Convenience Retail Asia Limited

利亞零售有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8052

Member of the Li & Fung Group

Third Quarterly Report 2006

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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The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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 2006

Three Months Ended 30 September		**2006**	2005
• Group Revenue	+17.6%	**HK$589,777,000**	HK$501,400,000
• Group Profit Attributable To Shareholders	+1.2%	**HK$23,138,000**	HK$22,853,000
• Earnings Per Share (Basic)	–	**HK3.4 cents**	HK3.4 cents
Nine Months Ended 30 September		**2006**	2005
• Group Revenue	+13.2%	**HK$1,665,016,000**	HK$1,471,018,000
• Group Profit Attributable To Shareholders	+5.6%	**HK$55,579,000**	HK$52,640,000
• Earnings Per Share (Basic)	+5.1%	**HK8.2 cents**	HK7.8 cents
• Interim Dividend Per Share	–	**HK1.5 cents**	HK1.5 cents

NUMBER OF CIRCLE K STORES AS OF 30 SEPTEMBER 2006

Hong Kong	249
Guangzhou	47
Dongguan	7
Shenzhen	2
Subtotal	**305**
Macau	15
Zhuhai	6
Subtotal (Franchised Stores)	**21**
Grand total	**326**

HIGHLIGHTS

- 17.6% increase in turnover and 1.2% increase in net profit attributable to shareholders riding on strong consumer sentiment in Hong Kong and Guangzhou during the quarter.
- Healthy comparable store sales growth driven by successful premium promotion and seasonality factors.
- Number of stores in Hong Kong increased by 11 to 249 during the quarter.
- Number of stores in Guangzhou increased by 4 to 47 during the quarter.
- Number of stores in Shenzhen increased by 1 to 2 during the quarter.
- Expect to sign final agreement with CCMP Capital Asia Pte. Ltd. in the fourth quarter to acquire 2.5% equity interest in Buytheway Inc. convenience store chain in Seoul, South Korea.
- Strong cash position with HK$648.7 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 2006.

During the third quarter of 2006, the Group's turnover increased by 17.6% to HK$589.8 million when compared to that of the same period last year. The increase in turnover came from new stores as well as an increase in comparable store sales (stores in existence throughout first, second and third quarters of both 2005 and 2006). As at the end of the quarter, we operated 249 stores in Hong Kong and 56 stores in the Pearl River Delta region (47 in Guangzhou, 7 in Dongguan, 2 in Shenzhen) as compared to 223 stores in Hong Kong and 35 stores in Guangzhou at the end of the third quarter of 2005.

Comparable store sales in Hong Kong increased by 8.3% during the third quarter over the same quarter last year. The increase was attributable to successful promotions, improvement in consumer sentiments and better weather during the third quarter.

Comparable store sales in Guangzhou continued to grow rapidly and increased by 9.6% during the third quarter.

Gross margins and other income (excluding interest) as a percentage of turnover decreased to 33.1% from 34.6% during the current quarter as compared to that of the same period last year. The decrease was mainly due to a reduction in promotional funding and other income from suppliers caused to some extent by the variance in promotional timing.

Store expenses, distribution costs and administration expenses were well under control during the quarter and as a percentage of turnover, were lower than those of the same quarter last year.

The Group recorded a net profit attributable to shareholders of HK$23.1 million during the quarter, representing a 1.2% increase over the net profit attributable to shareholders of HK$22.9 million for the corresponding period in 2005. The small increase in net profit attributable to shareholders was caused by a drop in other income as a percentage of turnover and the start-up losses in Dongguan and Shenzhen. Earnings per share remained unchanged at 3.4 HK cents per share.

The Group's financial position continues to be strong with a total cash balance of HK$648.7 million and no bank borrowings. The Group had limited foreign exchange exposure in RMB.

For the nine months ended 30 September 2006, the Group recorded a turnover of HK$1,665 million and net profit attributable to shareholders of HK$55.6 million, representing an increase of 13.2% and 5.6% respectively year on year.

Review of Hong Kong Operations

In the third quarter of 2006 consumer sentiment remained strong, underpinned by improving employment conditions, sustained rise in household income and continued expansion of inbound tourism.

For the first eight months of 2006, total retail sales in Hong Kong achieved a steady increase of 6.7%* in value and 5.6%* in volume over the same period a year earlier. Retail sales of food, alcoholic drinks and tobacco, which have a direct bearing on the Group's sales performance and are a good index of domestic consumption, increased in volume by 5.2%*.

The third quarter is traditionally the peak sales period for the convenience store business with the hot summer weather generating optimum consumer demand for packaged drinks, beer and ice-cream products. The World Cup Event this year with the television broadcast taking place close to midnight generated considerable incremental sales during the late hours before the Grand Final on 10 July.

Given these seasonality and ad hoc factors and capitalising on the favourable market environment the Group reported a robust turnover growth of 17.6% for the Group for the quarter. The substantial sales growth was also a result of effective promotional activities, which generated significant increases in daily transactions for comparable stores, as well as renewed momentum in new store openings.

A total of 11 new stores were opened during the three months of July to September as the retail property market in Hong Kong went through a period of consolidation, offering more new store site opportunities in suitable retail locations for the Group's network expansion plan.

Key company initiatives to increase store productivity, control operating costs, improve operational efficiency with IT support systems and enhance staff recruitment and retention were duly implemented during the quarter with the deployment of various project teams and made notable progress.

Review of Pearl River Delta Operations

On Mainland China the strong growth trend in retail sales was well sustained; reflected by an increase of 13.5%** in the value of consumer product retail sales for the period of January to August compared with the same period last year.

In Guangzhou an equally strong growth of 14.7%*** in consumer product retail sales was registered during the same period. Sales growth in the third quarter was mainly a result of additional spending during the summer holiday season. Traditional summer products such as beer and packaged drinks categories enjoyed double-digit growth.

* *Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 3 October 2006.*
** *Published by the National Bureau of Statistics of China on 12 September 2006.*
*** *Published by the Guangzhou Municipal Bureau of Statistics on 10 October 2006.*

Riding on the buoyant consumer sentiment the Group's business in Guangzhou reported healthy overall turnover growth with a significant increase of 9.6% in comparable store sales during the quarter, while chain wide sales recorded an increase of 44.9%.

An inevitable side effect of the booming retail market is the steady escalation in retail rental; especially in the prime retail areas which will continue to pose challenges to the Group's store opening programme.

Another market development with an impact on operating cost is the increase in the minimum wage, welfare cost and other social security expenses on the mainland. The cumulative effect of these policy adjustments over the years has already impacted staff cost which has become a major component of the Group's operating costs.

The recent global escalation in raw material and fuel costs has started to slow down, with some downward adjustments likely to take place soon - which will positively impact the Group's operating costs. However, utilities costs, especially in the form of power costs, still remain a major expense item.

After managing a considerable number of new store openings in the beginning of the year, the Group's Guangzhou operation went through a period of consolidation in the third quarter while the pace of new store opening slowed down.

In Macau and Zhuhai, 21 sublicensed Circle K stores were in operation as of 30 September 2006.

New Business Opportunities in South Korea

On 2 August 2006, the Group entered into a non-binding preliminary agreement with CCMP Capital Asia Pte. Ltd. to acquire a 2.5% equity interest in Buytheway Inc., one of the leading operators of convenience store chain in South Korea, for a cash consideration not exceeding HK$30 million, with an option to acquire an additional 30.5% equity interest over a period of 2 years. It is expected that the formal signing of the final agreement will take place in the last quarter. As part of the agreement, the Group will provide management consultancy services to Buytheway Inc. in relation to its convenience store operations for a nominal consulting fee.

The management consultancy service would cover strategic and business planning as well as providing management training for a term of one year. These contractual terms are currently in the process of being implemented. These arrangements enable the Group to closely evaluate the market opportunities and growth potential of the business in South Korea before making any further commitment.

Buytheway Inc. ranks number four in the convenience store market in South Korea with a network of approximately 1,000 stores located in densely populated office, residential, entertainment and educational areas in Seoul.

Business Outlook

With the expectation that all the economic indicators will continue to sustain their positive trends after the robust market performance reported in the first three quarters of 2006, the management team will make every endeavour to maintain the steady growth trend in the Group's turnover in the coming quarter despite the challenges posed by escalating operating costs; especially in labour, rental and electricity charges.

As the fast-paced opening of new stores in Guangzhou, Dongguan and Shenzhen continues, it is anticipated that this will likely impact the Group's profitability in the short term but should revert back to healthy growth after the initial investment period.

Fung Kwok King, Victor
Chairman

Hong Kong, 6 November 2006

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
Godfrey Ernest Scotchbrook
Jeremy Paul Egerton Hobbins
Wong Yuk Nor, Louisa

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

Building for the next
100 Years
LI & FUNG GROUP

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 2006, together with the comparative unaudited figures for the corresponding period ended 30 September 2005 as follows:

		Three months ended 30 September		Nine months ended 30 September	
		2006	2005	**2006**	2005
	Note	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	*2*	589,777	501,400	1,665,016	1,471,018
Cost of sales		(441,386)	(373,858)	(1,252,617)	(1,114,839)
Gross profit		148,391	127,542	412,399	356,179
Other income	*2*	51,819	50,013	146,442	131,365
Store expenses		(142,324)	(124,514)	(406,191)	(354,056)
Distribution costs		(10,565)	(9,506)	(29,155)	(25,483)
Administrative expenses		(20,138)	(17,682)	(59,628)	(49,441)
Profit before income tax		27,183	25,853	63,867	58,564
Income tax expenses	*3*	(5,395)	(4,365)	(12,670)	(10,047)
Profit for the period		21,788	21,488	51,197	48,517
Profit attributable to:					
Shareholders of the Company		23,138	22,853	55,579	52,640
Minority interests		(1,350)	(1,365)	(4,382)	(4,123)
		21,788	21,488	51,197	48,517
Dividend	*4*	–	–	10,138	10,091
Earnings per share for profit attributable to the shareholders of the Company					
– Basic earnings per share	5	HK3.4 cents	HK3.4 cents	HK8.2 cents	HK7.8 cents

Notes:

1. Basis of preparation and accounting policies

The unaudited condensed consolidated accounts have been prepared to comply with 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 2005 except that the Group has changed certain of its accounting policies following its adoption of revised Hong Kong Financial Reporting Standards ("HKFRS") which are effective for accounting periods commencing on or after 1 January 2006.

In 2006, the Group adopted HKAS 21 Amendment "The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation", which is relevant to its operations.

The adoption of HKAS 21 Amendment has resulted in a change in the accounting policy for the treatment of exchange differences arising on a monetary item that forms part of the net investment in a foreign operation of the Company. Effective on 1 January 2006, the revised standard allows the Company to include inter-company loans as part of the Company's net investment in foreign operation. Exchange differences arising from these inter-company loans are taken to equity in the consolidated accounts. In prior years, such exchange differences were recognised in the consolidated profit and loss account. HKAS 21 Amendment has been applied retrospectively and its effect is insignificant to the Group's results.

2. Revenue and other income

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 2006 are as follows:

	(Unaudited) Three months ended 30 September		**(Unaudited) Nine months ended 30 September**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Revenue				
Merchandise sales revenue	589,777	501,400	1,665,016	1,471,018
Other income				
Supplier rebate and promotion fees	37,100	38,020	104,685	99,283
Service items and miscellaneous income	9,834	7,830	27,884	21,602
Interest income	4,885	4,163	13,873	10,480
	51,819	50,013	146,442	131,365

3. Income tax expenses

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 2006 and 2005. 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 2006 and 2005.

The amount of income tax expenses charged/(credited) to the consolidated profit and loss account represents:

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Current income tax – Hong Kong profits tax	5,734	4,760	10,866	9,596
Deferred income tax	(339)	(395)	1,804	451
	5,395	4,365	12,670	10,047

4. **Dividend**

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Interim dividend – paid, of 1.5 HK cents (2005: 1.5 HK cents) per share	–	–	10,138	10,091

The Board does not recommend payment of an interim dividend for the three months ended 30 September 2006 (2005: Nil).

Total dividend for the nine months ended 30 September 2006 amounted to HK$10,138,000 (2005: HK$10,091,000).

5. **Earnings per share**

The calculation of the Group's basic earnings per share for the three months and nine months ended 30 September 2006 and 2005 is based on the respective unaudited consolidated profit attributable to shareholders of HK$23,138,000 (2005: HK$22,853,000) and HK$55,579,000 (2005: HK$52,640,000).

The basic earnings per share is based on the weighted average of 675,975,327 (2005: 672,929,413) and 675,645,427 (2005: 672,554,842) shares of HK$0.10 each (the "Shares") in issue during the three months and nine months ended 30 September 2006 and 2005 respectively.

Diluted earnings per share for the three months and nine months ended 30 September 2006 and 2005 respectively 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**

Included in profit attributable to shareholders of the Company, there is a loss of HK$5,336,000 (2005: HK$2,345,000) and HK$14,850,000 (2005: HK$7,183,000) from the Group's Chinese Mainland operations for the three months and nine months ended 30 September 2006 respectively.

7. Reserves

Movements in reserves of the Group during the three months and nine months ended 30 September 2006 were as follows:

(Unaudited)
Three months ended 30 September

	2006							2005
	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	122,105	177,087	13,433	3,913	467	106,630	423,635	381,347
Issue of shares	854	–	–	–	–	–	854	415
Employee share option benefits	–	–	–	721	–	29	750	378
Exchange differences	–	–	–	–	556	–	556	117
Profit for the period	–	–	–	–	–	23,138	23,138	22,853
Dividend	–	–	–	–	–	(10,139)	(10,139)	(10,094)
At 30 September	122,959	177,087	13,433	4,634	1,023	119,658	438,794	395,016

(Unaudited)
Nine months ended 30 September

	2006							2005
	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	119,457	177,087	13,433	2,466	123	104,564	417,130	375,303
Issue of shares	3,332	–	–	–	–	–	3,332	1,329
Employee share option benefits	170	–	–	2,168	–	53	2,391	913
Exchange differences	–	–	–	–	900	–	900	141
Profit for the period	–	–	–	–	–	55,579	55,579	52,640
Dividend	–	–	–	–	–	(40,538)	(40,538)	(35,310)
At 30 September	122,959	177,087	13,433	4,634	1,023	119,658	438,794	395,016

8. Commitments

The Group was authorised to enter into a non-binding preliminary agreement with CCMP Capital Asia Pte. Ltd. to acquire 2.5% equity interest in Buytheway Inc., one of the leading operators of convenience store chain in South Korea, for a cash consideration not exceeding HK$30 million. The completion of the transaction is subject to the finalisation of definitive agreements between both parties. Details of the transaction are set out in the announcement of the Company dated 2 August 2006.

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 2006, 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 *(Note 1)* (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

	Number of			
Name of Directors	**(i) Shares**	**(ii) underlying Shares**	**Nature of interests/ Holding capacity**	**Approximate percentage of interests**
Dr. Fung Kwok King, Victor	373,692,000	–	Corporate *(Note 2)*	55.26%
Dr. Fung Kwok Lun, William	373,692,000	–	Corporate *(Note 2)*	55.26%
Mr. Yeung Lap Bun, Richard	17,896,000	1,300,000 *(Note 3)*	Personal/ beneficiary	2.84%
Mr. Li Kwok Ho, Bruno	2,676,000	250,000 *(Note 4)*	Personal/ beneficiary	0.43%
Ms. Wong Yuk Nor, Louisa	1,338,000	250,000 *(Note 5)*	Personal/ beneficiary	0.23%
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 6)*	
			602,631	–	Corporate *(Notes 2 & 7)*	84.80%
	Li & Fung (Distribution) Limited	Full voting ordinary shares	13,800,000	–	Corporate *(Note 8)*	100%
	Integrated Distribution Services Group Limited	Ordinary shares	157,960,917	–	Corporate *(Note 9)*	
			2,405,509	–	Personal/ beneficiary	51.90%
Dr. Fung Kwok Lun, William	Li & Fung (Gemini) Limited	Ordinary shares	5,222,807	–	Corporate *(Note 6)*	76.02%
	Li & Fung (Distribution) Limited	Full voting ordinary shares	13,800,000	–	Corporate *(Note 8)*	100%
	Integrated Distribution Services Group Limited	Ordinary shares	157,960,917	–	Corporate *(Note 9)*	51.12%
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	1,202,754	–	Personal/ beneficiary	0.39%
Mr. Li Kwok Ho, Bruno	Integrated Distribution Services Group Limited	Ordinary shares	4,000	–	Other *(Note 11)*	0.00%

Notes:

1. 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 1 November 2006. 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.

2. 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.

3. 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.

4. 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.

5. 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.

6. 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 (2) above.

7. 602,631 shares in LFG are owned by a company which is held by J.P. Morgan Trust Company (Jersey) Limited.

8. Out of the total 13,800,000 shares, LFG holds 6,800,000 shares and LF (1937) holds 7,000,000 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 (2) and (6) above.

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 (2), (6) and (8) 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 2006, 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 2006, 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)*	55.26%
Commonwealth Bank of Australia	60,000,000	Corporate *(Note 2)*	8.87%
Aberdeen Asset Management Plc and its Associates	68,050,000	Other *(Note 3)*	10.06%
Arisaig Greater China Fund Limited ("Arisaig China")	68,176,000	Corporate	10.08%
Arisaig Partners (Mauritius) Limited ("Arisaig Partners")	68,176,000	Other *(Note 4)*	10.08%
Cooper Lindsay William Ernest ("Mr. Cooper")	68,176,000	Corporate *(Note 5)*	10.08%

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 (2) 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 Holding Company Ltd, Commonwealth Insurance Holdings Ltd, Colonial First State Group Ltd, First State Investments (UK Holdings) Ltd, SI Holdings Ltd, First State Investment Management (UK) Limited, First State Investments International Ltd and First State Investment Management (UK) Limited.

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

4. These shares are held by Arisaig China of which Arisaig Partners is the fund manager.

5. These shares are held by Arisaig China. Arisaig Partners, which is indirectly owned as to 33.33% by Mr Cooper through a chain of companies, namely Madelene Ltd. (100%), Arisaig Partners (Holdings) Ltd. (33.33%) and Arisaig Partners (BVI) Limited (100%), is the fund manager of Arisaig China.

Save as disclosed above, as at 30 September 2006, 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, to review the Group's financial reporting, internal controls, and corporate governance 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 (Chairman of the Committee), 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. 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 2006 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.