. to apply with 7-Eleven stores worldwide. The customers are assured that all products and services offered in our stores are up to standard and that all product items are clean and are administered under the modernized management. The budget provided for marketing research and development is spent to monitor the foregoing processes to ensure that the goal is achieved. During the past 3 years (2000 – 2003), the Company spent Baht 192 million on research and development aspects. More than 95 per cent of such expense was spent for the Store System which is now fully developed and has been in use.

5. Assets Used for Business Operation

Fixed Assets of the Company and Affiliates

As at 30 June 2003 the fixed assets of the Company and affiliates comprise of property, building and equipment as follows:

<u>Assets</u>	<u>Book Value (Million Baht)</u>
Property, building and improvements	3,035.4
Rentals and Improvements to leased buildings	647.2
Machinery and equipment	1,949.3
Furniture, fixtures and office appliances	1,653.0
Power and water supply systems including public utilities	279.7
Vehicles	75.9
Work-in-process and machinery-in-installation	<u>326.4</u>
Total	<u>7,966.9</u>

Note: Should the depreciation at Baht 118.5 million be deducted, the net value of fixed assets will be equivalent to Baht 7,848 million.

The Company is the owner of most of the fixed assets. The assets owned by the Company are property, buildings where 10 7-Eleven stores are operated, land where the Bang Bua Thong distribution center is located, land and building on the Chaengwattana Road for future expansion, improvements to buildings, machinery, equipment, furniture, fixtures, appliances at the head office and 7-Eleven stores, equipment for power and water supply, vehicles. The foregoing fixed assets are free from any obligation, charge or lien. The Company does not secure any such fixed assets as a collateral for any loan credited to the Company and/or our affiliates.

Leasehold includes leasehold of 7-Eleven stores and distribution centers which the Company entered into agreements with the third parties. Most of the agreements are a 3-year contract except the contract on office building. The Company entered into a lease agreement to lease office building with Sivadhool Co., Ltd. and C.P. Land Co., Ltd where the contracts will expired on 31 May 2006 and 30 September 2004, respectively. All the lease agreements entered by the Company contain conditions on renewal of agreement as agreed therein.

As for supercenter business in China, SLS owns the most assets comprising which are improvements to buildings, machinery, equipment, furniture, fixtures and appliances in Lotus Supercenters, equipment for power and water supply and vehicles. The foregoing fixed assets are free from any obligation, charge or lien. SLS also has the right to use land and buildings where 9 Lotus Superstores are located (except the 1st branch where ECD has the right to use the land and owns the building, and has agreed to transfer such right to SLS whereby such transfer is under legal process, the 4th branch, which the Company is hired to manage, and the distribution center, which is located pursuant to lease agreements made with the third parties, the term of each agreement varies from 20 years to 40 years (depending on license period and conditions stipulated by China)

Intangible Assets

As at 31 March 2003, other than the “7-Eleven” trademark, which the Company has been licensed by 7-Eleven, Inc. LDI, which is the Company’s affiliate, is a proprietor of the “Lotus” trademark and other related trademarks that SLS uses in its retail business in China. LDI has already registered those trademarks with the Chinese authority. The Company and its affiliates are also the proprietors of a number of trademarks used with the products sold in the 7-Eleven outlets. Since the

use of the foregoing trademarks does not generate basic revenue to the Company, therefore, those intangible assets do not play any key role on the Company's operating performance.

Investment Policies in Subsidiaries and Affiliates Companies

The Company has the policies to invest only in retail business and any business complementary to our retail business in Thailand and Asia Pacific Region. At present, the Company has made major investments in 2 countries, namely Thailand and China. In Thailand the Company made investment in businesses related with convenience stores while in China the Company made investment in businesses related with supercenters. The Company assigned the representatives to be director(s) in accordance with shareholding proportion in the companies in which the Company made an investment. Such director/directors will be responsible to supervise, scrutinize, and report the results of operations to the Company. To date, the Company has no policy to invest in any business not related to nor complementary to the Company's retail business.

The Company monitors and supervises its subsidiaries and affiliates by appointing representatives to be director(s) in such companies in accordance with shareholding. As at 30 June 2003, investment made by the Company in subsidiaries and affiliates is Baht 1,661.2 million, which is about 10% of total assets indicated in the consolidated balance sheet (for more details please see the consolidated balance sheet).

6. Future Projects

Expansion of 7-Eleven Stores

The Company plans to expand 7-Eleven stores in normal locations in order to cover densely populated area in Bangkok and other provinces. The stores will include the stores operated by the Company and the stores franchised by the Company depending on the appropriateness and competitive environments.

At present, opening of new store in normal location requires approximately Baht 2.2 million for a store decoration and equipment with 10 employees per store. The Company has no policy to make any investment on land or building but will lease a building from a third party. The average lease term will be approximately 3 years and any such lease agreement may be renewed pursuant to the conditions agreed. The Company anticipates that the gross profit generated from the stores will be approximately 22% -23% of the sales volume of the stores (depending on type of products, cost control, and competition). The expansion of stores will increase bargaining power to negotiate with suppliers for better deals.

The Company also has a plan to expand 7-Eleven stores located in PTT gas stations, which is considered as another prosperous channel to carry out the business of convenience store. This channel has a potential to grow in accordance with the change of consumers' behavior. Moreover, this will enable the Company to expand the target group to customers using private vehicles. Like stores opened in normal locations, stores in PTT gas station are divided into 2 categories, comprising of the stores operated by the Company and franchisees' stores. Opening of a new store requires approximately Baht 2.5 million for store decoration and equipment, which is around Baht 0.3 million higher than that for a store in normal location. The Company has no policy to make any investment on land or building but will lease a building from a third party, and anticipates that the gross profit will be at the same level as that for a store in normal location.

In 6 months ending 30 June 2003, the Company has opened 169 7-Eleven stores in ordinary location and 31 stores in PTT gas stations. For 2003 – 2005, the Company anticipates that approximately 320 stores will be opened in each year, around 200-240 of which will be the 7-Eleven stores located in the ordinary location and 80-120 of which located in PTT gas stations. However, it depends on economic circumstances, competition and demands. The Company expects that investment of Baht 740 million will be made in each year.

System Upgrade and Store Renovation Project

The Company is required to put additional investment in the existing stores which have been opened for 6 years in order to renovate them and repair the equipment to be well-functioned and ready to provide efficient services to customers as well as to maintain the sales volume and customer's base. Around Baht 0.6 million is required for renovating and redecorating each store. In 6 months ending 30 June 2003, the Company has renovated 115 7-Eleven stores. In 2004, the Company plans to renovate 250 stores which have been opened for 6 years or more. The budget for this matter is approximately Baht 150 million.

Store System Installation Project

The store system is a system capable to record data and information on sales transaction and other sales information at 7-Eleven store. The system, including bar code equipment and store controller, must be installed and linked to the store system installed at the head office. The store system is a significant tool helping the Company to analyze sales of products in order to improve

efficiency in inventory management. Products will be selected to suit the demand of customers. This will boost sales volume and profit of the stores.

The Company is confident that after finishing the installation of the system in the head office and 7-Eleven stores, the system will help boosting average daily sales and inventory turnover (currently over 98% of 7-Eleven stores have installed the system). For the stores due for opening in 2003 and the following years, the system will be installed upon the opening of the stores. In 2004, the Company will invest approximately Baht 160 million in this project.

New Distribution Center Project

Since the Bang Bua Thong Distribution Center (DC Bang Bua Thong) on the west side of Bangkok can support approximately 2,800 7-Eleven stores while approximately 320 stores are newly opened each year, the Bang Bua Thong Distribution Center will reach its full service capacity in 2005. Therefore, the Company has a plan to set up a new distribution center which can support approximately 2,000 7-Eleven stores on the east side of Bangkok so as to support the expansion of 7-Eleven stores. Procurement of land is anticipated to start around the end of 2003 and construction and procurement of equipment will be in 2004. The total investment will be approximately Baht 835 million.

Improvement of Assortment System Project

This project consists of the project to install Graphic Ordering Terminal System (GOT) and Store Assortment System. The GOT will be equipped with tools by which store employees can gain access to information in order to precisely analyze for placing purchase order. The Store Assortment System will help to find which products are suitable to offer in the store by identifying a good sale products and how to efficiently display the products. Investment on equipment, tools and software systems in this project is around Baht 165 million. At present, the study and design of these two systems in details is in process. It is expected that installation and application of the systems will start in 2004.

Lotus Branch Expansion Project

SLS plans to achieve 16 branches in the PRC within first quarter of 2004 in the vicinity of 2 cities 7 districts, where SLS obtained the trademark rights. SLS intends to rent but not to acquire the buildings. They might also persuade local real estate firm to join in the partnership to reduce its cash investment. It is expected that the funding amount will be around RMB 50-60 million per branch. The Company expects to generate the initial profit of around 10-12% of the store revenue (depending on the product mix, cost and competition).

7. Litigation

The Company and its subsidiaries has no litigation which may have adverse effects to the assets of the Company or its affiliated in the amount exceeding 5% of shareholders' equity as at 30 June 2003, any legal action with substantial effect to the business operation of the Company, or any court case not arising from the normal course of business of the Company.

8. Capital Structure

Securities of the Company

As at 19 August 2003, the Company's registered capital is Baht 2,250 million with the paid-up capital of Baht 2 billion, comprising 400 million shares with the par value of Baht 5 per share. After this IPO, the Company's paid-up capital will increase to Baht 2,200 million, which is divided into 440 million shares with the par value of Baht 5 per share. The remaining 10 million ordinary shares will be reserved to support the exercise of right under the warrants to purchase shares, which the Company will allocate to directors and employees of the Company and its subsidiaries. The allocation of those warrants has been approved simultaneously with this offering.

Shareholders

Major Shareholder	As of 19 August 2003		Post IPO	
	No. of shares	%	No. of shares	%
1. Charoen Pokphand Group Co., Ltd.*	114,160,000	28.54	114,160,000	25.95
2. C.P. Merchandising Co., Ltd.*	76,000,000	19.00	76,000,000	17.27
3. Thavest Pte Limited**	40,000,000	10.00	33,500,000	7.61
4. American International Assurance Co., Ltd.***	34,000,000	8.50	34,000,000	7.73
5. Bangkok Produce Public Co., Ltd.*	24,000,000	6.00	14,000,000	3.18
6. NTK Technology Co., Ltd.	15,000,000	3.75	-	-
7. UNS Agro-chemical Co., Ltd.	9,000,000	2.25	9,000,000	2.05
8. Kasikorn Bank Plc.	6,000,000	1.50	6,000,000	1.36
9. AIG Asia Direct Investment Fund Limited***	6,000,000	1.50	6,000,000	1.36
10. Daiwa Securities SMBC Singapore Limited	4,400,000	1.10	4,400,000	1.00
11. Others	71,440,000	17.86	142,940,000	32.49
Total	400,000,000	100.00	440,000,000	100.00

* Charoen Pokphand Group holds in total of 53.54% as of 19 August 2003 and will hold 46.40% post IPO

** Same group as the Government of Singapore Investment Corporation, which holds a total of 11% as of 19 August 2003 and will hold 8.52 post IPO.

*** Same group of shareholders, holds a total of 10.00% as of 19 August 2003 and 9.09% post IPO.

Dividend Distribution Policy

The Company's Board of Directors has the policy to propose to the shareholders' meeting for considering on distribution of dividend payment to shareholders at 50% of net profit generated from operation after income tax deduction and statutory reserve in each year. However, the policy will be subject to change should the Board consider on the financial standing, economic situation, operating performance, and future project and find that it is appropriate to propose the shareholders' meeting otherwise.

With respect to subsidiaries, the Board of the subsidiaries has the policy to distribute dividend in accordance with the operating performance of the relevant company without determining a certain rate of dividend payment. The distribution of which will be based on the future investment plan in the future of each subsidiary.

9. Management Organization

Management organization of the Company consists of (1) Board of Directors, (2) Audit Committee (3) Executive Committee (4) Chief Executive Officer and (5) executive officers. Each of them will be in charge of specific duties with details as follows:

(1) **Board of Directors**

Lieut. Suchai Jaovisidha	Director/Independent Director
Mr. Pridi Boonyoung	Director/Independent Director
Mr. Padoong Techasarintr	Director/Independent Director
Mr. Dhanin Chearavanont	Chairman of the Board
Mr. Korsak Chairasmisak*	Director
Mr. Supakit Chearavanont**	Director
Ms. Yoon Chiang**	Director
Mr. Chia Yew Boon**	Director
Mr. Umroong Sanphasitvong**	Director
Mr. Narong Chearavanont**	Director
Mr. Prasert Jarupanich**	Director
Mr. Pittaya Jearavisidkul	Director
Mr. Piyawat Titasattavorakul	Director

Remarks - certification document of the Company as at 29 August 2003 stipulates that to sign to bind the company 2 directors – consisting of any authorized director to sign to bind the Company marked * and any authorized director to sign to bind the Company marked ** - shall jointly sign and affix the company's seal.

Scope of Power and Duties of the Board of Directors

The Board of Directors have duties to carry out the Company's business in compliance with the laws, objectives, articles of association of the Company, and the resolution of the shareholders' meeting. A member of the executive committee shall be elected the chairman of the executive committee by the Board of Directors. The Board of Directors may appoint one director or more or other person to do any act on behalf of the Board.

Appointment and removal of member of the Board

The members of the Board shall be elected by the resolution of the shareholders' meeting. Every shareholder entitled to vote shall have each share equivalent to one vote. He may give all his votes to one candidate or more but may not divide unequally his votes. The appointment of a successor to fill up the vacancy otherwise than by rotation shall be made through the resolution of the Board of Directors by a vote not less than three-fourths of number of the remaining directors.

The Board of Directors of the Company shall be removed by the resolution of the shareholder meeting by a vote not less than three-fourth of the number of shareholders attending the meeting who have the voting right and shares totaling not less than half of the number of shares held by the shareholder attending the meeting and having the right to vote.

(2) **Audit Committee**

Lieut. Suchai Jaovisidha	Chairman of the Audit Committee
Mr. Pridi Boonyoung	Member of the Audit Committee
Mr. Padoong Techasarintr	Member of the Audit Committee
Mr. Kidsadaa Euapiyachart	Secretary of the Audit Committee

Scope of powers and duties of the Audit Committee

The Audit Committee have powers and duties to review and ensure that the Company's financial reports be correctly and sufficiently prepared; to ensure that the Company is having proper and efficient internal control and internal audit; to consider the disclosure of the Company's data in case of occurrence of related party transactions or of such transactions which may give rise to conflict of interest and make the same to be correct and complete; to arrange for the report of the supervision by the Audit Committee and openly disclose it in the annual report of the Company; to ensure the Company's compliance with the law regarding the securities and the stock exchange, the rules of the SET or other laws relevant with the Company's business; and to consider and select , propose the appointment of and fix the remuneration for the auditors and take such actions as assigned by the Board of Directors. The Audit Committee shall, however, be liable to directly report the Company's Board of Directors on the performance of all such duties whilst the Board of Directors shall still be responsible for the Company's operation with the third persons.

Appointment and removal of member of the Audit Committee

A member of the Audit Committee shall be a director of the Company. The Board of Directors has the power to appoint and remove the members of the Audit Committee by majority votes of the persons attending the meeting with the right to vote. When any member of the Audit Committee retires upon expiration of his term, or there is any reason causing a member of the Audit Committee to be unable to complete his term of office, thus causing the number of remaining members to be lower than the stipulated number, the Board of Directors shall appoint a new member to fill up the vacancy immediately or within a period no later than 3 months from the date of occurrence of the vacancy in order to ensure continuous operation of the Audit Committee.

(3) **Executive Committee**

Mr. Korsak Chairasmisak	Chairman of the Executive Committee
Mr. Pittaya Jearavisitkul	Deputy Chairman of the Executive Committee
Mr. Piyawat Titasattavorakul	Member of the Executive Committee

Composition of the Executive Committee

The Executive Committee shall comprise of at least three directors of the Company.

Scope of powers and duties of the Executive Committee

The Executive Committee has the powers and duties to render assistance in the study of details and scrutiny of the works of the Board of Directors, as well as to give opinion and recommendations to the Chief Executive Officer to ensure that the administration of works is in accordance with the policies set forth by the Board of Directors, or to perform any other works as assigned by the Board of Director.

Appointment and removal of the Executive Committee

The Board of Directors shall appoint to remove the Executive Committee by a majority vote of the meeting of the Board of Directors.

4. Chief Executive Officer

Mr. Korsak Chairasmisak

Chief Executive Officer

Scope of powers and duties of the Chief Executive Officer

The Chief Executive Officer shall have powers and duties to administer all works in the normal course of business of the Company with honesty and care to protect the interests of the Company, and to perform its duties in line with the law, objectives and Articles of Associations of the Company, as well as the policies set forth by the Board of Directors. The Chief Executive Office shall also be empowered to appoint and remove a number of executive officers to render assistance in the administration of works of the Company to ensure efficiency and effectiveness.

Significant matters that shall be proposed for the consideration and approval of the meeting of the Board of Directors are as follows:

1. the sale or transfer of all or material part of the business of the Company to other persons;
2. the purchase or taking of transfer of business of other company or of a private company;
3. the execution, amendment and termination of the agreement concerning the leasing out of all or substantial part of the Company's business; the delegation of authority to other person to manage the business of the Company or the consolidation with other person for the purpose of sharing of profit and loss;
4. the amendment of the Memorandum or Articles of Associations of the Company;
5. the increment or decrement of capital; the issuance of debentures; the consolidation or dissolution of the Company;
6. the approval of balance sheets or annual profit and loss accounts;
7. the appropriation of profits and payment of dividends;
8. the borrowing of money or guaranteeing of loan or creating of obligations to the Company with financial institutions or other companies in the amount exceeding Baht 200 million per time in a year;
9. the lending of money to other companies in the amount exceeding Baht 200 million per time in a year;
10. the investment, joint venture, increment of capital in the subsidiaries, affiliates or other companies in the amount exceeding Baht 200 million per time in a year;
11. the expenses for investment in large project or the acquisition of assets of the Company where the cost of such project or the value of assets is exceeding Baht 200 million per time in a year;
12. the sale or disposal of fixed assets of the Company at a sale and disposal price exceeding Baht 200 million per time in a year; and
13. the operation plan and annual budget of the Company.

The Chief Executive Officer may sub-delegate any executive officer and/or employee of the Company to approve one or several matters as the Chief Executive Officer considers appropriate, provided that the power so sub-delegated may not be sub-delegated any further.

With respect to the foregoing approval, the Chief Executive Office or person delegated by him shall not be able to approve any transaction in which he or any person who may have a conflict of interest would have an interest or might have any other conflict of interest with the Company or its subsidiaries, unless such approval is in accordance with the policy and criteria approved by the Board of Directors.

Appointment and removal of the Executive Committee

The Board of Directors shall appoint and have power to remove the Chief Executive Officer a majority vote of the meeting of the Board of Directors.

(5) **Executive Officer**

Mr. Korsak Chairasmisak	Chief Executive Officer
Mr. Pittaya Jearavisidkul	Deputy of Chief Executive Officer
Mr. Piyawat Titasattavorakul	Managing Director
Mr. Kamol Sakdejayont	Vice President, financial & accounting
Mr. Chuan Nimkittikul	Vice President, purchasing & distribution
Mr. Tanin Buranamanit	Vice President, operation & marketing
Mr. Suwit Kingkaew	Vice President, general management
Mr. Kosa Pongsupath	Vice President, information technology

Remuneration for the directors, executive directors and executive officers

(1) Remuneration in money

2002	Type of Remuneration	Amount (Million Baht)
Directors, totaling 13	Remuneration for directors	7.7
Executive directors and executive officers, totaling 8	Salary, bonus etc.	69.6
	Total	77.3

(2) Other remuneration

-Nil-

Supervision of business

The Board of Directors of the Company complied with such 15 codes of best practices governing the directors of listed companies as being in line with the guideline laid down by the SET. Apart from attending the seminars held by the SET, the Company also joined as a member of the Thai Institute of Directors Association, both in the name of the Company and the Company's director, with the intention to improve the standard, develop the quality and code of conduct of directors in the administration of works and enhance the internal supervision of the Company to be reliable and accepted at the international level.

The Company instructed the reviewing of and reporting on the internal control by the executives in charge and provided for regular internal audit by the internal auditors, for the purpose of controlling the internal administration. The above-mentioned activities were under the supervision of the Audit Committee. In addition, the Company has prepared the business ethics manual and code of conduct in order to be guidelines for the executive officers and employees of the company; for example, the

executive officers and employees must perform duties with honesty and care to protect the interests of the Company and avoiding any act that may cause a conflict of interest with the Company.

Observation of use of internal data

The Company has work rules prohibiting the executive officers and employees from using internal data of the Company for their own benefits or other person's sake and as well has set forth the disciplinary punishment in case of violation or incompliant.

Personnel

For the convenience stores business in Thailand, the Company had as at 31 December 2002 the total number of employees of 12,440 which was divided into the employees in charge of store operation numbering 9,472 and employees at the head office numbering 2,968 as well as a certain number of temporary employees. The remuneration for all employees, in 2002, totaled 2,238 million. As at 30 June 2003, the Company has a total of 12,861 permanent employees.

For the supercenter business in China, SLS had as at 31 December 2002 the total number of employees of 1,968 which was divided into the employees in charge of store operation and distribution center numbering 1,463 and employees at the head office numbering 505 as well as a certain number of temporary employees. The remuneration for all employees in 2002 was at RMB 128 million. As at 31 June 2003, SLS has a total of 2,082 permanent employees.

10. Internal Control

Following the Board of Director's meeting no.9/2002 on 25 September 2002, where one auditing director attended the meeting, the Audit Committee had followed up the assessment result of the Company's internal control system as approved by the Company's management and was of the opinion that the Company has an appropriate and sufficient internal control system for its business operation, and no material defect is found. In addition, the Company has sufficient measure for preventing the Company's assets from being used inappropriately which may cause damage to the Company's financial condition and operation.

11. Related Party Transactions

In 2002 and during the first six months of 2003, the Company and its subsidiaries conducted several related transactions with persons who might cause conflict of interest to the Company and its subsidiaries. The transactions were divided into two types: (1) the transactions arising from the normal course of operation of the Company such as purchase or sale of goods, raw materials, services, and (2) other transactions. The related transactions can be summarized as follows:

Related Companies	Summary of Transactions	Sizes of Related Party Transactions (Million Baht)		Relation with the Company	Reasonableness and Necessity of Related Party Transaction
		2002	1H 2003		
C.P. Interfood (Thailand) Co., Ltd. (“CPIF”)	Company and its subsidiaries purchased products in categories of bakery and sausage for sale in 7-Eleven	579.4	290.4	Having CPG as a major shareholder	- CPIF products are of good quality and the price is market price
	Company and its subsidiary received sale promotion fee from CPIF	17.6	7.4		- Sale promotion fee from the purchase of CPIF products as agreed is a normal business condition.
TA Orange Co., Ltd. (“TOA”)	Company purchased products in categories of mobile phone accessory and card phone for sale in 7-Eleven.	393.1	780.0	Having CPG. as a major shareholder and having 2 co-directors i.e. Mr. Dhanin Chearavanont and Mr. Supakit Chearavanont	- To adjust the products mix according to demands, the Company brought in products from TAO, at the market price.
	The Company received sale promotion fee from TAO	10.1	-		- Sale promotion fee from TAO as agreed in purchasing agreement is a normal business condition is a normal business condition.
C.P. Meji Co., Ltd. (“CPM”)	- Company purchased milk products for sale in 7-	373.3	200.0	Having CPG as a major shareholder	- CPM products are of good quality and the price is

Related Companies	Summary of Transactions	Sizes of Related Party Transactions (Million Baht)		Relation with the Company	Reasonableness and Necessity of Related Party Transaction
		2002	1H 2003		
	<p>Eleven.</p> <p>- The Company received sale promotion fees from CPM.</p>	6.1	3.5		<p>market price</p> <p>- Sale promotion fee from CPM as agreed in purchasing agreement is a normal business condition.</p>
C.P. Packing Industry Co., Ltd. ("CPPI")	Company and subsidiaries purchased products in categories of plastic cup and plate	164.7	99.3	Having Chearavanont family as major shareholder	CPPI products are of good quality and the price is market price.
C.P. Consumer Products Co., Ltd. ("CPCP")	<p>Company purchased products in categories of sauce, candy and spray for sale in 7-Eleven.</p> <p>The Company received sale promotion fee.</p> <p>The Company provides interval loans to CPCP. (The figures shown in the size of related transaction are an average principals of the interval loans.</p>	<p>88.5</p> <p>13.6</p> <p>25.9</p>	<p>53.6</p> <p>7.1</p> <p>6.1</p>	Having CPG as a major shareholder, having 1 co-director i.e. Mr. Korsak Chairasmisak	<p>- CPPI products are of good quality and the price is market price.</p> <p>- Sale promotion fee from CPCP as agreed in purchasing agreement is a normal business condition.</p> <p>- In 2002, the interest rate for loan provided to domestic subsidiaries and related companies is 7.25 – 9.50% p.a. In the 2nd quarter of 2003, this interest rate is changed to 5.25 – 7.50 p.a.</p>

Related Companies	Summary of Transactions	Sizes of Related Party Transactions (Million Baht)		Relation with the Company	Reasonableness and Necessity of Related Party Transaction
		2002	1H 2003		
TelecomAsia Corporation Public Company Limited (“TA”)	Company repaid the service charges of the telephones installed in front of 7-Eleven. Company received rental fee from telephone installation in front of 7-Eleven.	61.5 9.6	27.4 5.4	Having CPG as a major shareholder and having 3 co-directors i.e. Mr. Dhanin Chearavanont, Mr. Supakit Chearavanont and Mr. Umroong Sanphasitvong	An installation of telephone in front of 7-11 provides facilitation to customers and passer-by. The telephone installation is in the Company’s normal course of business and is conducted according to normal trading practice.
V Food Products Co., Ltd. (“VFP”)	Company and subsidiaries purchased products in categories of egg, chicken meat and pork for preparation of food products.	15.0	13.9	Having a major shareholder that is related to CPG	VFP products are of good quality and the price is market price.
Bangkok Livestock Co., Ltd. (“BLP”)	Subsidiaries purchased raw materials in category of pork for preparation of food products.	11.7	-	Having a major shareholder that is related to CPG	BLP products are of good quality and the price is market price.
Bangkok Farm Co, Ltd. (“BKF”)	Company purchased raw materials in category of chicken and duck for preparation of food products.	-	6.4	Having a major shareholder that is related to CPG,	BKF products are of good quality and the price is market price.
Seafood Enterprise Co., Ltd. (“SFE”)	Subsidiaries purchased raw materials in category of shrimp	3.3	3.1	Having a major shareholder that is related to CPG	SFE products are of good quality and the price is market price.
C.P. Merchandising Co., Ltd.(“CPMC”)	Subsidiaries sold products in category of frozen food	58.1	33.7	Having a major shareholder that is related	Being in normal course of business with the price and

Related Companies	Summary of Transactions	Sizes of Related Party Transactions (Million Baht)		Relation with the Company	Reasonableness and Necessity of Related Party Transaction
		2002	1H 2003		
				to CPG	remuneration according to normal trading practice.
Chester Food Co., Ltd. (“CF”)	Subsidiaries sold products in category of bakery	4.8	1.1	Having CPG as a major shareholder	Being in normal course of business with the price and remuneration according to normal trading practice.
C.P. Seed Co., Ltd. (“CPSI”)	Company received interest from loans. Company provided interval loans to CPSI (the figures shown in the size of related transactions are average principals of the interval loans.)	- 89.0	1.7 45.5	Having a major shareholder that is related to CPG	In 2002, the interest rate for loan provided to domestic subsidiaries and related companies is 7.25 – 9.50% p.a. In the 2 nd quarter of 2003, this interest rate is changed to 5.25 – 7.50 p.a.
C.P. Land Co., Ltd. (“CPL”)	Company and subsidiaries leased office buildings	32.0	16.3	Having CPG as a major shareholder, having 1 co-director i.e. Mr. Dhanin Chearavanont	The offices of the Company and subsidiaries are located in prime location. The Company fully furnished these offices with decoration items and equipment. The rental fees under the leased agreements are based on general market price.
Alliance C.P. Insurance Co., Ltd. (“ACP”)	Company and subsidiaries paid insurance premiums	14.6	0.5	Having CPG and a related company to CPG as major shareholder and	ACP is a reliable insurance company and the insurance premiums charged by ACP

Related Companies	Summary of Transactions	Sizes of Related Party Transactions (Million Baht)		Relation with the Company	Reasonableness and Necessity of Related Party Transaction
		2002	1H 2003		
				having 1 co-director i.e. Mr. Umroong Sanphasitvong	are reasonable.
Charoen Pokphand Group Co., Ltd. (“CPC”)	Company and subsidiaries paid for administration know-how service fee.	11.0	5.7	Being the Company’s major shareholder, having 1 co-director i.e. Mr. Dhanin Chearavanont	To develop the personnel and administration system of the Company and subsidiaries to be ready for competition. The service fee is reasonable.
Great Agro Co, Ltd (“GA”)	Company provides interval loans to GA (the figures shown in the size of related transactions are average principals of the interval loans.)	44.5	33.9	Having a major shareholder that is related to CPG.	In 2002, the interest rate for loan provided to domestic subsidiaries and related companies is 7.25 – 9.50% p.a. In the 2 nd quarter of 2003, this interest rate is changed to 5.25 – 7.50 p.a.
Pokphand Distribution Co, Ltd (“PD”)	Company provides interval loans to PD (the figures shown in the size of related transactions are average principals of the interval loans.)	26.8	20.3	Having a major shareholder that is related to CPG	In 2002, the interest rate for loan provided to domestic subsidiaries and related companies is 7.25 – 9.50% p.a. In the 2 nd quarter of 2003, this interest rate is changed to 5.25 – 7.50 p.a.
Shanghai Kinghill Limited	Subsidiaries pad rental fee of the area in Lotus Branch 9	24.8	26.9	Having a major shareholder that is related to CPG	The Lotus Branch 9 is located in a prime location. The rental fee under the lease agreement is based on general market price.

Related Companies	Summary of Transactions	Sizes of Related Party Transactions (Million Baht)		Relation with the Company	Reasonableness and Necessity of Related Party Transaction
		2002	1H 2003		
Others	Purchase of products and raw materials	26.6	25.5		
	Sales of Products	7.3	5.9		
	Other revenues	4.7	4.5		
	Other expenses	10.0	3.3		
	Fixed Assets Purchases	2.3	-		
	Interest Revenues	9.0	3.2		

Measures and procedures for approval of related transactions

In case of the purchase and sale of goods and services that are transactions in the normal course of business, the Company provided the measures to protect investors from benefit transfer by instructing the internal auditing office to examine the necessity of said transactions with relevant internal units in order to allow the purchase and sale of products and services to be in line with the market price and report the result of such examination every trimester to the Audit Committee of the Company. The Audit Committee will then present the report to the Board of Directors of the Company.

For the purchase and sale of shares or fixed assets, considered as the transactions occurring periodically, the Company has the policy to use external independent specialists such as property assessor and financial adviser who would give opinion to the Audit Committee for subsequent reporting to the Board of Directors.

Policy to conduct related party transactions

For the best benefits of the Company, the Board of Directors had a clear policy that the related transactions may occur in the normal course of business of the Company but would be on the necessity basis and at the fair price comparable with the market price.

Since the business nature of the Company and subsidiaries is retail business, the Company and subsidiaries need to sell and purchase products and services to and from various companies including related companies. The company expected that its related transactions arising from its normal course of operation would continue in accordance with the business expansion of the itself and subsidiaries. Other transactions would be based on business necessity.

12. Financial Status and Results of Operations

Summary of auditing report

The auditors approved by the Meeting of the Shareholders of the Company for the auditing of the consolidated financial statements and financial statements of the Company for the past three years are as follows:

2002 financial statements: SGV-NA THALANG & CO.,LTD.

2001 financial statements: SGV-NA THALANG & CO.,LTD.

2000 financial statements: SGV-NA THALANG & CO.,LTD.

The auditing report of the auditor for the past three years: The auditors gave unconditional opinion in the auditors' report for the past three years: 2002, 2001 and 2000, as follows:

Summary of auditing report on 2002 annual financial statements

The auditors expressed their opinions that the financial statements of the Company and the consolidated financial statements of the Company and its subsidiaries presents fairly the financial positions of the Company and the Company and its subsidiaries as at 31 December 2002, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

Summary of auditing report on 2001 annual financial statements

The auditors expressed their opinions that the financial statements of the Company and the consolidated financial statements of the Company and its subsidiaries presents fairly the financial positions of the Company and the Company and its subsidiaries as at 31 December 2001, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

Summary of auditing report on 2000 annual financial statements

The auditors expressed their opinions that the financial statements of the Company and the consolidated financial statements of the Company and its subsidiaries presents fairly the financial positions of the Company and the Company and its subsidiaries as at 31 December 2001, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

Summary of Consolidated Financial Statements

(Unit: million Baht)

Consolidated Financial Statements as at 31 December

Units: Million Baht

Data from profit and loss statements

Incomes:

	2000	2001	2002	30 June 2003
Sale and service, net	26,206	31,550	43,765	28,357
Other income	2,126	1,713	2,153	1,224
Total income	28,332	33,263	45,918	29,581

Costs and expenses:

Sale and administration expense	5,839	6,260	8,996	5,343
Operating Profit	892	1,339	1,410	1,146
Interest payable	193	42	44	10
Corporate income tax	349	282	400	339
Loss (profit) of minority shareholders in subsidiaries	166	(90)	(2)	(40)
Net profit	516	925	964	757
Profit per share (Baht) – before the change of the	2.58	4.62	4.82	3.78
-after the change of the par value	1.29	2.31	2.41	1.89

Data from balance sheets

Total assets	11,717	14,228	17,305	17,385
Current Asset	6,161	6,946	8,877	8,609
Other Assets	5,556	7,282	8,428	8,776
Total liabilities	7,676	8,404	10,900	10,673
Current Liabilities	7,339	7,980	10,332	10,034
Other Liabilities	337	424	568	639
Shareholders' equity	4,040	5,824	6,404	6,712

Data from cash flow statements

Cash flows from operation	1,696	1,772	3,841	1,147
Cash flows from investment	458	(1,695)	(2,116)	(1,124)
Cash flows from funding activities	(710)	224	(957)	(437)
Cash increased (decreased), net	1,444	301	768	(413)
Remaining cash as at the ending of period	2,885	3,185	3,953	3,540.86

* The Company changed the par value of share from Baht 10 to Baht 5 on 30 April 2000

Financial Ratios (Consolidated)

	Dec 31, 2000	Dec 31, 2001	Dec 31, 2002	30 June 2003
<u>Liquidity Ratios</u>				
Current ratio (times)	0.84	0.87	0.86	0.86
Quick ratio (times)	0.52	0.43	0.41	0.38
Cash flow liquidity ratio (times)	0.25	0.23	0.42	-
Account receivable turnover (times)	194.06	158.26	168.11	-
Average debt collection period (days)	1.86	2.27	2.14	-
Inventory turnover (times)	12.69	12.49	12.71	-
Average sale period (days)	28.36	28.82	28.32	-
Account payable turnover (times)	4.95	4.75	4.97	-
Debt payment period (days)	72.66	75.79	72.37	-
Cash cycle (days)	-42.44	-44.70	-42.92	-
<u>Profitability Ratios</u>				
Gross profit margin (%)	17.57%	18.65%	18.86%	18.57%
EBIT margin (%)	0.15%	3.56%	2.93%	3.82%
Other profit margin (%)	3.02%	0.51%	0.23%	0.07%
Cash/profit (%)	4152.35%	150.59%	286.14%	101.69%
Net profit margin (%)	1.82%	2.78%	2.10%	2.56%
Return on equity (%)	14.74%	18.76%	15.77%	-
<u>Efficiency Ratios</u>				
Return on assets (%)	4.59%	7.13%	6.12%	-
Return on fixed assets (%)	27.14%	34.84	29.62%	-
Asset turnover (time)	2.52	2.56	2.91	-
<u>Financial Policy Ratios</u>				
Debt on shareholder's equity (times)	1.90	1.44	1.70	1.59
Interest coverage ratio (times)	11.10	49.92	96.36	155.10
Obligation coverage ratio (times)	0.57	0.57	1.00	-
Dividend payout ratio (%)	58.17%	32.43%	41.49%	-
<u>Per Share Analysis*</u>				
Book value per share (Baht)*	10.10	14.56	16.01	16.78
Net profit per share (Baht)*	1.29	2.31	2.41	1.89
Net profit per share (Baht) (fully diluted)**	1.15	2.06	2.14	1.68
Dividend per share (Baht)*	0.75	0.75	1.00	0.00

*Information per share calculated from 400 million ordinary shares.

**Calculated using 450 million ordinary shares.

Explanation and analysis of financial status and results of operations

The financial status and results of operations appearing in the consolidated financial statements of the Company and its subsidiaries results mainly from the convenience stores business in Thailand. The consolidated statements also include supercenter business in China. Other important businesses include the manufacturing and distribution of processed food business, counter services and sales and repair of retail business related appliances.

Company's Overview

The Company believes that retail business in Thailand which is the major business for the Company is still the main source of income. Whereas the super center business in China is the Company's mean of risk diversification as China can provide large economy of scales and high growth potential. As for the support business operated by the subsidiaries is means of providing value added to the products and services by making full use of 7-Eleven network.

The Company believes that the strength not only lies upon the extensive networks (branches) that 7-Eleven have which, good location which provided extra convenience to the customers. The technology used to manage the stores, also help provide the customers with smooth service. The Company continues to improve its stores in various ways, which includes the store's internal and external ambience, as well as up to date equipment, which provide safety comfort and pleasure for the sight. In the same time the introduction of the automated management system enable the stores' managers to order and keep track of the stocks with ease. The distribution center helps the Company to distribute products to branches with higher efficiency. The Company also continues to improve the products mix in relation to customers' demand e.g. counter service as well as providing fresh ready to eat food and beverages.

The increase in the expenditure amongst the domestic public sector not only is the main driver of the economy, it stimulate the competitions within the retail business. The existing operators would try to improve their services and to expand their branches. In the same time new sizable operators are seeking to enter the arena. This inevitably lessen the locations for new stores, which in turns push the cost of locations up. The company realized this problem, and have continued to improve the operating efficiency in all areas as well as keeping the good standards for customers. The Company believes that, the operators which can manage both financial, employees, service, technology can optimized the economy of scales would be able to satisfy customers' need and in the same time would be able to continuously increase sales and profits.

As for the supercenter business in China, the Company believes that there is plenty room for expansion as the Chinese economy continues to grow at a high rate. In addition to the increase of Lotus' branch, technology and the operators' experience would help SLS improve and compete in the market. The Company is convinced that the supercenter business in China can grow according to plan using the cash flow from operation and capital from business partners in China without the requirement of Company's capital.

Analysis of results of operations for the year ending 31 December 2002 in comparison with the results of operations for the year ending 31 December 2001

Revenues

In 2002, the Company and its subsidiaries had total revenue of Baht 45,918 million, or a 38.0-per cent increase of Baht 12,655 million from the total income of Baht 33,263 million in 2001 or an increase of 38.0% from the same period of the previous year. (In 2000, the Company and its subsidiaries recorded a total revenue of Baht 28,332 million). Approximately, 95.7 per cent of this

increase in total revenue came from an increase in the net sales, (consisting of net sales from convenience store business, net sales from large retail store business and net sales from other businesses based on the consolidated financial statement of the Company and its subsidiaries), which rose from Baht 31,310 million in 2001 to Baht 43,423 million in 2002. Approximately, 68.1 per cent of the increase in net sales result from an increase in net sales from convenience store business.

In 2002, net sales of Baht 43,423 million consisted approximately of 69.5 per cent net sales from convenience store business; 29.3 per cent net sales from large retailer or supercenters; and 1.3 per cent revenues from distribution centers and others. The Company and its subsidiaries' net sales rose by 38.7 per cent because 7-Eleven added 320 branches nationwide in 2002, resulting in a total of 2,042 convenience stores at the end of 2002. In addition, the supercenter business opened four new branches, resulting in a total of 10 Lotus branches at the end of 2002. Details of the main revenue items of the Company and its subsidiaries are as follows.

Revenue from convenience store business

Total incomes from convenience stores consist of (1) net sales from convenience stores, which includes nationwide 7-Eleven store sales, with the exception of A-typed franchise stores and sub-area licensed stores ("revenues from store sales"); (2) net sales from distribution centers, which consist of sales from distribution center to A-Typed Franchise Store and sub-area licensed stores ("revenues from distribution center's sales"); (3) other net sales, which consist of sales from the head office to A-Typed Franchise Store and other sub-area licensed stores; and (4) other operating incomes such as license fees from franchise stores and sub-area license stores ("License Revenue"), revenue from rent and majority of other incomes, and revenue from sales promotion ("revenue from sales promotion.")

In 2002, total revenue from convenience store business were Baht 31,537 million (consisting of various incomes as mentioned above in accordance with the Company's financial statements), which is a Baht 23,129 million or a 36.4-per cent increase from 2001. (In 2000, the total revenue from convenience store business was Baht 19,678 million). The total revenue from convenience store business amounted to 68.7 per cent of the total revenue of the Company and its subsidiaries. The details are as follows.

- Store sales account for the highest proportion of the total revenue from the convenience store business or as much as 87.9 per cent. This amounts to Baht 27,708 million in 2002 or a 53.0-per cent increase from the same period of 2001, which recorded store sales of Baht 18,107 million (In 2000, store sales were Baht 14,715 million). This was due to an increase of 320 7-Eleven branches where average daily store sales in 2002 rose approximately by 15 per cent when compared to the same period in 2002 from an average of Baht 39,000 in 2001 to approximately Baht 45,000 in 2002. (Average daily store sales in 2001 rose by 2 per cent from Baht 38,000 in 2000 to approximately Baht 39,000). Better average daily store sales was as a result of the improvement in the combination of goods in stores to better serve customers' needs. For example, the proportional increase in mobile phone card sales which recorded higher daily sales in response to mobile phone popularity among the customers. In addition, the store system also helps the Company analyze customer's needs and allows it to provide goods that correspond to their needs.
- Sales from distribution centers consist of sales from distribution center to A-Typed Franchise Store and sub-area licensed stores. Headquarters's sales consist of purchase orders to manufacturers or distributors on behalf of A-Typed franchise stores and sub-area licensed stores. The goods are directly delivered without having to go through the distribution center, and this income is recorded at cost by the Company. The total revenue together declined from Baht 3,808 million in 2001 to Baht 2,458 million in 2002, or a 35.5 per cent decrease from

2001. This is because 73.6 per cent of the newly-opened 7-Eleven stores in 2002 are mostly corporate stores, the majority of which are situated in PTT gas stations (a total of 133 stores began operations in 2002) and non-A typed franchise stores. As a result, there are declines in sales from distribution centers and sales from the headquarter while helping boost store sales as mentioned above.

The Company's management wished to convert the current A-Typed Franchise stores to A-Modified Franchise Stores instead. (A-Modified Franchise Stores were originally A-Typed Franchise Stores with amended contracts, which transfer the responsibility for the procurement and for the cost of goods and the cost of equipment to the Company). Other terms and conditions remain the same in a similar manner to B- and C-Typed Franchise Stores, with an exception for the profit sharing.) The Company hopes to solve the issue of stock shortage and thus store quality by taking over the responsibility of the cost of goods so that franchise stores would order more goods. As a result, the number of A-Typed Franchise Stores was cut down by 185 stores, 166 of which have been converted to A-Modified Franchise Stores instead. At year-end 2002, A-Typed Franchise Stores were reduced from 208 at the end of 2001 to 23 stores only. This is a major factor that caused a decline in sales from distribution centers and sales from headquarter in 2002.

In addition, revenues from headquarters' sale in 2002 dropped by 51.0 per cent from the previous year as the Company wishes to curb the ratio of goods directly delivered to franchise stores and divert them instead through distribution center, resulting in a drop in sales from the headquarters.

- License Revenue comprises of entrance license revenue (the figure currently stands between 400,000 to 500,000 per newly open franchise store). Revenue from initial profit sharing from Type A franchise stores (the figure stands at 35% of gross profit) and sub-area license stores (currently around 3-4% of sales) and license revenue on products sold in stores. The figure declined by 26.2 per cent from Baht 611 million in 2001 to Baht 451 million in 2002 as A-Typed Franchise Stores were cut down by 197 stores in 2002, causing a decline in revenue from initial profit sharing.
- Rental Revenue: this consisted of (1) building rental paid by certain types of franchise stores and sub-area licensed stores to operate the 7-Eleven business but recorded by the Company as rent incomes. The Company recorded the same amount as sales and administration expenses in its Profit and Loss Statement; and (2) revenue from third party renting space in 7-Eleven stores, which does not account for much. Rental revenue in 2002 declined slightly from Baht 230 million during the same period of 2001 to Baht 203 million in 2002, or a decline of 11.6 per cent as number of A-Typed Franchise Stores, which paid rent to the Company, were reduced.
- Other income (majority of which is sales promotion revenue): In 2002, the revenue increased to Baht 717 million from Baht 373 million from the same period in 2001 as store's sales and the Company's purchasing orders increases in accordance with an increase in 7-Eleven stores.

Revenue from supercenter business

The total revenue of supercenter business consist of: (1) sales from large retail stores, which comes mainly from sales from supercenter ("Revenue from Lotus Supercenter's Sale"); and (2) Other operating incomes; namely, revenue from sales promotion ("Income from Sales Promotion.") and rents of space within the stores

In 2002, total sales from the supercenter business was Baht 13,491 million, or 29.4 per cent of the total revenue based on the consolidated financial statements, which is an increase of 44.0 per cent

from 2001 with a total revenue of Baht 9,373 million (In 2000, total revenue from supercenter business was 7,422 million baht) as a result of four additional Lotus Supercenters in 2002. At the end of 2002, there were 10 Lotus Supercenter branches. In 2002, Lotus Supercenter's net sales rose by 41.3 per cent from Baht 8,995 million in 2001 to Baht 12,712 million in 2002 (In 2000, net sales from Lotus was 7,213 million baht) according to the consolidated financial statements of the Company and its subsidiaries.

However, average daily sales per branch of Lotus Supercenter has been reduced from 7 per cent (approximately RMB 940,000) in 2001 to RMB [870,000] in 2002. (Lotus' average sales per branch per day in 2001 suffered a 12% dip from approximately RMB 1,070,000 in 2000 to RMB 940,000. This was because the four Lotus Supercenters had just begun operations, and their average daily sales were less than the fully-operated Lotus outlets, causing the average daily sales per branch to decline. In addition, the increase in competition in the area where the stores are located, the revising of Shanghai's city planning which temporarily decrease the number of residents as well as the downward trend of the retail price index, has caused Lotus' sales per store per day figure to decrease.

Revenue from other businesses

In 2002, the revenue of CPRAM, mainly coming from processed food sales increased from Baht 863 million in 2001 to Baht 1,121 million in 2002 or by 29.9 per cent, (in 2000, sales of CPRAM's processed food was Baht 719 million) owing to an increase in product recognition and sales channels in 7-Eleven stores as the number of 7-Eleven stores increased. In addition, there were attempts to increase sales channels through supermarkets and higher export revenue.

CPRAM's additional info

(Million Baht)	2000	2001	2002
Sales Revenue	708	835	1,095
-7-Eleven	541	584	715
-Other than 7-Eleven	167	251	380

Company also received revenue from the acceptance of the payment for the goods and services at the counter services (CS). CS had service counters in both 7-Eleven stores and general shopping centers. At year-end 2002, it had 2,316 counters, of which 82.9 per cent or 1,919 counters were in 7-Eleven stores. Service revenue in 2002 was Baht 331 million, which rose 78.0 per cent, from Baht 186 million in 2001. (In 2000, the service revenue was Baht 95 million). This was because 1,166 new counters were opened in 2002. In addition, more customers are using both the existing and new counter services, prompting revenue from counter service to increase almost twofold in 2001.

CS additional info

	2000	2001	2002	Six months ending 30 June 2003
Total number of counter service (counter)	819	1,150	2,316	2,769
- 7-Eleven	655	893	1,919	2,134

- other than 7-Eleven	154	257	397	695
Monthly average itinerary (per million)	0.7	1.4	2.3	3.5

In addition, the Company also received revenues from RTL business which comprises of sales and repair of utilities related to retail business. This figure increased from Baht 402 million in 2001 to Baht 573 million in 2002 which is equivalent to a 42.6% increase (In 2000, the revenue from RTL's ready to eat (instant) food is Baht 370 million)

Cost of sale and service

The Company's cost of sale and service for 2002 equaled to Baht 35,512 million, or a 38.3-per cent increase, from Baht 25,664 million in 2001. This increase was a result of the expansion in numbers of 7-Eleven stores and Lotus Supercenters in 2002. The increase of total cost of sales and services also coincided with the increase in the total revenues of the Company and its subsidiaries in 2002, which rose by 38.0 per cent from 2001.

The consolidated cost of sales and service of the Company and its subsidiaries for 2002 and 2001 accounted for 81.1 per cent and 81.3 per cent of total income from net sales and service revenue in 2002 and 2001, respectively.

Cost of sales of convenience stores

Cost of sales of convenience stores according to the Company's financial statement was Baht 23,764 million in 2002. (This consisted of cost of sales of convenience stores, cost of sales of distribution centers and other costs of sales). This rose by 37.3 per cent from Baht 17,305 million during the same period a year ago or an increase by Baht 6,459 million, due largely to a significant increase in the number of 7-Eleven stores as mentioned above. Cost of sales in 2002 and 2001 accounted for 78.8 per cent and 79.0 per cent of the revenues from net sales amount of convenience stores, respectively.

Nevertheless, net sales of the convenience stores in 2002 rose 37.6 per cent from 2001 (from Baht 21,914 million in 2001 to Baht 30,165 million in 2002 according to the Company's financial statement), which was higher than the increase of the cost of sales of convenience stores during the past year. The cost of sales rose at a slower rate than the increase in net sales of convenience stores in 2002, reflecting the ability of the Company to efficiently maintain the growth rate of its costs .

The ratio of cost of sales of convenience stores to net sales of convenience stores in 2002 and 2001 were down from 80.2 in 2000. The Company believes that, the reduction in cost of sales, was a result of: the store system, information technology system and the Company's sophisticated distribution center. This helps the firm manage goods within 7-Eleven outlets and inventories within the distribution centers quite effectively and thus reduces the amount of damaged goods within 7-Eleven stores and inventory.

Cost of sales of supercenters

In 2002, cost of sales of the supercenters was Baht 11,349 million or 89.3 per cent of net sales of Lotus Supercenter in 2002, which declined from 89.9 per cent of net sales in 2001 and from 90.7 per cent of net sales in 2000.

Cost of sales of the supercenters in 2002 rose by 40.4 per cent from 2001, or an increase from Baht 8,084 million in 2001 to Baht 11,349 million in 2002. At the same time, Lotus Supercenter's net sales in 2002 rose 41.3 per cent from a year ago. The cost of sales of the supercenters rose at a slower

pace than the increase in net sales of Lotus Supercenters, reflecting the ability of the Company to efficiently maintain the growth rate of its costs.

The ratio of cost of sales of the supercenters to net sales of Lotus Supercenters remain higher than the same ratio for the convenience stores as a result of the different business natures. Supercenters usually focus on selling goods in bulks at a very reasonable price, forcing the initial profit to remain lower than the convenience stores. On the contrary, as the Company focuses on customer's convenience in convenience stores, products in 7-Eleven stores are usually more expensive than the same products sold in a supercenter, but the customers can buy goods from 7-Eleven stores scattered in various communities nationwide 24 hours a day.

Gross profit

Gross profit is a difference between income from net sale amount with service income and cost of sale with cost of service under the consolidated financial statement, which was Baht 8,253 million in 2002, an increase from Baht 5,886 million in the same period of 2001. The total gross profit in 2002 was 18.9 per cent, which slightly increased from the same period a year ago of 18.7 per cent and 17.6 per cent in 2001.

Gross profit in 2002 rose by 40.2 per cent from the same period of 2001. At the same time, income from net sale amount and service income in 2002 increased by 38.7 per cent from the same period the previous year, which indicated that the Company and its subsidiaries were able to make higher gross profit.

Gross profit from convenience store business

The total gross profit from convenience stores (resulting from the difference between net sales convenience store and cost of goods sold according to the Company's financial statements) in 2002 was Baht 6,401 million, or 21.2 per cent of incomes from net sales of convenience stores.(Total gross profit from convenient stores business in 2001 and 2000 were Baht 4,610 million and Baht 3,680 million respectively.) This was a slight decrease when compared to 21.6 per cent total gross profit for the same period of 2001 which was 21% (comparing to 19.8 per cent in 2000). The gross profit growth for convenience store business in 2002 increased by 38.9 per cent from the same period in 2001.

The gross profit from stores' cost of sales in 2002 arising from the gross profit rate from the sales' revenue of the stores (resulting from the difference between sales of convenience stores and the cost of sale of convenience store divided by the income from store sales in accordance with the Company's financial statement) amounted to 22.8 per cent in 2002, which was down from that in the same period in 2001 and 2000 of 24.9 per cent and 24.1 per cent, respectively. This was a result of the increase in sales of Technology & Entertainment products which has a lower than average gross profit.

The Company tried to improve its gross profit rate by adjusting the product mix in 7-Eleven stores, in which more food and beverages, which have higher gross profit are added, and by providing goods demanded by customers in the stores. In addition, the store system helped the Company manage its inventory, prevented it from over- or under-stocking and therefore reducing the costs of the goods. With reference to the gross profit from sales (all franchise type), the downward trend is similar to the company's financial statement gross profit margin. However, if the Technology & Entertainment products were to be excluded from the model, the gross profit, over the three years, has been increasing continuously. This also applies to the gross profit for food and beverage products which have been given high degree of significance.

	2000	2001	2002
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Gross Profit from stores sales*	23.6%	24.4%	22.8%
Gross Profit excluding IT products*	24.2%	25.0%	25.6%
Gross Profit (Food and Beverages only)*	25.5%	25.9%	26.1%

* All franchise type

The reason gross profit rate of convenience store business is lower than store's sales is because total gross profit will normally include sales of distribution centers and sales of headquarters, which have lower gross profit rate.

Gross profit from supercenter business

Gross profit of supercenters (resulting from difference between incomes from sales and net services of Lotus Supercenter and cost of sales and services of the supercenter business in accordance with the consolidated financial statement) in 2002 was Baht 1,364 million or 10.7 per cent of income from net sales and net services of Lotus Supercenter. (Total gross profit from Supercenter business in 2001 and 2000 equate to Baht 954 million and Baht 686 million respectively) This was slightly better than 106 per cent and 95 per cent of the same period in 2001 and 2000, respectively. The growth rate of the supercenter's gross profit in 2002 rose 43.0 per cent from the same period a year ago. The better gross profit rate was a result of SLS's adjustment of products to suit customer's needs and the fact that it effectively managed the product costs.

However, gross profit rate of the supercenter business remains lower than gross profit of the convenience store business due to the difference in the business nature. That's why a pricing policy of the same product varies according to the customers, the market and the competition environment. Yet, SLS tried to adjust the product combination to achieve more variety by choosing products with higher gross profit rate for sale in order to increase its gross profit rate

Sales and administrative expenses

Sales and administration expenses according to the consolidated financial statement rose from Baht 6,253 million in 2001 to Baht 8,989 million in 2002 owing to an increase in the number of stores. This results in a growth rate of 43.8 per cent from the same period of 2001. In 2002, sales and administration expenses accounted for 19.6 per cent of the total incomes of the Company and its subsidiaries, which slightly increased from 18.8 per cent in the same period the previous year. This is due to an increase in A-Modified Franchise Stores, as the Company records the revenues it shares with franchise stores in the form of Outlet Management Fee as sales and administration expenses, while the Company would not have recorded the revenues as expenses in the case of A-Typed Franchise Stores (Type B and C franchise and PTT franchise have the same accounting method as Type A modified where the revenue split stands at approximately 50% of gross profit). In addition, the portion of total sales and administration expenses has declined from those in 2000, which accounted for 21.3 per cent of the total revenues in 2000 due largely to the Company's expense-controlling policy.

Major sales and administration expenses were (1) personnel expenses, which accounted for 34.5 per cent of the total sales and administration expenses of the Company and subsidiary companies in 2002, rose from Baht 2,316 million in 2001 to Baht 3,098 million in 2002 or the growth rate of 33.8 per cent; (2) rents, which accounted for 13.7 per cent of the 2002 total sales and administration expenses, increased from Baht 901 million in 2001 to Baht 1,231 million in 2002, or a 36.6 per cent growth rate from the previous year. This was in line with an additional opening of 7-Eleven outlets and Lotus Supercenter, which caused the Company to lease additional space and buildings for 7-Eleven and Lotus Supercenter as it had no policy to own it; (3) depreciation, which slightly increased from Baht 936 million in 2001 to Baht 979 million in 2002; and (4) other operating expenses which

mainly includes Outlet Management Fee, travelling expense and royalty fee to 7-Eleven Inc, (excluding advertising cost and sales boosting campaign cost), which rose by 96.1 per cent from Baht 1,112 million in 2001 to Baht 2,181 million in 2002 due to the same reason of the total increase of sales and administration expenses.

Interest expenses

Interest expenses slightly increased to Baht 44 million in 2002, compared to Baht 42 million in 2001.

Net profit

As operating results became better in terms of total incomes and gross profit rate, which included gross profit from the convenience store business and the supercenter business as well as the Company's expense-controlling policy, its 2002 net profit in the consolidated statement was Baht 964 million, or a 4.2 per cent increase by Baht 39 million from Baht 925 million in the same period of 2001. The 2002 net profit rate per total incomes was at 2.1 per cent, which was slightly reduced when compared to the net profit rate in 2001 of 2.8 per cent one of the reason for this is that the profit from the sales of subsidiary in 2001 is Baht 100 million comparing to Baht 24 million in 2002.

Adjustment items from the previous period

In 2000, two foreign subsidiary companies complied retroactively with the International Accounting Standard No. 38 Re: "Intangible Assets" (IAS No.38 "Intangible Assets") which came into effect for financial statements in the accounting period that began on or after 1 July 1999. The accounting standard required that the subsidiaries recorded pre-operating expenses as expenses for the year immediately after the transactions occurred. The result of the change in the accounting policy prompted the Company's net profit for the year that ended 31 December 1999 to fall by Baht 306.9 million. Retained earnings not yet appropriated of the Company as at 1 January 2000 reduced by Baht 306.9 million.

Analysis of six months operational results for period ending 30th June 2003 comparing to the six months operational results that ended 30th June 2003

Revenue

For the six-months period ending 30th June 2003, the Company and its subsidiaries had a total revenue of Baht 29,581 million, or a 40.9-per cent increase by Baht 8,584 million from the same period of the previous year which have the total revenue of 20,997. Approximately, 95.5 per cent of the increase of the total incomes came from an increase of net sales, (consisting of net sales from convenience stores, net sales from large retail stores, net sales from distribution centers and other net sales according to the consolidated financial statements of the Company and its subsidiaries), which rose from Baht 19,871 million during the six-months period ending 30th June 2002 to Baht 28,073 million during the same period in 2003. About 71.4 per cent of the net sales increase were a result of an increase of convenience stores' increase in net sales or from convenience stores' revenues.

For the six-month period ending 30th June 2003, net sales of Baht 28,073 million consisted of approximately 69.8 per cent net sales of convenience stores or sales from convenience stores; 29.2 per cent net sales from large retailer and 1.0 per cent revenues from other business. The reason the net sales of the Company and its subsidiaries rose by 41.3 per cent was because of the expansion of 7-Eleven outlets and Lotus Supercenters. During the past 12 months, the Company opened 338 new branches of 7-Eleven stores and 3 branches of Lotus Supercenters. As of 30th June 2003, there were altogether 2,242 branches of 7-Eleven stores and 11 branches of Lotus Supercenters. Details of main revenue items of the Company and its subsidiaries are as follows.

Revenue from convenience stores

For the six-month period ending 30th June 2003, the total revenue from convenience stores were Baht 20,402 million (consisting of various revenues as mentioned above in accordance with the Company's financial statements). This increase of Baht 14,387 million or a 41.8-per cent increase from the same period in 2002. The total incomes from convenience stores accounted for 69.0 per cent of the total revenues of the Company and its subsidiaries as follows.

- Revenue from store sales, which accounted for the highest proportion of the total revenues from convenience stores or as much as 92.8 per cent. This amounted to Baht 18,939 million for the six-month period ending 30th June 2003 or a 55.6-per cent increase from the same period in 2002, when it recorded store sales of Baht 12,174 million.. This was due to a net increase of 338 branches of 7-Eleven stores during the past 12 months while the average daily store sales for the six-months period ending 30th June 2003 in comparison to the same period a year ago rose approximately 16 per cent from an average of Baht 44,000 to Baht 51,000.
- Distribution center's sales and headquarters' sales were down from Baht 1,555 million for the six-months period ending 30th June 2002 to Baht 647 million for the same period in 2003 or a 58.4-per cent decline. This was because most of the newly-opened 7-Eleven stores were corporate stores and non-A typed franchise stores. In addition, the Company wished to increase the ratio of goods delivered to franchise stores through distribution center. Consequently, sales of both distribution centers and the headquarters were declining.
- License revenue: these were entrance license revenue and revenues from initial profit sharing from franchise stores and sub-area license stores, which declined 9.2 per cent from Baht 253 million for the six-months period ending 30th June 2002 to Baht 229 million for the same period in 2003 as the number of A-Typed Franchise Store was reduced, prompting incomes from initial profit sharing from these stores to decline.
- Rental revenue: for the six-months period ending 30th June 2003, rental revenue decreased slightly from Baht 103 million during the same period in 2002 to Baht 88 million, or a decline of 14.5 per cent as the number of A-Typed Franchise Stores, which used to pay the rent to the Company, declined.
- Other revenues which comprise mainly of sales promotion revenue: this was the discount from the costs of good given to the company by the manufacturers when sales target is achieved. For the six-months period ending 30th June 2003, the revenue was Baht 499 million, or an increase from Baht 302 million from the same period of 2002 as store's sales and the Company's purchasing orders increase according to the increase of 7-Eleven stores.

Revenue from supercenter business

The total revenue of supercenter business consisted of: (1) large retail store's sales, which mostly came from revenue from supercenter's sales ("Revenue from Lotus Supercenter's Sale"); and (2) Other operating incomes; such as revenue from marketing promotion ("Revenue from Sales Promotion.")

For the six-months period ending 30th June 2003, the total sales from the supercenter business was Baht 8,662 million, or 29.3 per cent of the total revenue based on the consolidated financial statements, which rose by 38.7 per cent from the same period in 2002, when it recorded a total revenue of Baht 6,246 million, as a result of three new openings of Lotus Supercenter during the past 12 months. As at end of 30th June 2003, there were 11 Lotus Supercenter branches. For the six-months period ending 30th June 2003, revenues from Lotus Supercenter's net sales rose 38.1 per cent from

Baht 5,944 million from the six-months period ending 30th June 2002 to Baht 8,208 million for the same period of 2003 according to the consolidated financial statements.

However, the average daily sales per branch of Lotus Supercenter reduced by 16.0 per cent from the six-month period ending 30th June 2002 from an average daily sales per branch of approximately RMB 900,000 to RMB 830,000 for the same period in 2003 due to increasing competition.

Revenue from other businesses

The revenue of CPRAM, mostly coming from processed foods sales increased from Baht 481 million in the six-months period ending 30th June 2002 to Baht 600 million in the same period in 2003 or by 24.7 percent. This was due to an increase in product recognition and sales channel as a result of increasing 7-Eleven stores, additional sales channels through supermarkets and rising export revenues.

CPRAM additional info

(Million Baht)	Six months ending 30 June 2002	Six months ending 30 June 2003
Sales Revenue	469	580
-7-Eleven	333	389
-other than 7-Eleven	136	191

In addition, the Company also earned revenues by accepting payment for goods and services costs at the counter services (CS)). CS had service counters in both 7-Eleven stores and general shopping centers. As at end of June 2003, it had 2,769 counters, of which 77 percent or 2,134 counters were in 7-Eleven stores. Service revenues for the six-month period ending 30th June 2003 were Baht 276 million, which rose 95.9 per cent from Baht 141 million during the same period of 2002. During the 12-months period, new 1,152 counters were set up. In addition, more customers used both the existing and new service counters, prompting the transactions of acceptance of the payment of the cost of services to rise.

In addition the Company has recorded RTL's revenue which arise from the sales and repair of retail business appliances. This figure increases from Baht 259 million for the six months period ending 30 June 2002 to Baht 274 million for the same period in 2003.

Cost of sale and cost of service

The Company's cost of sale and service under the consolidated statements of the Company and its subsidiaries for the six-months period ending 30th June 2003 equated to Baht 23,092 million, or a 42.1-per cent increase from Baht 16,248 million during the same period in 2002. The increase was due to an expansion of 7-Eleven stores and Lotus Supercenters during the 12-month period. The increase of total cost of sales and cost of service also coincided with the increase in the total revenues of the Company and its subsidiaries, which rose by 40.9 per cent.

The consolidated cost of sales and cost of service of the Company and its subsidiaries for the six-months period ending 30th June 2003 and 2002 accounted for 81.4 per cent and 81.3 per cent of total revenue from net sales and service incomes of the same period in 2003 and 2002, respectively.

Cost of sale of convenience stores

Cost of sale of convenience stores under the Company's financial statement was Baht 15,490 million for the six-month period ending 30th June 2003. (This consisted of cost of sales of convenience stores, cost of sales of distribution center and other costs of sales). This rose by 43.1 per cent from Baht 10,823 million during the same period a year ago or an increase by Baht 4,667 million, due largely to a significant increase of 7-Eleven stores during the past 12 months as mentioned above. Costs of sale for the six-month period ending 30th June 2003 and 2002 accounted for 79.1 per cent and 78.8 per cent of net sales of convenience stores, respectively.

However, net sales of the convenience stores for the six-month period ending 30th June 2003 rose 42.7 per cent from the same period in 2002 (from Baht 13,729 million to Baht 19,585 million according to the Company's financial statement), which was lower than the increase of cost of sales of convenience stores during the past year mainly as a result of the increase in sales of Technology & Entertainment products.

Cost of sale of supercenter business

For the six-month period ending 30th June 2003, cost of sales of the supercenter business was Baht 7,273 million or 88.6 per cent of net sales of Lotus Supercenter, which was an 89.1 percent decrease from the same period in 2002.

Cost of sale of the supercenter business for the six-month period ending 30th June 2003 rose by 37.4 per cent from the same period in 2002, or an increase from Baht 5,294 million to Baht 7,273 million. At the same time, Lotus Supercenter's sales for the six-month period ending 30th June 2003 also rose 38.1 per cent from a year ago.

Gross profit

Gross profit is a difference between net sales and service revenue with cost of sales and service under the consolidated financial statement, which was Baht 5,265 million for the six-months period ending 30th June 2003, or an increase from Baht 3,740 million during the same period of 2002. The total gross profit for the six-month period ending 30th June 2003 was 18.6 per cent, which slightly increased from the same period a year ago of 18.7 per cent.

Gross profit from convenience stores

The total gross profit from the convenience stores (resulting from the difference between net sale profit of the convenience store business and cost of sale of the convenience store business in accordance with the Company's financial statements) for the six-months period ending 30th June 2003 was Baht 4,095 million, or 20.9 per cent of incomes from net sale of the convenience stores. This slightly declined when compared to 21.2 per cent of the same period a year ago. The gross profit growth for the six-month period ending 30th June 2003 increased by 40.9 per cent from the same period of 2002 while net sales of the convenience stores during the six-month period ending 30th June 2003 rose by 42.7 per cent from the same period of 2002.

The decline of the gross profit due to the store sales (resulting from the difference between income from sale amount of convenience store and cost of sale of convenience store divided by income from store sales in accordance with the Company's financial statement) was, however, equal to 21.4 per cent for the six-months period ending 30th June 2003, which was down from that during the same period in 2002 of 23.5 per cent. This was a result of sales increase in IT products which has a lower than average gross profit. The Company had taken measures to improve its gross profit rate by adjusting the combination of products sold in 7-Eleven stores, where more food and beverages which

have higher gross profit are added, and by providing goods demanded by customers in the stores. In addition, the store system helped the Company manage its inventory, prevented it from over- or under-stocking and therefore reduced its costs.

The reason gross profit of convenience store business is lower than that of incomes from store's sales is because gross profit will normally include incomes from sales amount of distribution centers and incomes from sales amount of headquarters, which have lower gross profit.

Gross profit from supercenter business

Gross profit of the supercenter business (resulting from difference between incomes from sales amount of Lotus Supercenter and cost of sales of the supercenter business in accordance with the consolidated financial statement) for the six-months period ending 30th June 2003 was Baht 935 million or 11.4 per cent of income from net sale amount of Lotus Supercenter, which was an increase from the rate in the same period of 2002 by 10.9 per cent. The growth rate of the supercenter's gross profit for the six-months period ending 30th June 2003 rose by 43.8 per cent from the same period a year ago while incomes from Lotus Supercenter's sales for the six-months period ending 30th June 2003 rose by 38.1 per cent from the same period a year ago.

Nevertheless, gross profit rate of the supercenter business remains lower than gross profit rate of the convenience stores due to the difference in business nature. As a result, a pricing policy of the same product is different according to the customers profile, market conditions and competition environment. Yet, SLS tried to adjust a product combination to achieve more variety by choosing products with higher gross profit rate in order to increase its gross profit.

Sales and administration expenses

Sales and administration expenses according to the consolidated financial statement rose from Baht 3,998 million for the six-months period ending 30th June 2002 to Baht 5,339 million for the six-months period ending 30th June 2003 thanks to an increasing number of stores. This resulted in a growth rate of 33.6 per cent from the same period of 2002, which accounted for 18.0 per cent of the total revenue of the Company and its subsidiaries that slightly fell from the same period a year ago by 19.0 per cent due largely to an increase of incomes resulting from the right combination of products and the Company's expense-controlling policy.

Interest expenses

Interest expenses under the consolidated financial statement was Baht 10 million for the six-months period ending 30th June 2003, compared to Baht 27 million for the same period in 2002 thanks to falling interest rates.

Net profit

Thanks to a constant growth of the operating results, the Company's net profit in the consolidated statement for the six-months period ending 30th June 2003 was Baht 757 million, or a 36.3 per cent increase by Baht 202 million (decrease by 2.6%) from Baht 555 million during the same period in 2002.

Analysis of the Company's financial condition for the year that ended 31 December 2002 compared to the year that ended 31 December 2001

Assets

As at 31 December 2002, the Company had total assets under the consolidated statements of Baht 17,305 million, which increased from Baht 14,228 million as at end of 2001. The Company's main assets were (1) cash and cash equivalents; (2) net property, plant and equipment; (3) inventory; and (4) other receivables. The main assets that significantly increased were net property, plant and equipment, which rose by Baht 1,444 million; inventories which rose by Baht 794 million; and cash and cash equivalents, which rose by Baht 768 million. This was due to continuous business expansion where, in 2002, there was an expansion of 320 7-Eleven stores and 4 Lotus Supercenters.

According to the Company's financial statement, long-term loans to subsidiaries and affiliates were Baht 1,080 million at end of 2002, which fell from Baht 1,085 million at end of 2001. The Company lent money to LDI, CPRAM and RTL, which are its subsidiaries, in which it holds 100 per cent, 97.76 per cent and 99.99 per cent, respectively.

The Company and its subsidiaries recorded higher operation efficiency as evidenced in better financial ratios. For example, an average debt collection period was down from 2.27 days in 2001 to 2.14 days in 2002 while an average sales period was down from 28.82 days in 2001 to 28.32 days in 2002.

Total liabilities

Total liabilities rose from Baht 8,404 million at end of 2001 to Baht 10,900 million at end of 2002 due mostly to an increase of current liabilities, which was the main component of the total liabilities of the Company and its subsidiaries, accounting approximately 94.8 per cent of the total liabilities as at end of 2002. During the past year, major changes of main liabilities were as follows.

Bank overdrafts and short-term loans from financial institutions declined by Baht 51 million to Baht 664 million at end of 2002 from Baht 715 million at end of 2001.

Accounts payable, which accounted for the highest proportion of the total liabilities, rose by Baht 2,405 million from Baht 5,937 million at end of 2001 to Baht 8,342 million at end of 2002 owing largely to the expansion of 7-Eleven stores and Lotus Supercenters while purchasing volume by manufactures and distributors also increased.

Shareholders' Equity

As of 31 December 2002, Shareholders' Equity amounted to Baht 6,404 million, which rose from Baht 5,824 million at end of 2001 owing to an increase of retained earnings from Baht 1,817 million at end of 2001 to Baht 2,482 million at end of 2002 since the Company and its subsidiaries were able to make more profits. At the same time, the Company was able to pay Baht 300 million dividend for its performance in 2001 as well as set aside Baht 39 million as statutory reserves in the same year.

As of 31 December 2002, the Company and its subsidiaries had a registered a capital of Baht 2,250 million, of which Baht 2,000 million was paid-up. This was divided into 400 million ordinary shares with a par value of 5 Baht per share.

Analysis of the Company's financial condition for the six-month period ending 30 June 2003 compared to the year that ended 31 December 2002

Assets

As of 30th June 2003, the Company had total assets under the consolidated statements of Baht 17,385 million, which increased from Baht 17,305 million as at end of 2002. The Company's main assets were (1) cash and cash equivalents; (2) net property, plant and equipment; (3) inventory; and (4) other receivables. The main assets that significantly increased were net property, plant and equipment, which rose by Baht 359 million; inventories which rose by Baht 69 million while cash and cash equivalents decreased by Baht 413 million. ;

According to the Company's financial statement, long-term loans to subsidiaries and related companies were Baht 1,084 million as of 30th June 2003, which rose from Baht 1,080 million at end of 2002. These were loans that the Company lent money to LDI and CPRAM, which were its subsidiaries where it held 100 per cent and 97.76 per cent, respectively.

The Company and its subsidiaries recorded higher operation efficiency as evidenced in better financial ratios. For example, an average debt collection period was down from 2.14 days in 2002 to 1.84 days for the six-month period ending 30th June 2003, while an average sales period was down from 28.32 days in 2002 to 25.24 days in a six-month period that ended 30th June 2003.

Total liabilities

Total liabilities under the consolidated financial statements decreased from Baht 10,900 million at end of 2002 to Baht 10,673 million as of 30th June 2003 due mostly to an increase of current liabilities, which was the main component of the total liabilities of the Company and its subsidiaries. Creditors which hold the highest portion of the total liabilities decreased by the amount of Baht 121 million from Baht 8,342 million as of the end of 2002 to Baht 8,221 million as of 30th June 2003. During the past six months, major changes of main liabilities were as follows.

Shareholders' Equity

As of 30th June 2003, Shareholders' Equity amounted to Baht 6,712 million, which rose from Baht 6,404 million at end of 2002 thanks to an increase of retained earnings from Baht 2,482 million at end of 2002 to Baht 2,839 million as of 30th June 2003 since the Company and its subsidiaries were able to make more profits.

As of 28 May 2003, the Company paid dividend, of Baht 400 million or Baht 1.00 per share, for the year 2002 to the shareholders who are registered on the shareholders name list as of April 9th 2003.

As of 30th June 2003, the Company and its subsidiaries had a registered capital of Baht 2,250 million, of which Baht 2,000 million was paid-up. This was divided into 400 million ordinary shares with par value of 5 Baht per share.

Analysis of Statement of Cash Flows, Liquidity and Sources of Fund of the Company and its Subsidiaries for the Year Ending 31 December 2002 Compared to the Year Ending 31 December 2001

Since the retail business of the Company and its subsidiaries involves cash sales, therefore, there are cash regularly flowing into the stores, some of which are paid for new stocks or repaid its accounts payable when due while others are kept as working capital. As of 31 December 2002, the Company and its subsidiaries recorded cash and cash equivalents according to the consolidated

financial statements of Baht 3,953 million, or an increase by Baht 768 million Baht when compared to the grand total of Baht 3,185 million as of 31 December 2001.

Cash Flows from Operating Activities

In 2002, the Company managed to build up cash flows from operating activities under the consolidated statement of Baht 3,841 million, or a 116.8-per cent increase from the same period in 2001 when net cash flows from operating activities were Baht 1,772 million. Major reasons contributing to the increase were an increase of accounts payable, which was an important source of cash flow for the retail business, of Baht 2,410 million as compared to an increase of accounts payable of Baht 1,067 million in 2001; and an increase of other current liabilities of Baht 539 million. In addition, the Company and its subsidiaries were able to earn net profit of Baht 964 million in 2002. This shows that during 2002, the Company's operations induced quite a large amount of cash flows to the firm.

However, the Company and its subsidiaries spent Baht 793 million to invest in inventories in 2002, which was higher than the same kind of spending a year ago of Baht 690 million since, in 2002, the Company and its subsidiaries saw a lot of expansion of both convenience stores and supercenters and thus a lot of inventories were brought up to fill new branches.

After the financial analysis was made on the Company's financial ratios related to the cash flow from operation in 2002, it can be said that there are improvements comparing to 2001. For example, Cash Flow Liquidity ratio increased from 0.23x to 0.42x, Cash to Profit ratio increase from 150.6% to 286.1%, Interest Coverage ratio increased from 49.92x to 96.36x and obligation coverage ratio from 0.57x to 1.00x

Cash Flow from Investing Activities

In 2002, the Company and its subsidiaries used Baht 2,116 million cash in investment activities while during the same period in 2001, the Company and its subsidiaries used Baht 1,695 million in investment only. This was due largely to its business expansion in 2002 that caused the Company and its subsidiaries to spend Baht 2,773 million for construction, renovation and purchase of other fixed assets and leasing rights for the opening of new branches, compared to Baht 2,412 million spent for the same period in 2001. In addition, in 2001, its subsidiaries overseas recorded Baht 727 million decline of cash in banks used as bank guarantee, which helped increasing net cash used in investment activities in 2001.

Cash Flow from Financing Activities

In 2002, the Company and its subsidiaries used Baht 957 million net cash under the consolidated financial statements in financing activities, as compared to net cash provided by financing activities worth Baht 224 million in 2001. The reason why more cash was used in financing activities in 2002 was because overseas subsidiaries repaid bank overdrafts and short-term loans from financial institution of Baht 664 million, while they repaid only Baht 412 million bank overdrafts and short-term loans from financial institutions during the same period of 2001. In addition, in 2001, overseas subsidiaries received Baht 927 million from minor shareholders, prompting the Company and its subsidiaries to receive net cash from financing activities in 2001.

Moreover, from an outstanding operation performance of the Company and its subsidiaries in 2000 and 2001, the Company managed to pay Baht 300 million dividend to shareholders each year, or an equivalent to Baht 1.5 per share and Baht 0.75 per share, respectively. (The Company changed its par value from 10 Baht to 5 Baht on 6 May 2002.)

Analysis of Statement of Cash Flows, Liquidity and Sources of Fund of the Company and its Subsidiaries for the Six-Months Period Ending 30th June 2003 Compared to the Six-Months Period Ending 30th June 2002

Cash Flows from Operating Activities

During the six-month period ending 30th June 2003, the Company managed to build up cash flows from operating activities under the consolidated statement of Baht 1,147 million, or a 61.8-per cent decline from the same period in 2002 when net cash flows from operating activities were Baht 1,856 million. The decline took place although the Company recorded Baht 757 million worth of net profit during the six-months period ending 30th June 2003, which was Baht 202 million more than the same period in 2002, and although the operating profit before changes in operating assets and liabilities for the six-months period ending 30th June 2003 remained higher than the same period in 2002 by Baht 413 million. Major reasons was due to the company's policy of paying of the debts prior to the due date. As a result, trade payables and other liabilities, which fell Baht 420 million during the six-months period ending 30th June 2003 while it increased by Baht 676 million during the same period of 2002.

Cash Flow from Investing Activities

For the six-month period ending 30th June 2003, the Company used Baht 1,124 million cash in investment activities, which was down by Baht 160 million from the same period a year ago. Although during the six-months period ending 30th June 2003, it used cash to buy permanent assets and leasing rights by Baht 1,258 million, which was down by Baht 16 million from the same period a year ago, yet during the six-months period ending 30th June 2003, it also received cash from disposal of permanent assets worth Baht 138 million, prompting net cash used in investment activities to decline.

Cash Flow from Financing Activities

For the six-month period ending 30th June 2003, the Company used Baht 437 million net cash in financing activities. This was due to payment of dividend of Baht 400 million for the year 2002 and due to the repayment of short-term loans from financial institutions and bank overdrafts, which amounted to Baht 39 million. During the same period of 2001, the Company used Baht 205 million net cash in financing activities, most of which was also due to the decline of short-term loans from financial institutions and bank overdrafts as well as dividend payment.

13. Other Information

13.1 Summary of the Area License Agreement between the Company and 7-Eleven, Inc and the IPO Consent Agreement and Third Amendment to Area License Agreement between the Company and CPG and 7-Eleven Inc. (the “Consent Agreement”)

The following is only a summary of some significant parts in the agreements mentioned above. Since the summary has been made as the Company deemed appropriate by taking into account business of the Company and 7-Eleven, Inc. Some information includes but not limited to trade secret or the information the disclosure of which, might or would affect the business of the Company or 7-Eleven Inc., thus is not mentioned or is only briefly dealt with. Investors should exercise their judgment and use caution with respect to the following limited information. They should also assess possible risks before making the investment decision.

The Company executed an Area License Agreement with 7-Eleven, Inc. (formerly “The Southland Corporation”) on 7 November 1988 under which the Company was given the exclusive right to operate a retail convenience store business under the “7-Eleven” trademark in Thailand and to use 7-Eleven system, trademark, trade secrets for its business. The Company also received the right to sub-license in Thailand and non-exclusive rights to ancillary trademarks belonging to 7-Eleven, Inc. Training and technical assistance services also played a part. The Company agreed to pay 7-Eleven, Inc. a monthly License Royalty equal to a percentage of Monthly Gross Sales as specified in the Agreement.

The same Agreement further provided certain significant terms and conditions that the Company is required to follow and comply with: (1) the Company must maintain a certain minimum percentage or number of stores as stipulated in the Agreement throughout the term of the Agreement, the Company’s failure to comply with the conditions will entitle 7-Eleven, Inc. to operate the stores or sub-license them; (2) without the consent in writing from the 7-Eleven, Inc., the Company cannot assign any or all of its rights under the Agreement; (3) without the consent from the 7-Eleven, Inc., the Company cannot issue new shares, securities or any other instruments convertible into shares and cannot transfer the shares or the benefits they represent; (4) the Company shall indemnify and hold harmless 7-Eleven, Inc. from damage claims, penalties, liabilities (including liabilities under labor law), suits and actions, and all expenses incurred in accordance with the Agreement; (5) the Company must do what is necessary to protect the goodwill and reputation of the trade marks, failure to do so will oblige the Company to pay 7-Eleven, Inc. the damages incurred equal to a percentage of Monthly Gross Sales (as specified in the Agreement) during the period which the Company is in default or such claim is pending in court or arbitration process; (6) In case that the Company’s securities are not listed in the stock exchange, if the Company receives an offer to buy the business or ownership of the property and would like to accept the offer, the Company shall give 7-Eleven, Inc. the right of first refusal in the same terms offered exercisable within 60 days from the date it receives such acknowledgement from the Company. If 7-Eleven Inc. does not exercise the right of first refusal, then the Company can sell the business or the property to the person who made the offer and the Company has the duties of (a) assigning the rights under this Agreement to such person and paying the contingent damages to 7-Eleven, Inc. (b) paying any outstanding debts to 7-Eleven, Inc. in full; and (c) ensuring that the buyer follows the terms and conditions of the Agreement.

This agreement has no fixed term and can be terminated by either party with cause. Cause for termination includes (1) the Company breaches the Agreement or fails to make due payment and fails to remedy the breach within 30 days from the day it receives a notice from 7-Eleven Inc., which, in this case, termination is automatic; (2) 7-Eleven, Inc. can terminate the agreement in the following cases:

(a) the Company files for bankruptcy, receivership, reorganization or the like; (b) the Company is made subject to bankruptcy and the petition is not withdrawn during the period provided in the agreement; (c) 7-Eleven, Inc. finds that the Company cannot pay its debts on schedule; (d) the Company assigns its rights to benefit creditors or cannot pay the license royalty on account of *force majeure* exceeding 180 days; and (e) a government agency in Thailand does not approve the remittance of money to 7-Eleven, Inc. or the government agency does not approve the validity of the “7-Eleven” trademark. If the government agency does not approve the validity of the “7-Eleven” trademark in Thailand, the parties may agree on a replacement of the trademark or 7-Eleven, Inc. may choose to terminate the Agreement; and (3) the Company has the right to terminate the Agreement if 7-Eleven, Inc. is in material breach of a provision for 30 consecutive days after the Company has given notice. The Company has the duty to express its intention to terminate and to comply with certain terms and conditions in the Agreement.

Upon termination of the Agreement, whatever the reason, except the termination by the Company because 7-Eleven, Inc. is in material breach, 7-Eleven, Inc. has the right to buy the goods, equipment, land, constructions or assets; and the Company must transfer its permits and licenses to 7-Eleven, Inc. and bear responsibility for paying the expenses, tax and fees for transferring the assets; and the Company must stop using the trademarks, trade secrets and 7-Eleven system and must surrender or destroy, as ordered by 7-Eleven, Inc., the trade secrets and manuals and copies of relevant documents.

Unless the Company cancels the agreement because 7-Eleven, Inc. is in material breach, the Company and persons directly or indirectly associated with the Company, including of the agents of shareholders, must not operate a convenience store business for seven years after the agreement has come to an end whether in the United States or any country in the world where 7-Eleven, Inc. does the business or has given franchise or a license, except in the case where 7-Eleven, Inc. or a person who 7-Eleven, Inc. appoints or assigns does not exercise the right to buy the business from the Company.

The Agreement further provides that where the Company intends to sell shares to the public or any person and lists them on the stock exchange, the Company must notify 7-Eleven, Inc. immediately as to the conditions, the offer, and all the information concerned and 7-Eleven, Inc. agrees to permit the same subject to certain conditions, including the condition that at the time of offering to sell the shares, the number of shares offered does not exceed 49 % of the registered capital. This offer of shares has been permitted by 7-Eleven, Inc. under the terms and conditions in the Consent Agreement, which can be summarized as follows.

According to the Area License Agreement, 7-Eleven Inc agrees to give consent to the share public offering and the listing in the stock exchange by entering into the Consent Agreement with the Company and CPG on [], together with the consent, the Company and 7-Eleven Inc. also amended certain material contents in the Area License Agreement and CPG agrees to bind in the Consent Agreement with material contents in brief as follows.

When entering into the Consent Agreement, the Company and CPG confirm and agree with 7-Eleven Inc in various matters including (a) all shares of the Company and CPG are not or will not be collateralized, pledged or have any obligations created unless otherwise a prior written consent is given by 7-Eleven Inc.; (b) the Company and CPG agree not to enter into any agreement, which may lead to the breach of the Consent Agreement or, in retrospect, may cause any compliance to the Consent Agreement become a breach; and (c) throughout the term of the Area License Agreement, CPG will remain having power to appoint and control the Company’s majority directors. Failure to do so will mean that CPG will agree to buy the Company’s shares for an amount that will turn CPG into a shareholder holding more than 50 per cent of the total shares issued and sold.

Aside from the above covenants and promise, the parties agree to amend certain clauses of the Area License Agreement, of which material contents can be summarized as follows.

- a. The Company and CPG acknowledge and understand that the fact that 7-Eleven Inc grants licensing for the Company to use its trademark and other rights under the Area License Agreement is due to confidence in business, finance and reputation of the Company, CPG and their shareholders. As a result, CPG and relevant persons including CPG's affiliated companies (details of which are in the Agreement) agree not to transfer, sell, pledge, create obligation or dispose shares or interests either directly or indirectly in all the Company's shares or properties or for a significant proportion without 7-Eleven Inc.'s consent. This shall not include a transfer, sale, pledge, creation of obligation or disposal of the Company's shares by CPG or its affiliated companies if CPG remains directly or indirectly holding the Company's shares for more than 157,500,000 shares and having power to appoint and control the Company's majority directors. CPG and its affiliated companies must notify the transfer, pledge, creation of obligation as mentioned above to 7-Eleven Inc at least 30 days in advance.
- b. After each public offering of the shares, CPG will hold shares in the Company, either directly or indirectly, for no less than 157,500,000 shares.
- c. As long as the Company's securities are listed in the stock exchange, if CPG receives a proposal from others to buy the Company's shares and wishes to sell the shares, where 7-Eleven Inc. deems that the share sale will prompt CPG and affiliated companies (details of which are in the Agreement) to lose the controlling power over the Company, CPG must offer the shares to 7-Eleven Inc. first under the same proposal others propose to CPG whereby all must be proceeded in accordance with steps stated in the Agreement.
- d. The Company will not sell, transfer, pledge, create obligations or otherwise dispose all or significant proportion of the Company's properties including direct and indirect interests therein without receiving any consent from 7-Eleven Inc, unless it is a distribution of goods or service during the normal course of business.
- e. The Company's duties in case the Area License Agreement comes to an end have been amended, of which material contents are as follows.
 1. If the Area License Agreement comes to an end by any reason, and 7-Eleven Inc. does not exercise its right to buy products, equipment, land, construction or properties used in the Company's operation, the Company agrees to stop using and have others (details of which are in the Agreement) stop using the trademark, trade secrets and the 7-Eleven system, which shall include documents with other relevant copyrights, return or destroy all trade secrets as well as manual, (which the Company will be liable to any expenses incurred), and copy of documents and do any other things as stipulated in the Agreement.
 2. If the Area License Agreement comes to an end because the Company breaches the Area License Agreement due to any reason as mentioned in the summary to the material contents of the Area License Agreement above, or should there be any cause to terminate the agreement stated in the Consent Agreement summarized in the following paragraph, the Company shall be liable to pay liquidated damages to 7-Eleven Inc. at the following rates: (a) in case 7-Eleven Inc. does not exercise its rights to buy the Company's total properties, damages equal to 10 times the average of total annual royalty fee paid or required to be paid by the Company over the prior 12 months shall be paid; (b) in case 7-Eleven Inc exercises its right to buy the Company's total properties, damages shall be paid for an amount equal to three times the average of total annual royalty fee paid or required to be paid by the Company over the prior 12

months. Computation of such damages however shall not deprive 7-Eleven Inc.'s of the rights to demand for damages as determined by the law or agreement.

Aside from the reasons that may cause the contract to end as mentioned in the Area License Agreement, the Consent Agreement also determines the following as breach of contract in material contents: (a) the Company or CPG violates an important covenant in the Consent Agreement or that relating to the public offering; (b) the Company or CPG violates covenants, terms or agreements in material contents including direct or indirect share ownership after the public offering in the Company for no less than 157,500,000 shares. In addition, if CPG fails to maintain its power to appoint and control majority directors of the Company and that CPG cannot buy additional shares to hold more than 50 per cent of the Company's total shares issued and sold, 7-Eleven Inc. will send a notice informing reason of the breach to the Company and CPG. If the breach can be remedied, the Company must rectify it to the satisfaction of 7-Eleven Inc. within 30 days, (However, 7-Eleven Inc. may determine shorter period.) In case the Company fails to rectify within the scheduled period, 7-Eleven Inc. is entitled to do any of the following: (a) terminating the Area License Agreement; (b) increasing monthly royalty to the rate equal to the rate applied to new area licensees ; (c) requiring the Company and CPG (if CPG remains a controlling principal according to definition of the Consent Agreement) to enter into a new area license agreement with different terms and conditions including increasing royalty and advertising expenditure requirement; and (d) appointing a 7-Eleven Inc.'s representative as a member of the Company's Board of Directors.

The Consent Agreement shall be governed and interpreted by the law of Texas, the USA.

13.2 Summaries of Other Agreements

(1) Franchise Type A

- Parties : C.P Seven Eleven Public Company Limited and Franchisee
- Term : 10 years from the signing date unless the Area License Agreement ceases producing its effects before the term or this agreement is terminated as provided therein
- License Royalty: (1) fixed up-front fee depending on the number of additional stores opened by the franchisee and their size and form
(2) monthly fee as a percentage of monthly gross profits before deduction of the expenses, due for payment in the following month
- Other Conditions: (1) the Company gives the franchisee the right to run the 7-Eleven stores and use the 7-Eleven system, trade secrets, trade names and trademarks for use on the goods sold or with the services provided in the franchised stores
(2) the Company gives technical and commercial assistance
(3) the franchisee agrees that regardless of the commercial success of the business under 7-Eleven system , franchisee will bear the burden alone and not claim any damages against the Company
(4) the franchisee will not assign the franchise rights to any person without the prior written consent of the Company
(5) the Company has the right to terminate this agreement if the franchisee has average monthly sales less than what the Company determines.

(2) Franchise Type A Modified

- Parties : C.P Seven Eleven Public Company Limited and Operator

Term : Not more than 10 years and depending upon the conditions and term of the former agreement before changing from Type A to Type A Modified

Contract fee: (1) fixed up-front fee

(2) license royalty for managing the stores payable monthly at a fixed rate

License Royalty: the operator will receive a remuneration as a percentage per month before expenses

Other conditions: (1) the operator agrees to manage the Company's 7-Eleven stores and no other store

(2) the Company gives technical and trade assistance

(3) the operator will not assign rights to any person without the prior written consent of the Company

(4) the Company has the right to terminate this agreement if operator has average monthly sales less than what the Company determines

(3) Franchise Type B

Parties : C.P Seven Eleven Public Company Limited and Operator

Term : Six years from the execution date unless the Area License Agreement ceases producing its effects before the term or the franchise is terminated as provided therein

Contract fee fixed up-front fee

License Royalty: (1) a percentage of monthly profit

(2) if the operator can manage the stores to generate a monthly profit more than determined when entering the agreement, the operator will receive an incentive payment for the extra at a fixed percentage as stipulated

Other conditions: the same as Franchise Type A Modified

(4) Franchise Type C

Parties : C.P Seven Eleven Public Company Limited and Operator

Term : 10 years from the execution date unless the Area License Agreement ceases producing its effects before term or the franchise is terminated as provided therein

Contract fee (1) fixed up-front fee

(2) fixed license royalty

License Royalty: a percentage of monthly profit before deduction of the expenses

Other conditions: the same as Franchise Type A Modified

(5) Franchise PTT 1

Parties : C.P Seven Eleven Public Company Limited and PTT Plc.

Term : 10 years from the signing date of the Agreement

License Royalty: Monthly fee at a percentage of monthly profit before deducting the expenses and other incomes resulting from the convenience store's operation (if any)

Other conditions: (1) the Company offers technical and commercial assistance. It will also provide PTT's staff training based on its store management curriculum.

- (2) The Company will arrange for PTT to manage convenience store under the system and trademark of 7-Eleven. If there is any change, the Company will provide a new system and trademark to replace the existing ones.
- (3) PTT will not apply 7-Eleven system, trade secrets, trademark and service mark, or any other mark or information used in the store management to any other convenience stores business operation at any other locations.
- (4) PTT will not transfer rights hereunder either wholly or partly to anyone without the Company's prior consent
- (5) PTT is entitled to have person or juristic person approved thereby manage the convenient store hereunder, or any person or juristic person being PTT's contractor to do so. The person or juristic person however must fulfill standard consideration criteria stipulated by the Company.

(6) Franchise PTT 2

Parties : C.P Seven Eleven Public Company Limited and PTT Plc.'s distributors (the "Operator")

Term : 10 years from the signing date of the Agreement

License Royalty: Monthly fee at a percentage of monthly profit before deducting expenses and other incomes resulting from the convenient store's operation (if any)

- Other conditions:
- (1) the Company offers technical and commercial assistance. It will also provide the Operator's staff training based on its store management curriculum.
 - (2) The Operator will not apply 7-Eleven system, trade secrets, trademark and service mark, or any other mark or information used in store management to the business of any other convenience stores business operation at any other locations.
 - (3) The Operator will not transfer rights hereunder either wholly or partly to anyone without the Company's prior consent
 - (4) The Operator must manage the goods and services in store and control the inventories to comply with the Company's standard.

(7) Sub-Area Franchise

Parties : C.P Seven Eleven Public Company Limited and Franchisee

Term : Ends when the Area License Agreement between the Company and 7-Eleven, Inc. ends or the franchise is terminated for reasons provided therein

License Royalty: (1) a fixed up-front fee
(2) a monthly fee of a fixed percentage of monthly sales

- Other conditions:
- (1) the Company permits the franchisee to operate the convenience stores under the licensed 7-Eleven system in the area, as well as the trademarks, trade names and trade secrets for use on the goods sold or services provided in area licensed 7-Eleven
 - (2) the Company will give technical assistance and lend the performance manuals to franchisee
 - (3) the franchisee will open or franchise other persons to open 7-Eleven stores within the area no less than the determined number of stores within the first

- three years; if franchisee is unable to do so, franchisee must notify the Company and comply with the conditions set forth in the agreement
- (4) all sales are cash sales and franchisee must notify the Company of the total sales daily for each store on the following day
 - (5) the franchisee agrees to the Company sending officers to the stores for inventory inspections and examination of the tools and instruments at all times
 - (6) the franchisee will not assign all or any of the rights without the prior written consent of the Company
 - (7) if franchisee receives an offer to buy the convenience store business governed by this agreement from a third person and would like to accept the offer, the franchisee must notify the Company without delay and give the Company the right of first refusal following the terms and conditions set forth
 - (8) the Company can terminate the agreement if the franchisee cannot reach the average monthly sales set by the Company or if the franchisee stops (any of) the 7-Eleven business leaving the number of stores less than determined for more than 180 days
 - (9) if when the agreement ends the franchisee still does the 7-Eleven business, which is a breach of agreement, and the Company is deemed injured thereby, the franchisee agrees to pay the damages at a fixed percentage of monthly sales for the period that the franchisee still does the 7-Eleven business or the convenience stores without permission

13.3 Put Option

The Company has entered into a shareholders agreement (Deed of Shareholders Agreement) dated 18 February 2000 with LDI, YSI and CRF, which provides that CRF has the right to sell back the shares of YSI to LDI and or the Company (“put option”) when any of the following events occurs:

(1) the shares of YSI or the shares of the Company held by YSI, a company established for the purpose of listing, cannot be listed on the Hong Kong Stock Exchange or any other stock exchange acceptable to the Company, CRF and LDI within five years from the date the Company, CRF and LDI paid the price of the shares (“closing date”), or within six years from the closing date if the Company and CRF agree to such (“listing deadline”);

(2) the net profit after tax of YSI does not reach US\$ 25.73 million in the accounting year that is the fourth anniversary from the closing date or US\$ 35.42 million in the accounting year that is the fifth anniversary from the closing date; or

(3) the Company, LDI or a company concerned with LDI or the Company does not comply with the representations in the Deed of Shareholders Agreement.

Section 3

Information Regarding Offering of the Securities

1. Details of the Offered Securities

1.1 Description of the securities

This offer to sell up to 71,500,000 ordinary shares of C.P Seven Eleven Public Company Limited is divided into the following two parts.

1.1.1	Offeror's name	C.P Seven Eleven Public Company Limited
	Office address	283 Silom Road, Silom, Bang Rak, Bangkok Tel. 631-0231
	The Offer	New ordinary shares of C.P Seven Eleven Public Company Limited
	Number offered	40,000,000 shares representing 9.1 % of the paid-up shares after this offer
	Par value	5 Baht
	Offering price	[●] Baht per share
	Total offer	[●] Baht
1.1.2	Offeror's name	Bangkok Produce Merchandising Public Company Limited
	Office address	• 313 C.P. Tower Silom Road Bangrak Bangkok
	The Offer	Ordinary shares of C.P Seven Eleven Public Company Limited
	Number offered	up to 10,00,000 shares representing 2.3 % of the paid-up shares after this offer
	Par value	5 Baht
	Offering price	[●] Baht per share
	Total offer	[●] Baht
1.1.3	Offeror's name	N.T.K. Technology Co., Ltd.
	Office address	[●] 695 Rama 6 Road Wangmai Patthumwan Bangkok
	The Offer	Ordinary shares of C.P Seven Eleven Public Company Limited
	Number offered	up to 15,000,000 shares representing 3.4 % of the paid-up shares after this offer
	Par value	5 Baht
	Offering price	[●] Baht per share
	Total offer	[●] Baht
1.1.4	Offeror's name	Thaivest Pte Limited

Office address	168 Robinson Road #37-01 Capital Tower Singapore 068912
The Offer	Ordinary shares of C.P Seven Eleven Public Company Limited
Number offered	up to 6,500,000 shares representing 1.5 % of the paid-up shares after this offer
Par value	5 Baht
Offering price	[●] Baht per share
Total offer	[●] Baht

1.2 Offering ratio

1.3 Other rights, benefits and conditions

1.4 Secondary market for the offer

The Company filed an application for the Stock Exchange of Thailand to consider listing ordinary shares of the Company and received the answer on _____ to the effect that the Stock Exchange of Thailand has considered the description of the securities and the qualifications of C.P Seven Eleven Public Company Limited and finds both complete and correct according to the relevant Regulations of the Stock Exchange of Thailand, except for Clause 5 (4) on diversification, and attaches the following conditions:

1. _____

2. _____

3. _____

The Company has now complied with the conditions [...] but not condition [...] for these reasons:

2. Limitations on Share Transfer

Article 6 of the Company's Articles of Association provides that,

“The Shares of the Company can be transferred without limitation unless the transfer would result in aliens holding more than 49 per cent of the shares sold.”

3. Basis for Determining the Offering Price

P/E ratio calculated from net profit per share according to the consolidated financial statements for 2001 (full dilution): equals to times

P/E ratio calculated from net profit per share according to the consolidated financial statements for 2001 (average dilution): equal to times

P/E ratio calculated from net profit per share according to the projected consolidated financial statements for 2002: equal to times

4. Share Price on the Secondary Market

- None -

5. Subscription, Sale and Allocation

5.1 Offering procedure

The Company will offer the securities through distributors and underwriters.

5.2 Distributors

Names and addresses of distributors and underwriters:

Name	Address	Tel
_____	_____	_____

5.3 Conditions and remuneration securities distribution

The Company has agreed to entrust distributors and underwriters mentioned in 5.2 to distribute the Company's new ordinary shares offered for sale to the general public based on the number and price stated in 1. above. The Company agrees to accept firm underwriting, which will be in accordance with conditions given in the appointment agreement of distributors and underwriters.

5.4 Expenses in making the offer

The Company agrees to pay distributors and underwriters a remuneration for acting as such and for coordinating the work to a total of [...] Baht or [...] Baht per share, payable no later than [...] business days from the closing date of the subscription.

5.5 Total money received

Amount received from the offering of shares to the general public

• shares at [...] Baht per share Baht

Less distributing and underwriting fee Baht

Share price received Baht

Amount received per share Baht

5.6 Projected total expenses in making the offer

Distributing and underwriting fee Baht

Fee for applying for permission to offer new shares (IPO) Baht

Fee for filing information statement to offer new shares Baht

Fee for capital increase registering Baht

Fee for applying as listed securities Baht

Printing costs for prospectus, subscription form
and share certificate Baht

Other expenses Baht

Total Baht

5.7 Place, day and time to request prospectus and subscription form for new ordinary shares

The public may contact offices of distributors and underwriters given in 5.2 above from 8:30 a.m. to 14:30 p.m. on [...] to [...]

5.8 Allocation procedures

Please specify principles of securities allocation to share subscribers by clearly identifying names of groups of persons and ratio or number of shares to be allocated. If the number is divided and offered to foreign investors, please specify.

5.9 Subscription date and subscription procedures and payment

Please give details of the subscription period, number that can be subscribed per case, subscription payment procedures, names of finance company or commercial bank that is subscription agent and procedures and conditions for returning subscription price.

5.10 Allocation in case more securities are subscribed than offered

Please specify the allocation in case the number of securities subscribers exceeds the number of offered securities.

5.11 Procedures for subscription price refund

Please specify refunding procedures and refund period in case a subscriber is not allocated securities.

5.12 Securities delivery procedures

At present, Thailand Securities Depository Co Ltd. has been appointed as a service provider to deposit share certificates of securities offered on this occasion. Subscribers may choose the share certificate deposit service and enter the scripless trading system immediately so that subscribers will be able to sell shares as soon as the Stock Exchange of Thailand allows the shares to start trading, which is unlike the case when subscribers wish to receive share certificates. In the latter, subscribers will not be able to sell shares in the stock exchange until they receive the share certificates. In this offering of capital-increase ordinary shares, subscribers may opt for the Bank to do either of the following:

Section 4

Certification of the Information's Accuracy

We have examined the information in this draft Prospectus and hereby certify that it is correct and complete and is not false and would not mislead other persons or does not lack of material information that have to be given or damage persons who buy the shares. We are aware that if the information is not according to what we have certified, the subscribers may sue for damages against us under Section 82 or Section 83 of the Securities and Exchange Act, B.E. 2535 and we may be penalized under Section 278 of the same Act.

In this case, to serve as evidence that all of the document constitute one set of documents that we have certified as being correct, we have entrusted [●] to countersign each page. If any document does not have the signature of [●] countersigned, we will deem it as not being an information that we have certified.

Authorized directors of C.P Seven Eleven Public Company Limited

Name	Position	Signature
Mr. Korsak Chairasmisak	Director	_____
Mr. Supakit Chearavanont	Director	_____
Ms. Yoon Chiang	Director	_____
Mr. Chia Yew Boon	Director	_____
Mr. Umroong Sanphasitvong	Director	_____
Mr. Narong Chearavanont	Director	_____
Mr. Prasert Jarupanich	Director	_____
Mr. Pittaya Jearavisitkul	Director	_____
Mr. Piyawat Titasattavorakul	Director	_____

Authorized person

Mr. Kamol Dakdidejyont

Attorney – in fact

Financial and Accounting

Certification of the Correctness of the Information

We have examined the information in this draft Prospectus and hereby certify that it is correct and complete and is not false and would not mislead other persons or does not lack of material information that have to be given or damage persons who buy the shares. We are aware that if the information is not according to what we have certified, the subscribers may sue for damages against us under Section 82 or Section 83 of the Securities and Exchange Act, B.E. 2535 and we may be penalized under Section 278 of the same Act.

In this case, to serve as evidence that all of the document constitute one set of documents that we have certified as being correct, we have entrusted [●] to countersign each page. If any document does not have the signature of [●] countersigned, we will deem it as not being an information that we have certified.

Authorized directors of Bangkok Produce Public Merchandising Company Limited

Name	Position	Signature
<u>Attorney – in fact</u>		<hr/>
Name	Position	Signature
		<hr/>

Certification of the Correctness of the Information

We have examined the information in this draft Prospectus and hereby certify that it is correct and complete and is not false and would not mislead other persons or does not lack of material information that have to be given or damage persons who buy the shares. We are aware that if the information is not according to what we have certified, the subscribers may sue for damages against us under Section 82 or Section 83 of the Securities and Exchange Act, B.E. 2535 and we may be penalized under Section 278 of the same Act.

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Authorized directors of N.T.K. Technology Co., Ltd.

Name	Position	Signature

Attorney – in fact

Name	Position	Signature

Certification of the Correctness of the Information

We have examined the information in this draft Prospectus and hereby certify that it is correct and complete and is not false and would not mislead other persons or does not lack of material information that have to be given or damage persons who buy the shares. We are aware that if the information is not according to what we have certified, the subscribers may sue for damages against us under Section 82 or Section 83 of the Securities and Exchange Act, B.E. 2535 and we may be penalized under Section 278 of the same Act.

In this case, to serve as evidence that all of the document constitute one set of documents that we have certified as being correct, we have entrusted [●] to countersign each page. If any document does not have the signature of [●] countersigned, we will deem it as not being an information that we have certified.

Authorized directors of Thaivest Pte Limited

Name	Position	Signature

Attorney – in fact

Name	Position	Signature

Certification by Financial Advisor

We, as financial advisor of the Company, have examined the information in the draft prospectus and other related information and our opinion is that the information in the draft prospectus is correct and complete and that there is no information that may affect the decision of the investors that has not been disclosed and there is no wording that may mislead the users of the information.

Authorized directors of Merrill Lynch Phatra

Name	Position	Signature
Mr. Suvit Mapaisarnsin	Director	_____
Mr. Lewis Swift Lee., Jr	Director	_____