Convenience Retail Asia Limited

利亞零售有限公司

(incorporated in the Cayman Islands with limited liability)

A member of the Li & Fung Retailing Group

Third Quarterly Report 2005

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

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

THIRD QUARTERLY RESULTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2005

Three Months Ended 30 September		**2005**	2004 (Restated)
• Group Turnover	+7%	HK$501,400,000	HK$466,844,000
• Group Profit attributable to shareholders	+13%	HK$22,853,000	HK$20,251,000
• Earnings Per Share (Basic)	+13%	3.4 cents	3.0 cents

Nine Months Ended 30 September		**2005**	2004 (Restated)
• Group Turnover	+14%	HK$1,471,018,000	HK$1,293,578,000
• Group Profit attributable to shareholders	+12%	HK$52,640,000	HK$46,883,000
• Earnings Per Share (Basic)	+11%	7.8 cents	7.0 cents
• Interim Dividend Per Share	+20%	1.5 cents	1.25 cents

HIGHLIGHTS

- 13% increase in net profit year-on-year.
- Decline in comparable store sales in Hong Kong due to timing variance of major premium promotion, higher base of comparable cigarette sales last year and the increasing penetration of free newspaper titles.
- Number of stores in Hong Kong increased by five to 223 during the quarter.
- Number of stores in Guangzhou increased by six to 35 during the quarter.
- Number of stores in the sublicensed territories of Macau and Zhuhai reached nine and four respectively at the end of the quarter.
- A 100% company-owned subsidiary was set up in Dongguan, with six stores due to start operation soon.
- Application to set up a 100% company-owned subsidiary in Shenzhen is being processed.
- Still awaiting final Government approval to acquire a 60% equity stake in DG Sun-High, operator of a franchised convenience store chain in Dongguan with about 90 stores.
- Retail rental increases have become a major concern in Hong Kong.
- Strong cash position with HK$580.1 million and no bank borrowings.

CHAIRMAN'S STATEMENT

Financial Review

It gives me great pleasure to report the unaudited third quarter results of Convenience Retail Asia Limited and its subsidiaries (the "Group") for the period ended 30 September 2005.

For the third quarter of 2005, the Group's turnover increased by 7% to HK$501.4 million compared to the same period last year. The increase in turnover resulted from new store sales. As at the end of the quarter, we operated 223 stores in Hong Kong and 35 stores in Guangzhou compared to 197 stores in Hong Kong and 15 in Guangzhou at the end of the third quarter of 2004.

Comparable store sales in Hong Kong (for stores in existence throughout the first, second and third quarters of 2004 and 2005) decreased by 3.5% during the third quarter. The decrease was attributable to short-term factors including variance in promotional timing, conclusion of twin-pack cigarette promotion and new developments in the media market.

Comparable store sales in Guangzhou continued to grow rapidly and increased by 12.3% during the third quarter.

Gross margins and other income (excluding interest) as a percentage of turnover increased to 34.6% from 32% during the current quarter as compared to the same period last year. The increase was due to improvements in the gross margin and higher other income.

During the current quarter, store expenses as a percentage of turnover increased to 24.8% from 22.5% when compared to the same period last year. The increase was mainly caused by increases in store rental, staff costs in Hong Kong and store operating expenses in Guangzhou.

Distribution expenses as a percentage of turnover increased to 1.9% from 1.6% during the current quarter as compared to the same period last year. The increase was mainly due to the increase in chilled delivery expenses in line with the higher sales volume of chilled products.

The decrease in comparable store sales and increase in store and distribution expenses were more than compensated for by the increase in gross margin and other income. As a result, the Group recorded a net profit of HK$22.9 million, representing a 13% increase over the net profit of HK$20.3 million for the corresponding period in 2004. Earnings per share increased by 0.4 cents to 3.4 cents per share during the quarter.

The Group's financial position continues to be strong with a total cash balance of HK$580.1 million and no borrowings. The Group had limited foreign exchange exposure in RMB.

For the nine months ended 30 September 2005, the Group recorded a turnover of HK$1,471 million and net profit of HK$52.6 million, representing an increase of 14% and 12% respectively year-on-year.

Review of Hong Kong Operations

Overall retail sales performance in Hong Kong was well sustained by single-digit growth during the third quarter of 2005. For the first eight months of the year, overall retail sales volume registered a 6.7%* increase over the same period a year earlier.

Local consumption accounted for a major part of the retail sales growth in Hong Kong since the Mainland Chinese arrival figures peaked and the average spending per person continued to decrease.

On the other hand, escalating retail rental has become a major challenge for all retailers in Hong Kong, resulting in a slowdown in the pace of new store openings for the Group with an average of less than two stores being opened per month. Unless there is a cooling off in the retail property market towards the end of the year, the Group will have to downwardly revise its targeted store number in the fourth quarter of 2005.

Even with the buoyant consumer sentiment, actual consumer behaviour was still largely dictated by value perception and premium promotions. This could be seen in the significant sales decrease that occurred as soon as the Group's successful Mcmug promotion concluded in the last week of July. Unfortunately, another major premium promotion originally scheduled to start in early September was postponed by almost four weeks. The absence of major promotional activities during the quarter contributed to the lacklustre sales performance.

During the quarter, two new free daily newspapers entered the market, bringing the total distribution of all free newspapers to over a million copies, and negatively impacting the Group's newspaper sales. The quarter also witnessed the start of a price war among major cigarette brands, which also contributed to negative sales in this category.

Review of Guangzhou Operations

Against a backdrop of continuous economic growth and increasing disposable income, the Group's Guangzhou operations continued to report healthy comparable store sales growth, spurred by cross-category promotions and the rerun of the student loyalty programme in September.

Despite heavy rain during the quarter, which had a negative effect on customer traffic, average daily sales grew at about 12.3% in value for comparable stores. Major staple categories such as packaged beverages, confectionery, snacks and food services all registered healthy sales increases.

The most noteworthy accomplishment of the Guangzhou operations for the year to date was the acceleration of the new store-opening programme, with an average of about two stores being opened per month. At this rate, the Group is well on track to meet its target number of 50 stores in Guangzhou by the end of 2005.

In both Macau and Zhuhai, the sublicensed operations reported healthy sales and satisfactory business performance, meeting or exceeding the projected sales targets and rapidly added new stores to the network. At the end of the third quarter, there were a total of 13 stores in operation.

* *Provisional statistic of retail sales, August 2005, release by the Census and Statistics Department on 7 October 2005.*

In Dongguan, Government approval for the acquisition of a 60% equity stake in DG Sun-High, operator of a franchised convenience store chain in Dongguan with about 90 stores took longer than expected. However, parallel to the franchise model for a second-tier brand through the DG Sun-High joint venture, the Group also actively pursued the inception of a 100% company-owned-and-managed Circle K convenience store chain in Dongguan. Six store sites have been committed and will start operation within the next quarter.

Business Outlook

The trends of favourable economic indicators and strong consumer confidence are expected to continue well into the fourth quarter, providing a stable market environment for the Group's operations in Hong Kong, Guangzhou, Macau and Zhuhai. The planned market entries into Dongguan and Shenzhen will be the highlights of the final quarter of 2005.

In Hong Kong, the overheated retail property market will put considerable pressure on operating costs, while keen market competition in several major product categories will pose serious challenges to the marketing and category management teams.

Further improvements in productivity and efficiency will demand more hard work, ingenuity and team effort than ever before. The Group is confident that the management team is well prepared to cope with the ever-changing market environment by employing strategic breakthroughs and making continuous improvements to the Group's core competencies.

The Group will continue to aggressively pursue acquisition opportunities in order to implement the network expansion strategy laid down in the three-year plan.

Fung Kwok King, Victor
Chairman

Hong Kong, 26 October 2005

Executive Directors:
Yeung Lap Bun, Richard *(Chief Executive Officer)*
Li Kwok Ho, Bruno *(Chief Financial Officer)*

Non-executive Directors:
Dr. Fung Kwok King, Victor *(Chairman)*
Dr. Fung Kwok Lun, William
Jeremy Paul Egerton Hobbins
Wong Yuk Nor, Louisa
Godfrey Ernest Scotchbrook

Independent non-executive Directors:
Dr. Ch'ien Kuo Fung, Raymond
Au Man Chung, Malcolm
Lo Kai Yiu, Anthony

Group Chief Compliance Officer:
Siu Kai Lau, James

Company Secretary:
Wong Wing Ha

RESULTS

The Board of Directors ("the Board") is pleased to announce the unaudited results of the Group for the three months and nine months ended 30 September 2005, together with the comparative unaudited figures for the corresponding period ended 30 September 2004 as follows:

		Three months ended 30 September		**Nine months ended 30 September**	
		2005	2004	**2005**	2004
	Note	*HK$'000*	*HK$'000* (Restated)	*HK$'000*	*HK$'000* (Restated)
Turnover	*3*	501,400	466,844	1,471,018	1,293,578
Cost of sales		(373,858)	(351,365)	(1,114,839)	(977,804)
Gross profit		127,542	115,479	356,179	315,774
Other revenues	*3*	49,859	36,064	131,132	101,098
Store expenses		(124,514)	(105,059)	(354,056)	(295,453)
Distribution costs		(9,506)	(7,555)	(25,483)	(21,251)
Administrative expenses		(17,528)	(16,445)	(49,208)	(47,046)
Profit before taxation		25,853	22,484	58,564	53,122
Taxation	*4*	(4,365)	(3,480)	(10,047)	(10,041)
Profit after taxation		21,488	19,004	48,517	43,081
Attributable to:					
Shareholders of the Company		22,853	20,251	52,640	46,883
Minority interests		(1,365)	(1,247)	(4,123)	(3,802)
		21,488	19,004	48,517	43,081
Dividend	*5*	–	–	10,091	8,385
Earnings per share for profit attributable to the shareholders of the Company during the period					
– Basic	*6*	3.4 cents	3.0 cents	7.8 cents	7.0 cents

Notes:

1. Basis of preparation and accounting policies

The accounts are prepared in accordance with Hong Kong Accounting Standards ("HKAS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprises Market of the Stock Exchange of Hong Kong ("the GEM Listing Rules").

The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. Changes in accounting policies

(a) *Effect of adopting new HKFRS*

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS – Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payment

2. Changes in accounting policies (continued)

(a) Effect of adopting new HKFRS (continued)

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 24, 27, 33, 36, 37 and 38 and HKAS – Int 15 did not result in substantial changes to the Group's accounting policies and they are adopted by the Group retrospectively. In summary:

- HKAS 1 has affected the presentation of minority interests and other disclosures.
- HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 27, 33, 36, 37 and 38 and HKAS – Int 15 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of lease premium for land from fixed assets to operating leases. The up-front prepayments made for the lease premium for land are expensed in the profit and loss account on a straight-line basis over the period of the leases or when there is impairment, the impairment is expensed in the profit and loss account. In prior years, the lease premium for land was accounted for at cost less accumulated depreciation and accumulated impairment and included in properties of fixed assets. HKAS 17 has been applied retrospectively.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for employee share option benefits. Until 31 December 2004, the provision of share options to employees did not result in an expense in the profit and loss account. Effective on 1 January 2005, the Group expenses the cost of share options in the profit and loss account. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the profit and loss account of the respective periods.

The effect of adopting HKAS 17 and HKFRS 2 on the consolidated profit and loss account for the periods ended 30 September 2005 and 30 September 2004 and on the consolidated balance sheet as at 30 September 2005 and 31 December 2004 are shown below:

Effect of adopting HKAS 17 and HKFRS 2 on the consolidated profit and loss account are as follows:

	(Unaudited) Nine months ended 30 September 2005		(Unaudited) Nine months ended 30 September 2004	
	HKAS 17	**HKFRS 2**	HKAS 17	HKFRS 2
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Decrease/(Increase) in store expenses	136	(508)	108	(304)
Increase in distribution costs	–	(20)	–	(23)
Increase in administrative expenses	–	(385)	–	(224)
Total increase/(decrease) in profit	136	(913)	108	(551)
Increase/(decrease) in basic earnings per share	0.02 cents	(0.14 cents)	0.02 cents	(0.08 cents)

2. **Changes in accounting policies** (continued)

(a) Effect of adopting new HKFRS (continued)

Effect of adopting HKAS 17 and HKFRS 2 on the consolidated balance sheet are as follows:

	(Unaudited) 30 September 2005		(Audited) 31 December 2004	
	HKAS 17	**HKFRS 2**	HKAS 17	HKFRS 2
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Increase/(decrease) in assets				
Fixed assets	(15,463)	–	(15,805)	–
Lease premium for land (current and non-current)	15,666	–	15,872	–
Increase/(decrease) in liabilities/equity				
Share premium	–	93	–	–
Employee share-based compensation reserve	–	1,766	–	956
Retained earnings	203	(1,859)	67	(956)

(b) New Accounting Policies

The accounting policies used for the accounts for the nine months ended 30 September 2005 are the same as those set out in the notes to the 2004 annual accounts except for the following:

2.1 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

2. Changes in accounting policies (continued)

(b) New Accounting Policies (continued)

2.2 Share-based compensation

The Group operates an equity settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

3. Turnover and other revenues

The Group is principally engaged in the operation of a chain of convenience stores. Revenues recognised during the three months and nine months ended 30 September 2005 are as follows:

	(Unaudited) Three months ended 30 September		**(Unaudited) Nine months ended 30 September**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)		(Restated)
Turnover				
Merchandise sales revenue	501,400	466,844	1,471,018	1,293,578
Other revenues				
Supplier rebate and promotion fees	38,020	28,607	99,283	81,680
Service items income	7,676	5,182	21,369	13,898
Interest income	4,163	2,275	10,480	5,520
	49,859	36,064	131,132	101,098
Total revenues	551,259	502,908	1,602,150	1,394,676

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered to customers and the title has passed.

Supplier rebate and promotion fees are recognised when the rights to receive payments are established in accordance with the terms of agreements with the vendors.

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

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

4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the three months and nine months ended 30 September 2005 and 2004. No provision for taxation outside Hong Kong has been made as the Group has no estimated assessable profit outside Hong Kong for the three months and nine months ended 30 September 2005 and 2004.

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

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current taxation – Hong Kong profits tax	4,760	4,636	9,596	10,608
Deferred taxation relating to the origination and reversal of temporary differences	(395)	(1,156)	451	(567)
Taxation	4,365	3,480	10,047	10,041

5. Dividend

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interim dividend – paid, of 1.5 HK cents (2004: 1.25 HK cents) per share	–	–	10,091	8,385

The Board does not recommend payment of an interim dividend for the three months ended 30 September 2005 (2004: Nil).

Total dividend for the nine months ended 30 September 2005 amounted to HK$10,091,000 (2004: HK$8,385,000).

6. Earnings per share

The calculation of the Group's basic and diluted earnings per share for the three months and nine months ended 30 September 2005 and 2004 is based on the respective unaudited consolidated profit attributable to shareholders of HK$22,853,000 (2004: HK$20,251,000 (restated)) and HK$52,640,000 (2004: HK$46,883,000 (restated)).

The basic earnings per share is based on the weighted average of 672,929,413 (2004: 670,827,957) and 672,554,842 (2004: 670,264,022) shares of HK$0.10 each (the "Shares") in issue during the three months and nine months ended 30 September 2005 and 2004 respectively.

Diluted earnings per share for the three months and nine months ended 30 September 2005 and 2004 respectively are not shown as there is no dilutive effect arising from the share options granted by the Company.

7. **Loss attributable to shareholders from Chinese Mainland operations**

Loss attributable to shareholders from Chinese Mainland operations for the three months and nine months ended 30 September 2005 amounted to HK$2,345,000 (2004: HK$2,355,000 (restated)) and HK$7,183,000 (2004: 7,094,000 (restated)) respectively.

8. **Reserves**

Movements in reserves of the Group during the three months and nine months ended 30 September 2005 were as follows:

(Unaudited)
Three months ended 30 September

	2005							2004
	Share premium *HK$'000*	**Merger reserve** *HK$'000*	**Capital reserve** *HK$'000*	**Employee share-based compensation reserve** *HK$'000*	**Exchange reserve** *HK$'000*	**Retained earnings** *HK$'000*	**Total** *HK$'000*	Total *HK$'000*
At 1 July, as previously reported	118,554	177,087	13,433	1,411	24	70,838	381,347	342,440
Effect of changes in accounting policies								
– employee share option benefits	–	–	–	–	–	–	–	–
– amortisation of lease premium for land	–	–	–	–	–	–	–	(28)
At 1 July, as restated	118,554	177,087	13,433	1,411	24	70,838	381,347	342,412
Issue of shares	415	–	–	–	–	–	415	192
Employee share option benefits	13	–	–	355	–	10	378	264
Exchange differences	–	–	–	–	117	–	117	(26)
Profit for the period	–	–	–	–	–	22,853	22,853	20,251
Dividend	–	–	–	–	–	(10,094)	(10,094)	(8,385)
At 30 September	118,982	177,087	13,433	1,766	141	83,607	395,016	354,708

8. Reserves (continued)

	(Unaudited) Nine months ended 30 September 2005							2004
	Share premium *HK$'000*	**Merger reserve** *HK$'000*	**Capital reserve** *HK$'000*	**Employee share-based compensation reserve** *HK$'000*	**Exchange reserve** *HK$'000*	**Retained earnings** *HK$'000*	**Total** *HK$'000*	Total *HK$'000*
At 1 January, as previously reported	117,560	177,087	13,433	–	–	67,156	375,236	334,327
Effect of changes in accounting policies								
– employee share option benefits	–	–	–	956	–	(956)	–	–
– amortisation of lease premium for land	–	–	–	–	–	67	67	(88)
At 1 January, as restated	117,560	177,087	13,433	956	–	66,267	375,303	334,239
Issue of shares	1,329	–	–	–	–	–	1,329	1,517
Employee share option benefits	93	–	–	810	–	10	913	551
Exchange differences	–	–	–	–	141	–	141	9
Profit for the period	–	–	–	–	–	52,640	52,640	46,883
Dividend	–	–	–	–	–	(35,310)	(35,310)	(28,491)
At 30 September	118,982	177,087	13,433	1,766	141	83,607	395,016	354,708

9. Comparative figures

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

COMPETING INTERESTS

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

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

As at 30 September 2005, the interests and short positions of each of the Directors, chief executives and their associates in the shares, underlying shares and debentures of the Company and certain of its major associated corporations* (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as required to be recorded in the register maintained by the Company pursuant to section 352 of SFO or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors under the GEM Listing Rules and/or the Code of Conduct for dealing in securities adopted by the Company, were as follows:

The Company

Long positions in Shares and the underlying Shares of equity derivatives

Name of Directors	Number of (i) Shares	Number of (ii) underlying Shares	Nature of interests/ Holding capacity	Approximate percentage of interests
Dr. Fung Kwok King, Victor	373,692,000	–	Corporate *(Note 1)*	55.52%
Dr. Fung Kwok Lun, William	373,692,000	–	Corporate *(Note 1)*	55.52%
Mr. Yeung Lap Bun, Richard	17,896,000	1,300,000 *(Note 2)*	Personal/ beneficiary	2.85%
Mr. Li Kwok Ho, Bruno	2,676,000	250,000 *(Note 3)*	Personal/ beneficiary	0.43%
Ms. Wong Yuk Nor, Louisa	1,338,000	250,000 *(Note 4)*	Personal/ beneficiary	0.24%
Dr. Ch'ien Kuo Fung, Raymond	1,000,000	–	Personal/ beneficiary	0.15%
Mr. Jeremy Paul Egerton Hobbins	180,000	–	Personal/ beneficiary	0.03%

Major associated corporations

Long positions in shares and the underlying shares of equity derivatives

Name of Directors	Name of associated corporations	Class of shares	Number of (i) shares	Number of (ii) underlying shares	Nature of interests/ Holding capacity	Approximate percentage of interests
Dr. Fung Kwok King, Victor	Li & Fung (Gemini) Limited	Ordinary shares	5,222,807	–	Corporate *(Note 5)*	
			602,631	–	Corporate *(Notes 1 & 6)*	84.80%
	Li & Fung (Distribution) Limited	Full voting ordinary shares	10,580,000	–	Corporate *(Note 7)*	
			–	3,220,000	Corporate *(Note 8)*	100%
	Integrated Distribution Services Group Limited	Ordinary shares	157,960,800	–	Corporate *(Note 9)*	
			1,683,837	–	Personal/ beneficiary	51.66%
Dr. Fung Kwok Lun, William	Li & Fung (Gemini) Limited	Ordinary shares	5,222,807	–	Corporate *(Note 5)*	76.02%
	Li & Fung (Distribution) Limited	Full voting ordinary shares	10,580,000	–	Corporate *(Note 7)*	67.66%
			–	3,220,000	Corporate *(Note 8)*	100%
	Integrated Distribution Services Group Limited	Ordinary shares	157,960,800	–	Corporate *(Note 9)*	51.12%

Name of Directors	Name of associated corporations	Class of shares	Number of (i) shares	Number of (ii) underlying shares	Nature of interests/ Holding capacity	Approximate percentage of interests
Mr. Jeremy Paul Egerton Hobbins	Li & Fung (Gemini) Limited	Ordinary shares	462,018	–	Corporate *(Note 10)*	6.73%
	Integrated Distribution Services Group Limited	Ordinary shares	841,918	–	Personal/ beneficiary	0.27%
Mr. Li Kwok Ho, Bruno	Integrated Distribution Services Group Limited	Ordinary shares	4,000	–	Other *(Note 11)*	0.00%

* *Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William, by virtue of their interests in King Lun Holdings Limited ("King Lun") and the Company are deemed to be interested in the shares and underlying shares of certain associated corporations of the Company under SFO. A waiver from full compliance from Rule 18.69 of the GEM Listing Rules for the disclosure of Directors' interests in the shares and underlying shares of the associated corporations has been granted by the Stock Exchange on 10 October 2005. Accordingly, the companies under the section headed "Interests and Short Positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations" are only the major associated corporations of the Company and are not intended to be exhaustive.*

Notes:

1. King Lun through its indirect wholly owned subsidiary, Li & Fung (Retailing) Limited ("LFR") (a wholly owned subsidiary of Li & Fung (1937) Limited ("LF (1937)") held 373,692,000 Shares in the Company. 1,332,840 shares in King Lun, representing 50% of its issued share capital, are owned by J.P. Morgan Trust Company (Jersey) Limited, the trustee of a trust established for the benefit of the family members of Dr. Fung Kwok King, Victor. The remaining 50% of King Lun is owned by Dr. Fung Kwok Lun, William.

2. On 24 May 2002, Mr. Yeung Lap Bun, Richard was granted share options to subscribe for 1,300,000 Shares pursuant to the Share Option Scheme of the Company. The options are exercisable at a subscription price of HK$2.785 per Share during the period from 24 May 2003 to 23 May 2007. No relevant share options have been exercised.

3. On 24 May 2002, Mr. Li Kwok Ho, Bruno was granted share options to subscribe for 250,000 Shares pursuant to the Share Option Scheme of the Company. The options are exercisable at a subscription price of HK$2.785 per Share during the period from 24 May 2003 to 23 May 2007. No relevant share options have been exercised.

4. On 24 May 2002, Ms. Wong Yuk Nor, Louisa was granted share options to subscribe for 250,000 Shares pursuant to the Share Option Scheme of the Company. The options are exercisable at a subscription price of HK$2.785 per Share during the period from 24 May 2003 to 23 May 2007. No relevant share options have been exercised.

5. King Lun through its wholly owned subsidiary, LF (1937) held 5,222,807 shares in Li & Fung (Gemini) Limited ("LFG"). Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun and LF (1937) as set out in note (1) above.

6. 602,631 shares in LFG are owned by a company which is held by J.P. Morgan Trust Company (Jersey) Limited.

7. Out of the total 10,580,000 shares, LFG holds 6,800,000 shares and LF (1937) holds 3,780,000 shares. Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun and LF (1937) and indirect interests in LFG as set out in notes (1) and (5) above.

8. Under SFO, LF (1937) is deemed to have interest in 3,220,000 underlying shares under several put and call option agreements, pursuant to which LF (1937) has the call options to require the counterparties to the agreements to sell to it, and the said counterparties have the put options to require LF (1937) to buy from them, an aggregate of 3,220,000 shares at cash consideration.

9. Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun, LF (1937), LFG and Li & Fung (Distribution) Limited as set out in notes (1), (5) and (7) above.

10. 462,018 shares in LFG are held by Martinville Holdings Limited which is owned by Mr. Jeremy Paul Egerton Hobbins.

11. 4,000 shares in Integrated Distribution Services Group Limited are jointly held by Mr. Li Kwok Ho, Bruno and his wife, Sandra Maria Li Ng.

Save as disclosed above, as at 30 September 2005, none of the Directors, chief executives and their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations.

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

As at 30 September 2005, the interests and short positions of the substantial shareholders in the Shares and underlying Shares of the Company as recorded in the register required to be kept under section 336 of SFO were as follows:

Long positions in Shares

Name	Number of Shares	Nature of interests/ Holding capacity	Approximate percentage of interests
King Lun Holdings Limited	373,692,000	Corporate *(Note 1)*	55.52%
Commonwealth Bank of Australia	60,228,000	Corporate *(Note 2)*	8.95%
Aberdeen Asset Management Plc and its Associates	53,318,000	Others *(Note 3)*	7.92%

Notes :

1. These shares are held by Li & Fung (Retailing) Limited ("LFR"). King Lun Holdings Limited ("King Lun") indirectly owns 100% interests in LFR through its wholly owned subsidiary, Li & Fung (1937) Limited ("LF (1937)"). All of King Lun, LFR and LF (1937) are taken to be interested in the shares. Please refer to Note (1) in the above section headed "Interests and Short Positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations".

2. These shares are indirectly held by Commonwealth Bank of Australia through a chain of 100% owned companies, namely Colonial Ltd, Colonial Holding Company Ltd (formerly known as Colonial Holding Company Pty Ltd), Colonial Holding Company (No. 2) Pty Limited, The Colonial Mutual Life Assurance Society Ltd, Colonial First State Group Ltd, First State Investment (UK Holdings) Limited, SI Holdings Limited, First State Investment Management (UK) Limited, First State Investment Managers (Asia) Ltd, First State Investments (Bermuda) Ltd, First State (Hong Kong) LLC and First State Investments (Hong Kong) Limited.

3. Aberdeen Asset Management Plc and its Associates (together "the Aberdeen Group") on behalf of accounts managed by the Aberdeen Group.

Save as disclosed above, as at 30 September 2005, the Company had not been notified of any substantial shareholders' interests or short positions which are required to be kept under section 336 of SFO.

AUDIT COMMITTEE

The Audit Committee has been established since January 2001 with defined terms of reference (available to shareholders' upon request), which are of no less exacting terms than those set out in the Code on Corporate Governance Practices of the GEM Listing Rules. The primary duties of the Audit Committee are to review the Group's financial reporting, internal controls and risk management matters and to make relevant recommendations to the Board.

The Audit Committee comprises three independent non-executive directors, namely Dr. Ch'ien Kuo Fung, Raymond, Mr. Au Man Chung, Malcolm, Mr. Lo Kai Yiu, Anthony, and two non-executive directors, namely Mr. Godfrey Ernest Scotchbrook and Mr. Jeremy Paul Egerton Hobbins. The chairman of the Audit Committee is Dr. Ch'ien Kuo Fung, Raymond. All Committee members possess appropriate industry and financial experience to advise on the Company's strategy and other matters.

The Audit Committee has reviewed with management this unaudited quarterly report for the period ended 30 September 2005 before recommending it to the Board for approval.

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

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