



Convenience Retail Asia Limited

利亞零售有限公司

(incorporated in the Cayman Islands with limited liability)



A member of the Li & Fung Retailing Group



First Quarterly Report 2003



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

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



**FIRST QUARTERLY RESULTS
FOR THE THREE MONTHS ENDED 31 MARCH 2003**

		2003	2002
• Group Turnover	+8%	HK\$349,600,000	HK\$322,585,000
• Group Profit	-27%	HK\$7,256,000	HK\$9,888,000 *
• Earnings per Share	-27%	1.1 cents	1.5 cents *

HIGHLIGHTS

- K** Growth in turnover but decline in profitability caused by start-up loss in the Chinese Mainland, adverse market conditions and increase in store operating expenses in Hong Kong.
- K** Number of stores in Hong Kong increased by two to 168 during the quarter with an additional two stores opened in April and four store openings planned.
- K** Number of stores in Guangzhou increased by two to four during the quarter with two additional store openings planned.
- K** While the overall outlook is clouded by economic uncertainties and the outbreak of atypical pneumonia in Hong Kong, the company has deployed aggressive tactics to reduce operating expenses and to increase sales potential.
- K** Profitability outlook for the second quarter is not favourable.
- K** Strong cash position with HK\$379.5 million and no bank borrowings as at 31 March 2003.

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



CHAIRMAN'S STATEMENT

Financial Review

I am pleased to report the unaudited first quarterly results of Convenience Retail Asia Limited (the "Company") and its subsidiaries (the "Group") for 2003. During the three-month period ended 31 March 2003, the Group recorded an increase in turnover but a decline in profit under the severe retail market conditions in Hong Kong.

For the first quarter of 2003, the Group's turnover increased by 8% to HK\$349.6 million when compared to the same period last year. Comparable stores (stores in existence throughout the first quarter of 2002 and 2003) showed a decrease in turnover of 1%. At the end of the first quarter of 2003, there were a total of 168 stores in Hong Kong and 4 stores in China compared to 148 stores in Hong Kong and nil in China as at the end of the first quarter of 2002.

Store operating expenses increased from 22.8% to 24.2% of turnover during the quarter caused by increase in non-comparable store operating expenses, decrease in comparable store sales which created an impact on overall profitability. The increase in administrative expenses from 3.3% to 3.7% of turnover during the quarter was mainly caused by an increase in administrative expenses in China.

The combined impact of higher store operating and administrative expenses caused a decline in profit attributable to shareholders of 27% to HK\$7.3 million during the quarter.

Review of the Hong Kong Operation

The quarter in review began with healthy sales growth in January for the retail market as a whole due to the timing of the Lunar New Year which occurred in early February in 2003. However, after the Lunar New Year, market conditions rapidly deteriorated as consumer sentiments were adversely affected by the news of the war in Iraq and the outbreak of the atypical pneumonia.

Since the first quarter, the atypical pneumonia crisis has drastically impacted the retail market in Hong Kong with most retailers reporting significant drop in sales of between 20% to 60% in April. Circle K's inventory of convenience products helped to lessen the impact on our turnover. However, we are still experiencing a sales drop of about 5%. Decline in key categories such as packaged drinks and ice-creams were partly compensated by an increase in cigarette sales. Cigarettes remains a low margin category, therefore the impact on overall margin is less favourable.

Despite the market downturn, we added two new stores which were committed before the outbreak occurred.



In view of the hostile market conditions, the Group has decided to adopt a more defensive approach during the next three months, focusing on cost control including tightening rental and payroll expenses and adjusting our advertising and promotion activities. Our strategy is to ensure that the organization is healthy and efficient and capable of rebounding quickly when conditions improve.

Review of the Guangzhou Operation

Two more stores commenced business during the first quarter of 2003, covering a broad spectrum of neighbourhoods with slightly different target customer profiles. Based on sales data from these stores, the Group should be able to acquire valuable consumer insight into purchasing behaviour and taste preferences of various market segments. The quarter ended with four stores and two more store sites committed.

Market acceptances of “the new generation of convenience store” has been very favourable. Sales performance is in line with expectations. The most encouraging feedback from the market is the general appreciation for the improved store presentation which clearly sets a new standard for the convenience store market in the Chinese Mainland.

Consumer appreciation of the premium quality and product freshness delivered by the “Hot & In” food service is well reflected in the sales volume generated. This accounted for about 36% of daily store sales, which is in line with the original projection.

A mid-year review and adjustment of the business model and sales performance will be conducted before the Group embarks on an aggressive store opening plan in the second half of 2003.

Business Outlook

The outbreak of atypical pneumonia has created considerable negative impact on the economy in Hong Kong and the retail market has been adversely affected by weak consumer sentiment and significant decrease in traffic flow. Hence our Hong Kong market outlook for the second quarter is quite pessimistic, anticipating volatile sales performance.

In view of the uncertainties in the current market situation, it is the Group’s intention to conduct a full review of the store opening strategy in Hong Kong at the end of the second quarter.

In the second quarter, the Housing Authority will grant a 30% rental reduction for all the store sites in the Government Housing Estates for three months which will benefit Circle K stores.

If the situation comes under control before the summer, there is a good chance for the Circle K business to rebound strongly in the second half of 2003.



As the Guangzhou market is relatively less affected by the outbreak, the Group expects that the increased demand for drinks and ice-creams in the warmer months ahead will provide the potential for substantial sales growth in existing stores and new stores.

In conclusion, the profitability outlook for the second quarter of 2003 is likely to be unfavourable. The Group is well prepared for a quick rebound in the second half of 2003 if market conditions improve.

Fung Kwok King, Victor

Chairman

Hong Kong, 28 April 2003



RESULTS

The Board of Directors (“the Board”) is pleased to announce the unaudited results of the Group for the three months ended 31 March 2003, together with the comparative unaudited figures for the corresponding period ended 31 March 2002 as follows:

	Note	Three months ended 31 March	
		2003 HK\$'000	2002 HK\$'000 (Restated)
Turnover	2	349,600	322,585
Cost of sales		(264,638)	(243,614)
Gross profit		84,962	78,971
Other revenues	2	24,919	22,583
Store expenses		(84,559)	(73,392)
Distribution costs		(5,080)	(4,396)
Administrative expenses		(12,770)	(10,739)
Start-up costs for China operations		–	(1,076)
Profit before taxation		7,472	11,951
Taxation	3	(1,473)	(2,131)
Profit after taxation		5,999	9,820
Minority interest		1,257	68
Profit attributable to shareholders		<u>7,256</u>	<u>9,888*</u>
Basic earnings per share	4	<u>1.1 cents</u>	<u>1.5 cents*</u>

* Restated for income tax effect per Statement of Standard Accounting Practice No.12 “Income Taxes” issued by the Hong Kong Society of Accountants.

Notes:

1. Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention.

In the current year, the Group adopted the following Statement of Standard Accounting Practice ("SSAP") issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003:

SSAP 12 : Income Taxes

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

Deferred taxation

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

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

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 6 to the accounts, opening accumulated losses at 1 January 2002 and 2003 have been reduced by HK\$13,798,000 and HK\$2,139,000 respectively which represent the unprovided net deferred tax assets. The profit attributable to shareholders for the period ended 31 March 2002 have been reduced by HK\$2,136,000 while the amount credited to equity has been increased by HK\$11,662,000.

2. Turnover and other revenues

The Group is principally engaged in the operation of a chain of convenience stores. Revenues recognised during the three months ended 31 March 2003 are as follows:

	Three months ended 31 March	
	2003 HK\$'000	2002 HK\$'000
Turnover		
Merchandise sales revenue	340,479	314,016
Bakery sales revenue	9,121	8,529
E-fulfillment service income	—	40
	<hr/>	<hr/>
	349,600	322,585
Other revenues		
Promotion and support fund	20,023	17,584
Interest income	1,638	1,539
Service items income	3,258	3,460
	<hr/>	<hr/>
	24,919	22,583
	<hr/>	<hr/>
Total revenues	<u>374,519</u>	<u>345,168</u>



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

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

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

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

3. Taxation

No Hong Kong profits tax has been provided for the three months ended 31 March 2003 and 2002 as the Group has been able to utilise available tax losses brought forward from previous years to offset the assessable profit for the periods. No provision for overseas profits tax has been made as the Group has no overseas estimated assessable profit for the three months ended 31 March 2003 and 2002. For the three months ended 31 March 2003 and 2002, deferred taxation of HK\$1,473,000 (2002: HK\$2,131,000) has been provided for.

The amount of taxation charged to the consolidated profit and loss account (in accordance with SSAP 12 “Income Taxes”) represents:

	Three months ended 31 March	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> <i>(Restated)</i>
Deferred taxation	<u>1,473</u>	<u>2,131</u>

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

	Three months ended 31 March	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> <i>(Restated)</i>
Profit before taxation	<u>7,472</u>	<u>11,951</u>
Calculated at a taxation rate of 17.5% (2002: 16%)	1,308	1,912
Income not subject to taxation	(276)	(246)
Expenses not deductible for taxation purposes	(1,418)	(463)
Tax losses not recognised	739	384
Utilisation of previously unrecognised tax losses	(353)	(1,587)
Utilisation of previously unrecognised temporary differences	1,120	560
Recognition of previously unrecognised temporary differences	<u>353</u>	<u>1,571</u>
Taxation charge	<u>1,473</u>	<u>2,131</u>

4. Earnings per share

The calculation of the Group's basic earnings per share for the three months ended 31 March 2003 is based on the consolidated profit attributable to shareholders of HK\$7,256,000 (2002: HK\$9,888,000 (restated)).

The basic earnings per share is based on the weighted average of 667,639,333 (2002: 659,898,889) ordinary shares in issue during the three months ended 31 March 2003.

Diluted earnings per share for the three months ended 31 March 2003 and 2002 are not shown as there is no dilutive effect arising from the share options granted by the Company.

5. Interim dividends

The Board does not recommend payment of an interim dividend for the three months ended 31 March 2003 (2002: Nil).

6. Reserves

Movements in reserves of the Group during the three months ended 31 March 2003 were as follows:

	Three months ended 31 March					2002 Total HK\$'000
	Share premium HK\$'000	Merger reserve HK\$'000	2003 Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	
At 1 January, as previously reported	113,444	177,087	13,433	(20,273)	283,691	202,045
Effect of changes in accounting policies	–	–	–	2,139	2,139	13,798
At 1 January, as restated	113,444	177,087	13,433	(18,134)	285,830	215,843
Issue of shares	565	–	–	–	565	6,221
Profit for the period attributable to shareholders	–	–	–	7,256	7,256	9,888
At 31 March	<u>114,009</u>	<u>177,087</u>	<u>13,433</u>	<u>(10,878)</u>	<u>293,651</u>	<u>231,952</u>

7. Start-up loss in China

Start-up loss in China amounted to HK\$2,217,000 for the three months ended 31 March 2003 was consolidated in the results.

COMPETING INTERESTS

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



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

As at 31 March 2003, the interests of each of the directors, chief executives and their associates in the equity or debt securities of the Company and certain of its major associated corporations* (within the meaning of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”) applicable up to 31 March 2003) as required to be recorded in the register maintained by the Company pursuant to section 29 of the SDI Ordinance are as follows:

Name of the Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Company	Dr. Fung Kwok King, Victor	–	–	373,692,000 <i>(Note 1)</i>	–	373,692,000
Company	Dr. Fung Kwok Lun, William	–	–	373,692,000 <i>(Note 1)</i>	–	373,692,000
Company	Yeung Lap Bun, Richard	17,896,000	–	–	–	19,196,000
		1,300,000 <i>(Note 2)</i>				
Company	Li Kwok Ho, Bruno	2,676,000	–	–	–	2,926,000
		250,000 <i>(Note 3)</i>				
Company	Lau Butt Farn	2,676,000	–	–	–	2,676,000
Company	Wong Yuk Nor, Louisa	1,338,000	–	–	–	1,588,000
		250,000 <i>(Note 4)</i>				
Company	Dr. Ch'ien Kuo Fung, Raymond	1,000,000	–	–	–	1,000,000



Name of the Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Li & Fung (Gemini) Limited	Dr. Fung Kwok King, Victor	–	–	10,263,158 (Note 5)	1,184,210 (Note 7)	11,447,368
Li & Fung (Gemini) Limited	Dr. Fung Kwok Lun, William	–	–	10,263,158 (Note 5)	–	10,263,158
Li & Fung (Distribution) Limited	Dr. Fung Kwok King, Victor	(i) 130,000 (Note 8)	–	(i) 6,800,000 (full voting ordinary shares) (Note 6)	–	7,090,000 (full voting ordinary shares)
		(ii) 160,000 (Note 9)		(ii) 6,630,000 (redeemable participating preferred shares) (Note 6)		6,630,000 (redeemable participating preferred shares)
Li & Fung (Distribution) Limited	Dr. Fung Kwok Lun, William	–	–	(i) 6,800,000 (full voting ordinary shares) (Note 6)	–	6,800,000 (full voting ordinary shares)
				(ii) 6,630,000 (redeemable participating preferred shares) (Note 6)		6,630,000 (redeemable participating preferred shares)
Li & Fung (Distribution) Limited	Lau Butt Farn	32,500 (Note 8)	–	–	–	65,000
		32,500 (Note 10)				



Name of the Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Li & Fung Limited	Dr. Fung Kwok King, Victor	–	–	1,180,500,000 (Note 11)	50,750,000 (Note 12)	1,231,250,000
Li & Fung Limited	Dr. Fung Kwok Lun, William	68,502,300	4,000 (Note 13)	1,180,500,000 (Note 11)	–	1,250,446,300
		480,000 (Note 14)				
		480,000 (Note 15)				
		480,000 (Note 16)				
Li & Fung Limited	Lau Butt Farn	2,200,000	–	–	–	2,200,000

* *Dr. Fung Kwok King, Victor, and Dr. Fung Kwok Lun, William, by virtue of their interests in King Lun and the Company are deemed to be interested in the equity securities of certain associated corporations of the Company under the SDI Ordinance. A waiver from full compliance from Rule 18.69 of the GEM Listing Rules for the disclosure of directors' interest in the equity or debt securities of the associated corporations has been granted by the Stock Exchange on 25 April 2003. Accordingly, the companies under the section headed "Directors' interests in equity or debt securities in the Company and certain major associated corporations" are only the major associated corporations of the Company and are not intended to be exhaustive.*

Notes:

- King Lun Holdings Limited ("King Lun") through its indirect wholly owned subsidiary, Li & Fung (Retailing) Limited ("LFR") (a wholly owned subsidiary of Li & Fung (1937) Limited ("LF(1937)")) held 373,692,000 shares of HK\$0.10 each ("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.
- In May 2002, Mr. Yeung Lap Bun, Richard was granted share options to subscribe for 1,300,000 Shares. 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.
- In May 2002, Mr. Li Kwok Ho, Bruno was granted share options to subscribe for 250,000 Shares. The options are exercisable at a subscription price of HK\$2.785 per Share during the period from 24 May 2003 to 23 May 2007.



4. In May 2002, Ms. Wong Yuk Nor, Louisa was granted share options to subscribe for 250,000 Shares. The options are exercisable at a subscription price of HK\$2.785 per Share during the period from 24 May 2003 to 23 May 2007.
5. King Lun through its wholly owned subsidiary, LF(1937) held 10,263,158 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. LFG holds 6,800,000 full voting ordinary shares and 6,630,000 redeemable participating preferred shares in Li & Fung (Distribution) Limited (“LFD”). Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun and LF (1937) and indirect interests in LFG as set out in notes (1) & (5) above.
7. 1,184,210 shares in LFG are owned by a company which is held by J.P. Morgan Trust Company (Jersey) Limited.
8. In 1999, Dr. Fung Kwok King, Victor and Mr. Lau Butt Farn were granted share options to subscribe for 130,000 and 32,500 full voting ordinary shares of US\$0.01 each in LFD (“LFD Shares”) respectively. Of these, options in respect of 105,500 and 26,000 LFD Shares are fully vested in Dr. Fung Kwok King, Victor and Mr. Lau Butt Farn respectively. The remaining share options are to be vested in Dr. Fung Kwok King, Victor and Mr. Lau Butt Farn on 31 December 2003. The share options are exercisable at US\$1 per LFD Share within 21 business days after the earliest of (a) the date of issuance of a notice for an initial public offering of LFD Shares, (b) the date of issuance of a notice of the sale of all or substantially all of the business or shares of LFD and (c) 31 December, 2006.
9. In 1999, Dr. Fung Kwok King, Victor was granted share options to subscribe for 16,000 LFD Shares for each full percentage point by which certain LFD investors’ fully diluted aggregate estimated internal rate of return on a public share offer by LFD, or on a sale of all or substantially all of its business or shares, exceeds 30% per annum, subject to a maximum of 160,000 LFD Shares. The share options are exercisable at US\$1 per LFD Share within 21 business days after the date of issuance of a notice of public offer or sale (whichever is earlier) as described in note (8) above.
10. In 2002, Mr. Lau Butt Farn was granted share options to subscribe for 3,250 LFD Shares for each full percentage point by which certain LFD investors’ fully diluted aggregate estimated internal rate of return on a public share offer by LFD, or on a sale of all or substantially all of its business or shares, exceeds 30% per annum, subject to a maximum of 32,500 LFD Shares. The share options are exercisable at US\$1 per LFD Share within 21 business days after the date of issuance of a notice of public offer or sale (whichever is earlier) as described in note (8) above.
11. Out of the 1,180,500,000 shares of HK\$0.025 each in Li & Fung Limited (“LF Shares”), holdings of 49,950,800 LF Shares, 996,000,000 LF Shares and 134,549,200 LF Shares are respectively held by King Lun, LF(1937) and Orient Ocean Holdings Limited (“Orient Ocean”). Orient Ocean is a private company incorporated in the British Virgin Islands. LF(1937) held 50% of the voting rights, but no beneficial interests, in Orient Ocean. Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun and LF(1937) as set out in notes (1) & (5) above.
12. 50,750,000 LF Shares are held by J.P. Morgan Trust Company (Jersey) Limited.
13. 4,000 LF Shares are owned by the wife of Dr. Fung Kwok Lun, William.



14. In 2000, Dr. Fung Kwok Lun, William was granted share options to subscribe for 480,000 LF Shares. The options are exercisable at a subscription price of HK\$15.26 per LF Share during the period from 7 July 2001 to 6 July 2003.
15. In July 2001, Dr. Fung Kwok Lun, William was granted share options to subscribe for 480,000 LF Shares. The options are exercisable at a subscription price of HK\$10.50 per LF Share during the period from 18 July 2002 to 17 July 2004.
16. In August 2001, Dr. Fung Kwok Lun, William was granted share options to subscribe for 480,000 LF Shares. The options are exercisable at a subscription price of HK\$7.98 per LF Share during the period from 28 August 2003 to 27 August 2005.

Save as disclosed above, as at 31 March 2003, none of the directors or any of their associates had any interests in any equity or debt securities of the Company or any of its associated corporations.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Pursuant to the share option scheme ("Share Option Scheme") adopted by the Company on 6 January 2001, and as amended on 24 April 2002, the board of directors may, at its discretion, grant options to any qualifying participants (including but not limited to any employee, whether full time or part time employees including any executive or non-executive directors, of the Company or any affiliate as defined in the Share Option Scheme) entitling them to subscribe for Shares representing up to a maximum of 10% of the Shares in issue as at 6 January 2001 being 65,560,000. As at 31 March 2003, options to subscribe for a total of 1,800,000 Shares were granted under the Share Option Scheme to the directors of the Company, details of which have been disclosed in the above section headed "Directors' interests in equity or debt securities in the Company and certain major associated corporations". Save as disclosed above, at no time during the period up to 31 March 2003 was the Company, its holding companies, its fellow subsidiaries or its subsidiaries a party to any arrangements to enable the directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, the register of substantial shareholders maintained by the Company under section 16(1) of the SDI Ordinance showed that Li & Fung (Retailing) Limited held 373,692,000 Shares in the Company. Other than such interests and those as disclosed in the section headed "Directors' interests in equity or debt securities in the Company and certain major associated corporations" above, the Company has not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital.



SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, BNP Paribas Peregrine Capital Limited (the "Sponsor"), as at 31 March 2003, the Sponsor held 30,000 Shares.

Save as disclosed above, neither the Sponsor nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 31 March 2003.

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

AUDIT COMMITTEE

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

The audit committee has reviewed with management this unaudited quarterly report for the period ended 31 March 2003.

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

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