



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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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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.

**THIRD QUARTERLY RESULTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2003**

Three Months Ended 30 September		2003	2002
• Group Turnover	+10%	HK\$404,908,000	HK\$366,765,000
• Group Profit	+6%	HK\$18,238,000	HK\$17,126,000 *
• Earnings Per Share (Basic)	+4%	2.7 cents	2.6 cents *
Nine Months Ended 30 September		2003	2002
• Group Turnover	+10%	HK\$1,132,111,000	HK\$1,032,785,000
• Group Profit	-3%	HK\$42,083,000	HK\$43,326,000 *
• Earnings Per Share (Basic)	-3%	6.3 cents	6.5 cents *
• Interim Dividend Per Share	N/A	1 cent	–

HIGHLIGHTS

- ☒ Satisfactory growth in turnover and net profit in the third quarter compared to the same quarter last year despite challenging retailing environment in Hong Kong.
- ☒ Number of stores in Hong Kong increased by eight to 180 during the quarter and six new store openings are in progress.
- ☒ Number of stores in Guangzhou increased by one to five and three new store openings are in progress.
- ☒ Cautiously optimistic on the profitability outlook for the fourth quarter as the retail market in Hong Kong is beginning to recover and consumer sentiments in Guangzhou remains upbeat.
- ☒ Until deflation rate returns to zero, we expect the comparable store growth likely to remain negative.

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



CHAIRMAN'S STATEMENT

Financial Review

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

For the third quarter of 2003, the Group's turnover reached HK\$404.9 million, an 10% increase compared to the same period last year. The increase in turnover in the past three months came from new store sales (non-comparable stores). As at the end of the quarter, we had a total of 180 stores in Hong Kong and five stores in Guangzhou compared to 157 stores in Hong Kong and none in Guangzhou as at the end of third quarter of 2002.

Although consumer sentiments in Hong Kong improved over the last quarter, consumers were cautious with their spending. Turnover of comparable stores (i.e. stores in existence throughout the first, second and third quarters of 2002 and 2003) declined 1% during the third quarter.

As a result of better product category management and higher other income (such as volume rebate and promotional incomes), the Group was able to improve gross margins and other income (excluding interest income) by 0.6% to 32.9% of turnover during the quarter.

For the same period, store operating expenses increased by 0.6% to 22.6% of turnover. This was primarily due to an increase in depreciation charges because of a higher number of stores included in the store re-fitting programme. In addition store operating expenses in Guangzhou have also been recorded against none for the comparable period last year.

Distribution costs increased by 0.2% to 1.7% of turnover during the quarter. This was due to the centralisation of chilled delivery and extra expenses incurred in order to expand the assortment of chilled food.

Administrative expenses increased by 0.5% to 3.7% of turnover during the quarter. The increase was mainly due to the consolidation of administrative expenses in Guangzhou. Such expenses were included in the start-up costs of last year.

Primarily as a result of the increase in store sales and higher gross margins/other income, the Group recorded a net profit of HK\$18.2 million, which represents a 6% increase over the net profit of HK\$17.1 million for the corresponding period in 2002. Earnings per share increased by 0.1 cent to 2.7 cents per share during the quarter.

For the nine months ended 30 September 2003, the Group recorded a turnover of HK\$1,132.1 million and net profit of HK\$42.1 million, representing an increase of 10% and a decline of 3% respectively when compared to the results for the nine months ended 30 September 2002.



Operation Review – Hong Kong

With the overhang of SARS gradually fading away, initial signs of an economic turnaround were noted during the third quarter. The combined effects of the Closer Economic Partnership Arrangement (CEPA) announcement, the prospects of individual travel by Mainland Chinese to Hong Kong and the continuing strong performance of export trade resulted in a significant upswing in the overall business environment.

This was supported by some rather encouraging indicators such as a decline in the deflation rate, a marginal improvement in the unemployment situation and a growth of 1.2% of sales value in the overall Hong Kong retail market in August, after six months of continued decline. All these economic factors contributed to a turnaround in consumer sentiments.

During this period of heightened consumer interest, Circle K undertook aggressive marketing programmes with innovative themes. The success of these timely promotional efforts contributed substantially to incremental sales and traffic at Circle K outlets during the peak summer months.

The newly launched house brand Ding-a-Meal chilled meal box continued to register sustained growth momentum providing concrete evidence of its market acceptance and showing considerable potential for future line extensions. The hot and sunny weather also helped to boost the sales of packaged beverages and other seasonal products.

As a result of the more buoyant market environment, the pace of the Group's store opening programme was accelerated and eight stores were opened during the quarter, bringing the total number of stores to 180 by the end of the quarter.

Operation Review – Guangzhou

In Guangzhou, aggressive value promotions were successfully conducted to counteract the negative impact of SARS and its influence on sales.

With the five stores in operation, the sales trend for the quarter registered a healthy growth with a marked improvement in gross profit and other income. This was due to a significant contribution from the steady sales of the Hot & In food service products which accounted for over 36% of total store sales (year-to-date in 2003), comparatively higher than other convenience stores. This notable difference in sales mix versus other convenience stores will become a key competitive strength for Circle K's future development in Guangzhou and other new markets.

In order to facilitate new store site acquisition, one of our key initiatives during the period under review was the development of a smaller sized store model of around 60 square meters. Once finalized and tested successfully, the new store concept will provide greater flexibility in locating suitable store sites and will enable us to accelerate our store-openings in 2004.



Three new sites have been identified and committed for opening in the coming quarter, in line with our forecast of operating ten stores by the end of 2003.

With ten stores in operation, we will be in a good position to review and refine our business model for Guangzhou. Our objectives are to reduce the per store opening investment, improve operational efficiency, upgrade frontline staff training, enhance category management, plan for aggressive promotion and launch brand building initiatives.

Business Outlook

For the first time in many months, we are seeing a more positive outlook in consumer sentiments in Hong Kong. This has also been reflected by a strong rally in the stock market and a minor improvement in the real estate market.

Even though the convenience store industry is not a direct beneficiary of the Chinese Mainland tourist boom, the recent upturn in overall retail sales will provide a much more favourable economic backdrop and generate additional momentum to stimulate consumer spending.

The Group will remain vigilant in monitoring the fast-changing market trends. A large-scale brand building campaign will be launched in November 2003 to ensure that the Group will achieve strong results in sales and profitability in the fourth quarter. The results of the cost saving initiatives started early in the year will also kick in and will contribute to the bottom-line.

In Guangzhou, we anticipate that consumer sentiments will remain upbeat and propensity to spend positive. However, in such a favourable market environment, the possible entry of new convenience store players will contribute towards a rental increase in the retail real estate market.

The Group anticipates that its existing operations will continue to thrive on a growing base of loyal repeat customers who will be target shoppers for our exclusive Hot & In food service offerings. The introduction of new products to provide more variety, particularly in the meal solution category, will be the source for further incremental sales growth. Hence considerable resources will be allocated for research and development of new Hot & In products.

With a carefully controlled expansion programme and continued efforts to reduce operational losses at store level, we envisage that the initial start-up loss incurred for our Guangzhou operation will be in line with our forecast.

Fung Kwok King, Victor

Chairman

Hong Kong, 4 November 2003

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 2003, together with the comparative unaudited figures for the corresponding period ended 30 September 2002 as follows:

	Note	Three months ended 30 September		Nine months ended 30 September	
		2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000 (Restated)
Turnover	2	404,908	366,765	1,132,111	1,032,785
Cost of sales		(300,737)	(272,019)	(849,955)	(771,665)
Gross profit		104,171	94,746	282,156	261,120
Other revenues	2	30,698	25,583	86,100	76,403
Store expenses		(91,707)	(80,756)	(259,688)	(231,842)
Distribution costs		(6,806)	(5,392)	(18,208)	(14,416)
Administrative expenses		(15,042)	(11,909)	(42,319)	(35,052)
Start-up costs for China operations		–	(1,572)	–	(3,894)
Profit before taxation		21,314	20,700	48,041	52,319
Taxation	3	(4,282)	(3,639)	(9,553)	(9,210)
Profit after taxation		17,032	17,061	38,488	43,109
Minority interest		1,206	65	3,595	217
Profit attributable to shareholders		<u>18,238</u>	<u>17,126*</u>	<u>42,083</u>	<u>43,326*</u>
Dividend	4	<u>–</u>	<u>–</u>	<u>6,685</u>	<u>–</u>
Basic earnings per share	5	<u>2.7 cents</u>	<u>2.6 cents*</u>	<u>6.3 cents</u>	<u>6.5 cents*</u>

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



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 (revised) : Income Taxes

The changes to the Group’s accounting policy and the effect of adopting this revised 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 revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 7 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 30 September 2002 has been reduced by HK\$9,218,000.

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 and nine months ended 30 September 2003 are as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover				
Merchandise sales revenue	404,908	366,765	1,132,111	1,032,785
Other revenues				
Promotion and support fund	25,328	20,484	71,320	62,001
Interest income	1,637	2,034	4,931	5,314
Service items income	3,733	3,065	9,849	9,088
	30,698	25,583	86,100	76,403
Total revenues	435,606	392,348	1,218,211	1,109,188

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

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 2003. No Hong Kong profits tax has been provided for the three months and nine months ended 30 September 2002 as the Group has been able to utilise available tax losses brought forward from previous years to offset the assessable profit for the periods. No provision for overseas profits tax has been made as the Group has no overseas estimated assessable profit for the three months and nine months ended 30 September 2003 and 2002.

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

	Three months ended 30 September		Nine months ended 30 September	
	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000 (Restated)
Current taxation:				
– Hong Kong profits tax	4,812	–	7,742	–
Deferred taxation	(530)	3,639	1,811	9,210
	<u>4,282</u>	<u>3,639</u>	<u>9,553</u>	<u>9,210</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 companies as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000 (Restated)
Profit before taxation	<u>21,314</u>	<u>20,700</u>	<u>48,041</u>	<u>52,319</u>
Calculated at a taxation rate of 17.5% (2002: 16%)	3,730	3,312	8,407	8,371
Effect of different taxation rates in other jurisdiction	(534)	–	(1,560)	–
Income not subject to taxation	(284)	(343)	(837)	(848)
Expenses not deductible for taxation purposes	770	(1,037)	(327)	(844)
Tax losses not recognised	1,274	335	3,809	1,109
Utilisation of previously unrecognised tax losses	(144)	(2,267)	(1,750)	(7,788)
Effect of change in tax rates	–	–	(200)	–
Utilisation of previously unrecognised temporary differences	(776)	2,336	1,518	2,282
Recognition of previously unrecognised temporary differences	246	1,303	493	6,928
Taxation charge	<u>4,282</u>	<u>3,639</u>	<u>9,553</u>	<u>9,210</u>

4. Dividend

	Three months ended 30 September		Nine months ended 30 September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Interim dividend, paid, of 1 HK cent (2002: Nil) per share	<u>—</u>	<u>—</u>	<u>6,685</u>	<u>—</u>

The Board does not recommend payment of an interim dividend for the three months ended 30 September 2003 (2002: Nil).

Total dividend for the nine months ended 30 September 2003 amounted to HK\$6,685,000 (2002: Nil).

5. 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 2003 is based on the respective unaudited consolidated profit attributable to shareholders of HK\$18,238,000 (2002: HK\$17,126,000 (restated)) and HK\$42,083,000 (2002: HK\$43,326,000 (restated)).

The basic earnings per share is based on the weighted average of 668,526,848 (2002: 666,009,783) and 668,143,077 (2002: 663,532,674) shares in issue during the three months and nine months ended 30 September 2003 respectively.

Diluted earnings per share for the three months and nine months ended 30 September 2003 and 2002 are not shown as there is no dilutive effect arising from the share options granted by the Company.

6. 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 2003 amounted to HK\$2,247,000 and HK\$6,543,000 respectively.

7. Reserves

Movements in reserves of the Group during the three months and nine months ended 30 September 2003 were as follows:

	Three months ended 30 September 2003						2002
	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Total HK\$'000
At 1 July, as previously reported	114,452	177,087	13,433	176	5,711	310,859	241,767
Effect of changes in accounting policy (note 1)	-	-	-	-	-	-	8,222
At 1 July, as restated	114,452	177,087	13,433	176	5,711	310,859	249,989
Issue of shares	164	-	-	-	-	164	1,296
Profit for the period attributable to shareholders	-	-	-	-	18,238	18,238	17,126
Dividend	-	-	-	-	(6,685)	(6,685)	-
At 30 September	<u>114,616</u>	<u>177,087</u>	<u>13,433</u>	<u>176</u>	<u>17,264</u>	<u>322,576</u>	<u>268,411</u>
	Nine months ended 30 September 2003						2002
	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings/ losses HK\$'000	Total 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 policy (note 1)	-	-	-	-	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	1,172	-	-	-	-	1,172	9,242
Exchange differences	-	-	-	176	-	176	-
Profit for the period attributable to shareholders	-	-	-	-	42,083	42,083	43,326
Dividend	-	-	-	-	(6,685)	(6,685)	-
At 30 September	<u>114,616</u>	<u>177,087</u>	<u>13,433</u>	<u>176</u>	<u>17,264</u>	<u>322,576</u>	<u>268,411</u>

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

The Company

Long positions in Shares and the underlying Shares of equity derivatives

Name of Directors	Number of		Nature of interests/ Holding capacity	Approximate percentage of interests
	(i) Shares	(ii) underlying Shares		
Dr. Fung Kwok King, Victor	373,692,000	–	Corporate (Note 1)	55.88%
Dr. Fung Kwok Lun, William	373,692,000	–	Corporate (Note 1)	55.88%
Mr. Yeung Lap Bun, Richard	17,896,000	1,300,000 (Note 2)	Personal/ beneficiary	2.87%
Mr. Li Kwok Ho, Bruno	2,676,000	250,000 (Note 3)	Personal/ beneficiary	0.43%
Mr. Lau Butt Farn	2,676,000	–	Personal/ beneficiary	0.40%



Name of Directors	Number of		Nature of interests/ Holding capacity	Approximate percentage of interests
	(i) Shares	(ii) underlying Shares		
Ms. Wong Yuk Nor, Louisa	1,338,000	250,000 (Note 4)	Personal/ beneficiary	0.23%
Dr. Ch'ien Kuo Fung, Raymond	1,000,000	–	Personal/ beneficiary	0.14%

Major associated corporations

Long positions in shares and the underlying shares of equity derivatives

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

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

* *Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William, by virtue of their interests in King Lun Holdings Limited ("King Lun") and the Company are deemed to be interested in the shares and underlying shares of certain associated corporations of the Company under SFO. A waiver from full compliance from Rule 18.69 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 2003. Accordingly, the companies under the section headed "Interests and Short Positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations" are only the major associated corporations of the Company and are not intended to be exhaustive.*

Notes:

1. King Lun through its indirect wholly owned subsidiary, Li & Fung (Retailing) Limited (“LFR”) (a wholly owned subsidiary of Li & Fung (1937) Limited (“LF (1937)”) held 373,692,000 Shares in the Company. 1,332,840 shares in King Lun, representing 50% of its issued share capital, are owned by J.P. Morgan Trust Company (Jersey) Limited, the trustee of a trust established for the benefit of the family members of Dr. Fung Kwok King, Victor. The remaining 50% of King Lun is owned by Dr. Fung Kwok Lun, William.
2. On 24 May 2002, Mr. Yeung Lap Bun, Richard was granted share options to subscribe for 1,300,000 Shares pursuant to the 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 7,549,123 shares in Li & Fung (Gemini) Limited (“LFG”). Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun and LF (1937) as set out in note (1) above.
6. 871,052 shares in LFG are owned by a company which is held by J.P. Morgan Trust Company (Jersey) Limited.
7. LFG holds 6,800,000 full voting ordinary shares and 3,060,000 redeemable participating preferred shares in Li & Fung (Distribution) Limited (“LFD”). Dr Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun and LF (1937) and indirect interests in LFG as set out in notes (1) and (5) above.
8. Dr. Fung Kwok King, Victor and Mr. Lau Butt Farn were respectively granted share options on 6 January 1999 and 13 December 1999 to subscribe for 130,000 and 32,500 full voting ordinary shares of US\$0.01 each in LFD (“LFD Shares”). Of these, options in respect of 105,500 and 26,000 LFD Shares are fully vested in Dr. Fung Kwok King, Victor and Mr. Lau Butt Farn respectively. The remaining share options are to be vested in Dr. Fung Kwok King, Victor and Mr. Lau Butt Farn on 31 December 2003. The share options are exercisable at US\$1 per LFD Share within 21 business days after the earliest of (a) the date of issuance of a notice for an initial public offering of LFD Shares, (b) the date of issuance of a notice of the sale of all or substantially all of the business or shares of LFD and (c) 31 December 2006.

9. On 6 January 1999, Dr. Fung Kwok King, Victor was granted share options to subscribe for 16,000 LFD Shares for each full percentage point by which certain LFD investors' fully diluted aggregate estimated internal rate of return on a public share offer by LFD, or on a sale of all or substantially all of its business or shares, exceeds 30% per annum, subject to a maximum of 160,000 LFD Shares. The share options are exercisable at US\$1 per LFD Share within 21 business days after the date of issuance of a notice of public offer or sale (whichever is earlier) as described in note (8) above.
10. On 12 December 2002, Mr. Lau Butt Farn was granted share options to subscribe for 3,250 LFD Shares for each full percentage point by which certain LFD investors' fully diluted aggregate estimated internal rate of return on a public share offer by LFD, or on a sale of all or substantially all of its business or shares, exceeds 30% per annum, subject to a maximum of 32,500 LFD Shares. The share options are exercisable at US\$1 per LFD Share within 21 business days after the date of issuance of a notice of public offer or sale (whichever is earlier) as described in note (8) above.

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

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

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

Long positions in Shares

Name	Number of Shares	Nature of Interests/ Holding capacity	Approximate percentage of interests
King Lun Holdings Limited	373,692,000	Corporate (Note 1)	55.88%
Commonwealth Bank of Australia	40,130,000	Corporate (Note 2)	6.00%

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".

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

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

SPONSOR'S INTERESTS

None of the Company's sponsor, BNP Paribas Peregrine Capital Limited (the "Sponsor"), its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 30 September 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 30 September 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.