



# Convenience Retail Asia Limited

利亞零售有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 08052

## Third Quarterly Report 2008



Member of the Li & Fung Group



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

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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.**


**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

*This report (the “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 (the “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 2008**

Three months ended 30 September		2008	2007
• Revenue	+10.8%	<b>HK\$898,474,000</b>	HK\$810,849,000
• Profit attributable to shareholders of the Company	+0.4%	<b>HK\$27,953,000</b>	HK\$27,838,000
• Earnings per share	+0.3%	<b>HK3.83 cents</b>	HK3.82 cents
Nine months ended 30 September		2008	2007
• Revenue	+16.5%	<b>HK\$2,487,873,000</b>	HK\$2,135,195,000
• Profit attributable to shareholders of the Company	+3%	<b>HK\$67,273,000</b>	HK\$65,341,000
• Earnings per share	+1%	<b>HK9.22 cents</b>	HK9.13 cents
• Interim dividend per share	0%	<b>HK1.7 cents</b>	HK1.7 cents

**HIGHLIGHTS**

-  Satisfactory performance of convenience store business in Hong Kong
-  Downturn in consumer sentiment in Hong Kong and Guangzhou affected business outlook
-  Seasonal sales of Mid-Autumn Festival moon cakes contributed a significant portion towards Saint Honore business results in the third quarter
-  Substantial inflation in food costs resulted in tighter margin in the bakery businesses
-  Net cash position of HK\$484.4 million as of 30 September 2008



## NUMBER OF STORES AS OF 30 SEPTEMBER 2008

### Circle K Convenience Stores

Hong Kong	278
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Guangzhou	73
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Dongguan	5
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Shenzhen	6
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<b>Subtotal</b>	<b>362</b>
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### Franchised Circle K Stores

Guangzhou	3
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Macau	16
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Zhuhai	12
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<b>Subtotal</b>	<b>31</b>
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<b>Total number of Circle K Stores</b>	<b>393</b>
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### Saint Honore Group

Hong Kong – Cake Shop	74
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– Bread Boutique	11
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<b>Subtotal</b>	<b>85</b>
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Macau – Cake Shop	7
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Guangzhou – Cake Shop	16
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<b>Subtotal</b>	<b>23</b>
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<b>Total number of Saint Honore Stores</b>	<b>108</b>
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<b>Total number of Stores under Convenience Retail Asia</b>	<b>501</b>
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## CHAIRMAN'S STATEMENT

### Financial Review

I am pleased to report the unaudited results for Convenience Retail Asia Limited and its subsidiaries (the "Group") for the third quarter of 2008.

During the third quarter of 2008, the Group's turnover increased by 10.8% to HK\$898.5 million when compared to the same period last year. The increase in turnover was achieved through the addition of new stores, an increase in comparable store sales (stores in existence throughout 2007 and 2008) and incremental sales from the Mid-Autumn Festival moon cakes. Comparable convenience stores sales in Hong Kong and Southern China increased by 5.2% and 5.5% respectively over the same quarter last year.

Gross margin and other income excluding interest income as a percentage of turnover increased to 37.6% during the third quarter, compared to 37.2% achieved in the same period last year. The increase was due to an improvement in the convenience store business gross margin, which was partly offset by the deterioration in gross margin in the bakery business as a result of substantial increases in food costs.

Operating expenses increased from 33.1% to 33.7% of turnover for the quarter compared to 2007. The increase was mainly due to an increase in staff cost.

The Group recorded a net profit attributable to shareholders of HK\$28 million during the quarter, representing an increase of 0.4% over the same period last year.

### Review of the Hong Kong Market

After a prolonged period of robust economic expansion, the Hong Kong economy saw a downturn in the third quarter, reporting moderated growth in domestic consumption against a backdrop of rising inflation, post-Olympic blues and melamine-contaminated dairy product recalls, all of which dented consumer sentiment visibly and instantaneously.

The global financial tsunami accelerated in October and unleashed major turbulence in the local stock market and finance sector. Even though labour market conditions remained firm in the second quarter, it is anticipated that as the economic environment deteriorates, the unemployment rate will creep up again towards the end of the year.

Despite the ominous turn of events in the third quarter, the Group was able to report a comparable convenience store sales growth of 5.2% as a result of enhanced category management and dedicated promotion efforts, which took full advantage of the hot weather and Olympic events to generate substantial sales increases in the packaged drinks, ice cream products, confectionery and snack categories.



The introduction of novelty flavours and valued-added packaged drinks not only provided thirst-quenching solutions for consumers but also incorporated health benefits, which convincingly justified a premium pricing. Snack food and drink products consumed during the viewing of the Olympics programme on television created robust demand for packaged drinks, beer, snacks and confectionery.

The Mid-Autumn Festival, which fell in the month of September this year, contributed to a sales peak for Saint Honore Cake Shop, which carried both the traditional moon cake and a new variant of “snowy” moon cake under the premium house brand. Such a festive sales peak pattern is expected to recur in the years to come.

### **Review of the Retail Market on the Chinese Mainland**

From January to August, total retail sales of consumer goods on the Chinese Mainland increased by 21.9%<sup>1</sup> in value year-on-year, spurred by positive consumer sentiment as well as price inflation – a trend that continued with an accumulated increase in the Consumer Price Index of 7.3%<sup>2</sup> year-on-year from January to August and an increase in the price of foodstuffs of 10.3%<sup>2</sup> in August.

The implications for the Group’s operations in Guangzhou were relentless pressure on food and raw material costs and a continued squeeze on margin. The impact was more fully reflected in the Saint Honore operations because of its vertically integrated business model. In the Circle K operations, manufacturer suppliers provided a cushion effect, although the Hot & In food services were more vulnerable to negative impacts on gross margin.

As in the Hong Kong market, sustained price inflation, reduced post-Olympic consumption, the correction in the real estate market and the volatility of the stock market all contributed to a perceivable change in consumer sentiment in Guangzhou. The National Bureau of Statistics recorded a dip from 97.3 in August 2007 to 93.7<sup>3</sup> in August 2008 in its Consumer Confidence Index. This is a strong indication of a much more challenging retailing environment in Guangzhou in the coming months.

*1 Published by National Bureau of Statistics of China on 12 September 2008.*

*2 Published by National Bureau of Statistics of China on 10 September 2008.*

*3 Published by National Bureau of Statistics of China on 13 October 2008.*



## **Business Outlook**

Turbulence in the global financial markets started to unfold at the end of the third quarter, and there is no sign of when it will come to a halt. It is expected to seriously affect consumer sentiment in every retail sector, even though retail data reflecting the total damage is yet to come in.

In Hong Kong, the Nielsen Confidence Index dipped from 118 in 2007 to 108<sup>4</sup> in 2008, the lowest in two years. Consumers around the world are struggling with the same global issues that are impacting their daily lives, and Hong Kong is no exception. Initial feedback from the retail trade indicates that non-discretionary product categories are comparatively less affected than discretionary product categories.

The Group's retail product offerings tend to fall into the former categories, including packaged food, drink and bakery products. The Group anticipates that by formulating a quick-response marketing strategy, it will be able to maximise current market sentiment by offering daily consumable products with a value proposition, hence minimising the negative impact of the financial turbulence.

The Group also believes that another possible outcome of the economic downturn is a major correction in the retail rental market, which could offer an excellent window for the Group to take up strategically desirable and economically viable store sites in both Hong Kong and Guangzhou.

However, in order to be prepared for the worst economic scenario, the Group will implement prudent business measures such as moderating the pace of its business expansion and closing some unprofitable stores in order to enhance overall productivity and profitability. It is expected that such strategic adjustments will have short-term unfavourable impact on the Group's business performance in the last quarter but will enable the Group to be better prepared for a very challenging 2009.

As of the end of the third quarter 2008, the Group is happy to report substantial cash reserves and healthy cash flow without any bank borrowings. The business models of the Circle K Convenience Store and the Saint Honore Cake Shop are both cash-generating with high stock turn and insignificant liability of receivables. Hence, the Group is confident that the credit crunch, which might persist for several quarters, can be managed proficiently.

### **Fung Kwok King, Victor**

*Chairman*

Hong Kong, 7 November 2008

<sup>4</sup> *Published by The Nielsen Company on 14 August 2008.*





*Executive Directors:*

Mr. Yeung Lap Bun, Richard (*Chief Executive Officer*)

Mr. Li Kwok Ho, Bruno (*Chief Financial Officer*)

*Non-Executive Directors:*

Dr. Fung Kwok King, Victor (*Chairman*)

Dr. Fung Kwok Lun, William

Mr. Godfrey Ernest Scotchbrook

Mr. Jeremy Paul Egerton Hobbins

Ms. Wong Yuk Nor, Louisa

*Independent Non-Executive Directors:*

Dr. Ch'ien Kuo Fung, Raymond

Mr. Au Man Chung, Malcolm

Mr. Lo Kai Yiu, Anthony

*Group Chief Compliance Officer:*

Mr. Siu Kai Lau, James

*Company Secretary:*

Miss Li Sau Ping, Maria



## 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 2008, together with the unaudited comparative figures for the corresponding period ended 30 September 2007 as follows:

	Note	Three months ended 30 September		Nine months ended 30 September	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Revenue	2	898,474	810,849	2,487,873	2,135,195
Cost of sales		(615,902)	(557,694)	(1,731,359)	(1,503,224)
Gross profit		282,572	253,155	756,514	631,971
Other income	2	56,365	49,694	164,026	153,243
Store expenses		(240,416)	(214,427)	(660,628)	(563,835)
Distribution costs		(21,933)	(18,581)	(62,327)	(46,833)
Administrative expenses		(40,417)	(35,776)	(110,556)	(94,479)
Operating profit		36,171	34,065	87,029	80,067
Finance costs	3	–	–	–	(745)
Profit before income tax		36,171	34,065	87,029	79,322
Income tax expenses	4	(8,218)	(7,497)	(19,756)	(17,820)
Profit for the period		27,953	26,568	67,273	61,502
Profit attributable to:					
Shareholders of the Company		27,953	27,838	67,273	65,341
Minority interests		–	(1,270)	–	(3,839)
		27,953	26,568	67,273	61,502
Dividend	5	–	–	12,409	12,384
Earnings per share for profit attributable to the shareholders of the Company					
– Basic earnings per share	6	HK3.83 cents	HK3.82 cents	HK9.22 cents	HK9.13 cents
– Diluted earnings per share	6	HK3.83 cents	HK3.81 cents	HK9.22 cents	HK9.10 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 Enterprise Market of The Stock Exchange of Hong Kong Limited (“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 2007. The Group has adopted new/revised standards and interpretations of Hong Kong Financial Reporting Standards which are effective for accounting periods commencing on or after 1 January 2008. The adoption of such new/revised standards and interpretations does not have material impact on the accounts and does not result in substantial changes to the Group’s accounting policies.

### 2. Revenue and other income

The Group is principally engaged in the operation of a chain of convenience stores and bakeries. Revenues recognised during the three months and nine months ended 30 September 2008 are as follows:

	<b>(Unaudited)</b> <b>Three months ended</b> <b>30 September</b>		<b>(Unaudited)</b> <b>Nine months ended</b> <b>30 September</b>	
	<b>2008</b> HK\$'000	2007 HK\$'000	<b>2008</b> HK\$'000	2007 HK\$'000
Revenue				
Merchandise sales revenue	705,477	645,635	1,993,316	1,800,652
Bakery sales revenue	192,997	165,214	494,557	334,543
	<u>898,474</u>	<u>810,849</u>	<u>2,487,873</u>	<u>2,135,195</u>
Other income				
Supplier rebate and promotion fees	40,527	36,984	116,391	114,054
Service items and miscellaneous income	14,411	11,358	41,740	33,255
Interest income	1,427	1,352	3,693	5,934
Gain on disposal of properties	–	–	2,202	–
	<u>56,365</u>	<u>49,694</u>	<u>164,026</u>	<u>153,243</u>

### 3. Finance costs

	<b>(Unaudited)</b> <b>Three months ended</b> <b>30 September</b>		<b>(Unaudited)</b> <b>Nine months ended</b> <b>30 September</b>	
	<b>2008</b> HK\$'000	2007 HK\$'000	<b>2008</b> HK\$'000	2007 HK\$'000
Interest expenses on bank loans	–	–	–	745

#### 4. Income tax expenses

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the three months and nine months ended 30 September 2008. Taxation on overseas profits has been calculated on the estimated assessable profits for the three months and nine months ended 30 September 2008 and 2007 at the rates prevailing in the countries in which the Group operates.

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

	<b>(Unaudited)</b> <b>Three months ended</b> <b>30 September</b>		<b>(Unaudited)</b> <b>Nine months ended</b> <b>30 September</b>	
	<b>2008</b> HK\$'000	2007 HK\$'000	<b>2008</b> HK\$'000	2007 HK\$'000
Current income tax				
– Hong Kong profits tax	7,243	6,394	20,390	16,670
– Overseas profits tax	2,663	1,629	2,933	1,269
Deferred income tax	(1,688)	(526)	(3,567)	(119)
	<u>8,218</u>	<u>7,497</u>	<u>19,756</u>	<u>17,820</u>

#### 5. Dividend

	<b>(Unaudited)</b> <b>Three months ended</b> <b>30 September</b>		<b>(Unaudited)</b> <b>Nine months ended</b> <b>30 September</b>	
	<b>2008</b> HK\$'000	2007 HK\$'000	<b>2008</b> HK\$'000	2007 HK\$'000
Interim dividend – paid, of 1.7 HK cents (2007: 1.7 HK cents) per share	–	–	12,409	12,384
	<u>–</u>	<u>–</u>	<u>12,409</u>	<u>12,384</u>

The Board does not recommend payment of an interim dividend for the three months ended 30 September 2008 (2007: Nil).

#### 6. Earnings per share

The calculation of the Group's basic earnings per share for the three months and nine months ended 30 September 2008 is based on the unaudited profit attributable to shareholders of the Company of HK\$27,953,000 (2007: HK\$27,838,000) and HK\$67,273,000 (2007: HK\$65,341,000) respectively.

The basic earnings per share is based on the weighted average number of 729,915,974 (2007: 728,419,365) and 729,692,147 (2007: 715,508,860) shares in issue during the three months and nine months ended 30 September 2008 respectively.

The diluted earnings per share is based on 729,918,933 (2007: 731,000,277) and 729,804,734 (2007: 717,956,663) shares which is the weighted average number of 729,915,974 (2007: 728,419,365) and 729,692,147 (2007: 715,508,860) shares in issue plus the weighted average number of 2,959 (2007: 2,580,912) and 112,587 (2007: 2,447,803) shares deemed to be issued at no consideration if all outstanding options granted by the Company had been exercised during the three months and nine months ended 30 September 2008 respectively.

## 7. Loss attributable to shareholders from convenience store operations in Chinese Mainland

Included in profit attributable to shareholders of the Company, there is a loss of HK\$9,806,000 (2007: HK\$5,647,000) and HK\$30,639,000 (2007: HK\$16,931,000) from the Group's convenience store operations in Chinese Mainland for the three months and nine months ended 30 September 2008 respectively.

## 8. Reserves

Movements in reserves of the Group during the three months and nine months ended 30 September 2008 are as follows:

	(Unaudited)						2007
	Three months ended 30 September 2008						
	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
At 1 July	281,614	177,087	13,433	9,781	8,722	171,463	662,100
Issue of shares	-	-	-	-	-	-	-
Employee share option benefit	-	-	-	942	-	127	1,069
Exchange differences	-	-	-	-	(9)	-	(9)
Profit for the period	-	-	-	-	-	27,953	27,953
Dividend	-	-	-	-	-	(12,409)	(12,409)
At 30 September	281,614	177,087	13,433	10,723	8,713	187,134	678,704

	(Unaudited)						2007
	Nine months ended 30 September 2008						
	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
At 1 January	280,035	177,087	13,433	7,652	4,276	172,212	654,695
Issue of shares	1,397	-	-	-	-	-	1,397
Acquisition of subsidiaries	-	-	-	-	-	-	-
Employee share option benefit	182	-	-	3,071	-	201	3,454
Exchange differences	-	-	-	-	4,437	-	4,437
Acquisition of additional interest in subsidiary	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	67,273	67,273
Dividends	-	-	-	-	-	(52,552)	(52,552)
At 30 September	281,614	177,087	13,433	10,723	8,713	187,134	678,704

## DIRECTORS' INTEREST IN COMPETING BUSINESS

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 2008, 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 dealing by the Directors under the GEM Listing Rules and/or the Code of Conduct for dealings in securities adopted by the Company, were as follows:

### The Company

#### *Long positions in shares and the underlying shares of equity derivatives*

Name of Directors	Number of shares			Number of underlying shares (share options)	Total interests	Approximate percentage of interests
	Personal interests	Family interests	Corporate/ Trust interests			
Dr. Fung Kwok King, Victor	-	-	373,692,000 (Note 2)	-	373,692,000	51.19%
Dr. Fung Kwok Lun, William	-	-	373,692,000 (Note 2)	-	373,692,000	51.19%
Mr. Yeung Lap Bun, Richard	19,196,000	-	-	1,200,000 (Note 3)	20,396,000	2.79%
Mr. Li Kwok Ho, Bruno	2,676,000	-	-	600,000 (Note 4)	3,276,000	0.45%
Ms. Wong Yuk Nor, Louisa	1,588,000	-	-	600,000 (Note 5)	2,188,000	0.30%
Dr. Ch'ien Kuo Fung, Raymond	1,000,000	-	-	-	1,000,000	0.14%
Mr. Jeremy Paul Egerton Hobbins	180,000	-	-	-	180,000	0.02%


## 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 (Distribution) Limited	Full voting ordinary shares	13,800,000	-	(Note 6)	100%
	LiFung Trinity Limited	Ordinary share	1	-	(Note 7)	100%
	Trinity Limited	Ordinary shares	799,673,555	-	(Note 8)	66.35%
Dr. Fung Kwok Lun, William	Li & Fung (Distribution) Limited	Full voting ordinary shares	13,800,000	-	Corporate interests (Note 6)	100%
	LiFung Trinity Limited	Ordinary share	1	-	Corporate interests (Note 7)	100%
	Trinity Limited	Ordinary shares	799,673,555	-	Corporate interests (Note 8)	66.35%
Mr. Jeremy Paul Egerton Hobbins	Trinity Limited	Ordinary shares	4,234,500	-	Corporate interests (Note 9)	0.35%

#### Notes:

- 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 27 October 2008. 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.

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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. 50% of the issued share capital of King Lun is owned by HSBC Trustee (C.I.) Limited, the trustee of a trust established for the benefit of the family members of Dr. Fung Kwok King, Victor (HSBC Trustee (C.I.) Limited replaced J.P. Morgan Trust Company (Jersey) Limited as the trustee of the trust on 27 August 2008), the remaining 50% is owned by Dr. Fung Kwok Lun, William.
  3. On 3 May 2007, Mr. Yeung Lap Bun, Richard was granted share options pursuant to the Share Option Scheme of the Company to subscribe for a total of 1,200,000 shares at an exercise price of HK\$3.39 per share. The options are to be vested in Mr. Yeung Lap Bun, Richard in three equal lots in relation to the performance year 2007, 2008 and 2009 respectively. Subject to confirmation of vesting, the options in relation to the performance year 2007 would be exercisable during the period from 3 May 2009 to 2 May 2012. The remaining two lots of options in relation to the performance year 2008 and 2009 would be exercisable during the respective period of 3 May 2010 to 2 May 2013 and 3 May 2011 to 2 May 2014.
  4. On 3 May 2007, Mr. Li Kwok Ho, Bruno was granted share options pursuant to the Share Option Scheme of the Company to subscribe for a total of 600,000 shares at an exercise price of HK\$3.39 per share. The options are to be vested in Mr. Li Kwok Ho, Bruno in three equal lots in relation to the performance year 2007, 2008 and 2009 respectively. Subject to confirmation of vesting, the options in relation to the performance year 2007 would be exercisable during the period from 3 May 2009 to 2 May 2012. The remaining two lots of options in relation to the performance year 2008 and 2009 would be exercisable during the respective period of 3 May 2010 to 2 May 2013 and 3 May 2011 to 2 May 2014.
  5. On 3 May 2007, Ms. Wong Yuk Nor, Louisa was granted share options pursuant to the Share Option Scheme of the Company to subscribe for a total of 600,000 shares at an exercise price of HK\$3.39 per share. The options are to be vested in Ms. Wong Yuk Nor, Louisa in three equal lots in relation to the performance year 2007, 2008 and 2009 respectively. Subject to confirmation of vesting, the options in relation to the performance year 2007 would be exercisable during the period from 3 May 2009 to 2 May 2012. The remaining two lots of options in relation to the performance year 2008 and 2009 would be exercisable during the respective period of 3 May 2010 to 2 May 2013 and 3 May 2011 to 2 May 2014.
  6. King Lun through its wholly owned subsidiary, LF (1937) held 13,800,000 shares in Li & Fung (Distribution) Limited. 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. King Lun through its indirect wholly owned subsidiary, LFR (a wholly owned subsidiary of LF (1937)) held 1 share in LiFung Trinity Limited. Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in the share through their respective interests in King Lun and LF (1937) and indirect interests in LFR as set out in Note 2 above.
  8. King Lun through its indirect wholly owned subsidiary, LiFung Trinity Limited (a wholly owned subsidiary of LFR) held 799,673,555 shares in Trinity Limited. 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), LFR and LiFung Trinity Limited as set out in Notes 2 & 7 above.
  9. 4,234,500 shares in Trinity Limited were held by Martinville Holdings Limited which is owned by Mr. Jeremy Paul Egerton Hobbins.

Save as disclosed above, as at 30 September 2008, 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 SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2008, the interests and short positions of 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 of shareholders	Number of shares	Nature of interests/ Holding capacity	Approximate percentage of interests
HSBC Trustee (C.I.) Limited	373,692,000	Trustee (Note 1)	51.19%
King Lun Holdings Limited	373,692,000	Corporate interests (Note 1)	51.19%
Commonwealth Bank of Australia	59,520,000	Corporate interests (Note 2)	8.15%
Aberdeen Asset Management Plc and its Associates	55,916,000	Other (Note 3)	7.66%
Arisaig Greater China Fund Limited ("Arisaig China")	89,346,000	Other	12.24%
Arisaig Partners (Mauritius) Limited ("Arisaig Partners")	89,346,000	Other (Note 4)	12.24%
Cooper Lindsay William Ernest ("Mr. Cooper")	89,346,000	Corporate interests (Note 5)	12.24%



*Notes:*

1. These shares were held by LFR. King Lun indirectly owns 100% interests in LFR through its wholly owned subsidiary, LF (1937). All of HSBC Trustee (C.I.) Limited, King Lun, LF (1937) and LFR are taken to be interested in the shares pursuant to SFO. 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 were 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) Ltd and First State Investments International Ltd.
3. Aberdeen Asset Management Plc and its Associates (together “the Aberdeen Group”) held the shares on behalf of accounts managed by the Aberdeen Group.
4. These shares were held by Arisaig China of which Arisaig Partners is the fund manager.
5. These shares were 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 2008, the Company had not been notified of any other shareholders’ interests or short positions which are required to be kept under section 336 of SFO.

## **AUDIT COMMITTEE**

The Audit Committee was established in 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 contained in Appendix 15 of the GEM Listing Rules. The Audit Committee is responsible for reviewing the Group’s financial reporting, internal controls, corporate governance and risk management matters and making 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 professional qualifications, accounting and related financial management expertise as required under the GEM Listing Rules.

The Audit Committee has reviewed with the management this unaudited quarterly report for the period ended 30 September 2008 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.