



Convenience Retail Asia Limited

利亞零售有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8052

Third Quarterly Report 2007



Member of the Li & Fung Group



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

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

**THIRD QUARTERLY RESULTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2007**

Three Months Ended 30 September		2007	2006
• Revenue	+37.5%	HK\$810,701,000	HK\$589,777,000
• Profit attributable to shareholders of the Company	+20.3%	HK\$27,838,000	HK\$23,138,000
• Earnings per share	+11.7%	HK3.82 cents	HK3.42 cents
Nine Months Ended 30 September		2007	2006
• Revenue	+28.2%	HK\$2,134,295,000	HK\$1,665,016,000
• Profit attributable to shareholders of the Company	+17.6%	HK\$65,341,000	HK\$55,579,000
• Earnings per share	+10.9%	HK9.13 cents	HK8.23 cents
• Interim dividend per share	+13.3%	HK1.7 cents	HK1.5 cents

HIGHLIGHTS

- K
 Strong growth in turnover and net profit after consolidation with Saint Honore.
- K
 Comparable store sales in Southern China maintained positive momentum growing by 10.3% during the third quarter.
- K
 Net cash position of HK\$406.5 million as of 30 September 2007.



NUMBER OF OUTLETS AS OF 30 SEPTEMBER 2007

Circle K Convenience Stores

Hong Kong	265
Guangzhou	60
Dongguan	9
Shenzhen	3

Subtotal	337
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Franchised Circle K Stores

Macau	15
Zhuhai	10

Subtotal	25
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Total Number of Circle K Outlets	362
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Saint Honore Group

Hong Kong	– Cake Shop	62
	– Bread Boutique	14

Subtotal	76
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Macau	– Cake Shop	7
Guangzhou	– Cake Shop	9

Subtotal	16
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Total Number of Saint Honore Outlets	92
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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 2007.

During the third quarter of 2007, the Group's turnover increased by 37.5% to HK\$810.7 million when compared to the same period last year. The increase in turnover was achieved by the addition of new stores, an increase in sales at comparable stores (stores in existence throughout the first, second and third quarters of both 2006 and 2007) as well as consolidation of the Saint Honore operations. The seasonal impact of mooncake sales in Saint Honore stores also contributed positively to turnover during the period.

Comparable store sales in Hong Kong increased by 2.7% during the third quarter over the same quarter last year. The increase was attributable to aggressive advertising and promotion, as well as category management initiatives.

Comparable store sales in Southern China continued their upward trend, growing by 10.3% during the third quarter.

Gross margins and other income excluding interest income as a percentage of turnover increased to 37.0% during the third quarter, compared to 33.1% achieved in the same period last year. The increase was due to a rise in higher margin packaged beverage, in-store bakery and confectionery sales. The consolidation of the higher margin Saint Honore bakery business also lifted the gross margin of the Group.

Comparing with the same period last year, store expenses, distribution costs and administrative expenses as a percentage of sales increased as a result of the consolidation of the Saint Honore operations which had a higher operating cost structure. In addition, the increase in staff cost, advertising and promotional expenses had an impact on Circle K store expenses and administrative expenses.

The Group recorded a net profit attributable to shareholders of HK\$27.8 million during the quarter, representing an increase of 20.3% over the same period last year. The rise in profits was largely due to the contribution of the Saint Honore operations after consolidation.



Review of the Hong Kong Market

Following robust GDP growth of 6.9%¹ in the second quarter, the retail market in Hong Kong continued to register significant increases in the third quarter, riding on strong economic fundamentals.

Total retail sales increased by 10.6%² in value or 8.5%² in volume in the first eight months of 2007, when compared to the same period in 2006. These positive figures were underpinned by rising incomes, increased job opportunities, an overall thriving stock market and further expansion in inbound tourism.

In order to maximise positive consumer sentiments and to support the Group's brand building strategic initiative, a multi-media branding campaign was launched in September. The branding campaign has the theme "Always Something New!" and positions Circle K as the convenience store chain that offers a novel, interesting shopping experience to customers providing new product offerings, new promotional ideas and new service innovations.

The television advertising component of the campaign reached close to 90% of the targeted television audience according to an independent media research report³. Supported by a concurrent programme of innovative promotions, the campaign was highly successful in generating incremental customer traffic and sales.

Review of the Retail Market on the Chinese Mainland

Despite an inflationary market environment in which food has accounted for most of the price increases, retail sales growth on the Chinese Mainland accelerated to 15.8%⁴ in the second quarter and the upward momentum was well sustained in the third quarter. Growth was largely driven by strong increases in urban and rural incomes and the official policy to encourage consumption.

Notes:

1. *Gross Domestic Product for the second quarter of 2007, published by Census and Statistics Department, The Government of the Hong Kong Special Administrative Region on 17 August 2007.*
2. *Provisional Statistics of Retail Sales for the first eight months of 2007, published by Census and Statistics Department, The Government of the Hong Kong Special Administrative Region on 2 October 2007.*
3. *According to CSM Media Research TV ratings and reach measurement report.*
4. *Retail Sales Statistics in the second quarter of 2007, published by National Bureau of Statistics of China on 25 September 2007.*



Against the backdrop of these positive market sentiments, the Group's operations in Guangzhou continued to report satisfactory comparable store sales growth with a 10.7% increase for the Circle K chain.

The Group has elected not to proceed with the acquisition of a 60% equity stake in Dongguan Sunhigh Trading Co. Ltd. ("DG Sunhigh"), the operator of a franchised convenience store chain with over 200 franchised stores in Dongguan. The decision was made in light of new legislation prohibiting the wholesale and retail of tobacco by foreign companies. This meant that, had the acquisition been completed, DG Sunhigh would have legally become a foreign enterprise and been required to forfeit its tobacco retail business licence, resulting in an instant loss of substantial sales turnover. In view of this undesirable and unforeseen turn of events, the decision to terminate the acquisition deal was mutually agreed.

The cancellation of the DG Sunhigh acquisition will have no adverse effect on the Group's overall strategic plan for network expansion. After obtaining a franchising business licence at the beginning of the year, the Group has already commenced testing the store-by-store franchising model under the Circle K brand name in Guangzhou.

Business Outlook

With sustainable economic growth in Hong Kong and on the Chinese Mainland likely to continue, the Group is relatively confident that overall turnover sales will maintain growth momentum. When taken on an annual basis, the acquisition and integration of Saint Honore has given the Group a major boost in terms of both turnover and profitability. However, it is likely that growth will continue at a more modest rate in the fourth quarter, as the significant increases in sales reported in the second and third quarters were largely due to festive products, such as Dragon Boat Festival dumplings and Mid-Autumn Festival mooncakes. The Group anticipates that, with no festive product sales contribution in the fourth quarter, its performance will not be quite as robust as in the previous quarters.

In Hong Kong, the Group will continue to build on the momentum of the high profile media campaign launched in the third quarter, committing to provide customers with "Always Something New!" in their shopping experience.

With substantial cash reserves and a healthy cash flow, the Group is constantly looking for new acquisition opportunities. Any future acquisitions must be adjacent to the Group's existing retail business models, provide shopping convenience that justifies premium retail pricing and deliver an economy of scale that could be further enhanced by the Group's core competency in supply chain management. The Saint Honore acquisition has been a good example of the perfect strategic fit, meeting all the above criteria.



The Group's ongoing strategic initiatives, as well as marketing and promotional plans, will ensure that we are in a good position to achieve future growth.

Fung Kwok King, Victor

Chairman

Hong Kong, 1 November 2007

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 2007, together with the comparative unaudited figures for the corresponding period ended 30 September 2006 as follows:

	<i>Note</i>	Three months ended 30 September		Nine months ended 30 September	
		2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Revenue	2	810,701	589,777	2,134,295	1,665,016
Cost of sales		(558,885)	(441,386)	(1,505,379)	(1,252,617)
Gross profit		251,816	148,391	628,916	412,399
Other income	2	49,694	51,819	152,893	146,442
Store expenses		(213,915)	(142,324)	(563,640)	(406,191)
Distribution costs		(17,127)	(10,565)	(45,103)	(29,155)
Administrative expenses		(36,403)	(20,138)	(92,922)	(59,628)
Operating profit		34,065	27,183	80,144	63,867
Finance costs	3	–	–	(745)	–
Profit before income tax		34,065	27,183	79,399	63,867
Income tax expenses	4	(7,497)	(5,395)	(17,897)	(12,670)
Profit for the period		<u>26,568</u>	<u>21,788</u>	<u>61,502</u>	<u>51,197</u>
Profit attributable to:					
Shareholders of the Company		27,838	23,138	65,341	55,579
Minority interests		(1,270)	(1,350)	(3,839)	(4,382)
		<u>26,568</u>	<u>21,788</u>	<u>61,502</u>	<u>51,197</u>
Dividend	5	–	–	12,384	10,138
Earnings per share for profit attributable to the shareholders of the Company					
– Basic earnings per share	6	<u>HK3.82 cents</u>	<u>HK3.42 cents</u>	<u>HK9.13 cents</u>	<u>HK8.23 cents</u>
– Diluted earnings per share	6	<u>HK3.81 cents</u>	<u>HK3.42 cents</u>	<u>HK9.10 cents</u>	<u>HK8.21 cents</u>



Notes:

1. Basis of preparation and accounting policies

The unaudited condensed consolidated results 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 results are consistent with those used in the annual accounts for the year ended 31 December 2006 except the Group has changed its accounting policy for transactions with minority interest. Moreover, the Group has adopted new/revised standards and interpretations of Hong Kong Financial Reporting Standard which are effective for accounting periods commencing on or after 1 January 2007.

Change in accounting policy for transactions with minority interest

In prior years, the Group treated transactions with minority interest as transactions with parties external to the Group. Purchase from minority interest result in goodwill, being the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired. Disposals to minority interest result in gains and losses for the Group that are recorded in the consolidated profit and loss account.

With effect from 1 January 2007, the Group no longer accounts for transactions with minority interest as transactions with parties external to the Group but as transactions with equity owners of the Group. For purchases from minority interest, the difference between any consideration paid and the relevant share of the carrying value of net assets of the relevant subsidiary is credited/charged to equity. For disposals to minority interest, differences between any proceeds received and the relevant share of minority interest are also recorded in equity. The Group regards the change is appropriate as under this new treatment, the Group only recognises goodwill in the balance sheet and gain/loss on disposal in the profit and loss account from the purchase and disposal of interest of a subsidiary when there is a change in control in the subsidiary.

Adoption of this new treatment has no significant impact to the consolidated financial statements in prior years and had this not been applied for the Group’s purchase of additional interest in a subsidiary from a minority shareholder during the period, the Group’s retained earnings and goodwill as at 30 September 2007 would have been increased by HK\$5,212,000 respectively.

New standards/amendments to standards effective in 2007

HKFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures is mandatory for accounting periods beginning on or after 1 January 2007. HKFRS 7 and Amendments to HKAS 1 introduce new disclosures relating to financial instruments and capital in the Company’s annual accounts. The adoption does not have any impact on the condensed consolidated results.

2. Revenue and other income

The Group is principally engaged in the operation of chains of convenience stores and bakeries. Revenues recognised during the three months and nine months ended 30 September 2007 are as follows:

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Revenue				
Merchandise sales revenue	645,635	589,777	1,800,652	1,665,016
Bakery sales revenue	165,066	—	333,643	—
	<u>810,701</u>	<u>589,777</u>	<u>2,134,295</u>	<u>1,665,016</u>
Other income				
Supplier rebate and promotion fees	36,984	37,100	114,054	104,685
Service items and miscellaneous income	11,358	9,834	32,964	27,884
Interest income	1,352	4,885	5,875	13,873
	<u>49,694</u>	<u>51,819</u>	<u>152,893</u>	<u>146,442</u>

3. Finance costs

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Interest expenses on bank loans	<u>—</u>	<u>—</u>	<u>745</u>	<u>—</u>

On 2 March 2007, the Group had drawn bank loan amounting to HK\$80 million to facilitate the acquisition of Saint Honore. As at 30 September 2007, the bank loan was fully repaid.

4. 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 2007 and 2006. Taxation on overseas profits has been calculated on the estimated assessable profits for the three months and nine months ended 30 September 2007 at the rates prevailing in the countries in which the Group operates (2006: Nil).

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	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Current income tax				
– Hong Kong profits tax	6,578	5,734	16,880	10,866
– Overseas profits tax	885	–	1,319	–
– Over provision in prior year	–	–	(164)	–
Deferred income tax	34	(339)	(138)	1,804
	<u>7,497</u>	<u>5,395</u>	<u>17,897</u>	<u>12,670</u>

5. Dividend

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Interim dividend – paid, of 1.7 HK cents (2006: 1.5 HK cents) per share	–	–	12,384	10,138
	<u>–</u>	<u>–</u>	<u>12,384</u>	<u>10,138</u>

The Board does not recommend payment of an interim dividend for the three months ended 30 September 2007 (2006: 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 2007 is based on the unaudited consolidated profit attributable to shareholders of the Company of HK\$27,838,000 (2006: HK\$23,138,000) and HK\$65,341,000 (2006: HK\$55,579,000) respectively.

The basic earnings per share is based on the weighted average of 728,419,365 (2006: 675,975,327) and 715,508,860 (2006: 675,645,427) shares of HK\$0.10 each (the "Shares") in issue during the three months and nine months ended 30 September 2007 respectively.

The diluted earnings per share is based on 731,000,277 (2006: 677,283,219) and 717,956,663 (2006: 677,006,136) shares which is the weighted average number of 728,419,365 (2006: 675,975,327) and 715,508,860 (2006: 675,645,427) shares in issue plus the weighted average of 2,580,912 (2006: 1,307,892) and 2,447,803 (2006: 1,360,709) 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 2007 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\$5,647,000 (2006: HK\$5,336,000) and HK\$16,931,000 (2006: HK\$14,850,000) from the Group's convenience store operations in Chinese Mainland for the three months and nine months ended 30 September 2007 respectively.

8. Reserves

Movements in reserves of the Group during the three months and nine months ended 30 September 2007 were as follows:

	(Unaudited)							2006
	Three months ended 30 September							
	2007							
	Share premium	Merger reserve	Capital reserve	Employee share-based compensation reserve	Exchange reserve	Retained earnings	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July	277,809	177,087	13,433	5,514	2,449	135,224	611,516	423,635
Issue of shares	533	-	-	-	-	-	533	854
Employee share option benefit	142	-	-	1,162	-	6	1,310	750
Exchange differences	-	-	-	-	551	-	551	556
Profit for the period	-	-	-	-	-	27,838	27,838	23,138
Dividend	-	-	-	-	-	(12,384)	(12,384)	(10,139)
At 30 September	<u>278,484</u>	<u>177,087</u>	<u>13,433</u>	<u>6,676</u>	<u>3,000</u>	<u>150,684</u>	<u>629,364</u>	<u>438,794</u>

	(Unaudited)							2006
	Nine months ended 30 September							
	2007							
	Share premium	Merger reserve	Capital reserve	Employee share-based compensation reserve	Exchange reserve	Retained earnings	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	125,556	177,087	13,433	4,646	1,445	139,149	461,316	417,130
Issue of shares	12,386	-	-	-	-	-	12,386	3,332
Acquisition of subsidiaries	139,914	-	-	-	-	-	139,914	-
Employee share option benefit	628	-	-	2,030	-	6	2,664	2,391
Exchange differences	-	-	-	-	1,555	-	1,555	900
Acquisition of additional interest in subsidiary	-	-	-	-	-	(5,212)	(5,212)	-
Profit for the period	-	-	-	-	-	65,341	65,341	55,579
Dividend	-	-	-	-	-	(48,600)	(48,600)	(40,538)
At 30 September	<u>278,484</u>	<u>177,087</u>	<u>13,433</u>	<u>6,676</u>	<u>3,000</u>	<u>150,684</u>	<u>629,364</u>	<u>438,794</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 2007, 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

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 (<i>Note 2</i>)	51.30%
Dr. Fung Kwok Lun, William	373,692,000	–	Corporate (<i>Note 2</i>)	51.30%
Mr. Yeung Lap Bun, Richard	19,196,000	1,200,000 (<i>Note 3</i>)	Personal/ beneficiary	2.80%
Mr. Li Kwok Ho, Bruno	2,676,000	600,000 (<i>Note 4</i>)	Personal/ beneficiary	0.45%
Ms. Wong Yuk Nor, Louisa	1,588,000	600,000 (<i>Note 5</i>)	Personal/ beneficiary	0.30%
Dr. Ch’ien Kuo Fung, Raymond	1,000,000	–	Personal/ beneficiary	0.14%
Mr. Jeremy Paul Egerton Hobbins	180,000	–	Personal/ beneficiary	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 (Gemini) Limited	Ordinary shares	5,684,825	–	Corporate (Note 6)	
			602,631	–	Corporate (Notes 2 & 7)	91.52%
	Li & Fung (Distribution) Limited	Full voting ordinary shares	13,800,000	–	Corporate (Note 8)	100%
Dr. Fung Kwok Lun, William	Li & Fung (Gemini) Limited	Ordinary shares	5,684,825	–	Corporate (Note 6)	82.75%
	Li & Fung (Distribution) Limited	Full voting ordinary shares	13,800,000	–	Corporate (Note 8)	100%
Mr. Jeremy Paul Egerton Hobbins	Li & Fung (Gemini) Limited	Ordinary shares	462,018	–	Corporate (Note 9)	6.73%

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 23 October 2007. 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.
- King Lun through its indirect wholly owned subsidiary, Li & Fung (Retailing) Limited (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 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% is owned by Dr. Fung Kwok Lun, William.

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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 5,684,825 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 were held by a company which is owned by J.P. Morgan Trust Company (Jersey) Limited.
 8. Out of the total 13,800,000 shares, LFG held 6,800,000 shares and LF (1937) held 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. 462,018 shares in LFG were held by Martinville Holdings Limited which is owned by Mr. Jeremy Paul Egerton Hobbins.

Save as disclosed above, as at 30 September 2007, 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 2007, 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 of shareholders	Number of Shares	Nature of interests/ Holding capacity	Approximate percentage of interests
King Lun Holdings Limited	373,692,000	Corporate (Note 1)	51.30%
Commonwealth Bank of Australia	54,712,000	Corporate (Note 2)	7.51%
Aberdeen Asset Management Plc and its Associates	55,916,000	Other (Note 3)	7.68%
Arisaig Greater China Fund Limited ("Arisaig China")	68,176,000	Other	9.36%
Arisaig Partners (Mauritius) Limited ("Arisaig Partners")	68,176,000	Other (Note 4)	9.36%
Cooper Lindsay William Ernest ("Mr. Cooper")	68,176,000	Corporate (Note 5)	9.36%

Notes:

- These Shares were 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 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".

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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 2007, 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 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, to review the Group’s financial reporting, internal controls, and corporate governance and risk management matters and to make 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 met and reviewed with management this unaudited quarterly report for the period ended 30 September 2007 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.