

China Post E-Commerce (Holdings) Limited

中郵電貿(控股)有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8041)

Website : <http://www.cpech.com>



THIRD QUARTERLY REPORT 2011

** For identification purpose only*

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

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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.

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This report, for which the directors collectively and individually accept full responsibility, includes particulars given in compliance with GEM Listing Rules for the purpose of giving information with regard to the company. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

HIGHLIGHTS

- The Group has recorded total unaudited turnover of approximately HK\$149,415,000 for the nine months ended 30 September 2011 representing approximately 110% increase over the corresponding period of 2010.
- The Group's gross profit amounted to approximately HK\$45,563,000 for the nine months ended 30 September 2011 whereas the gross profit of approximately HK\$17,305,000 (restated) in the corresponding period of 2010.
- The Group has recorded unaudited loss attributable to owners of the Company for the nine months ended 30 September 2011 of approximately HK\$281,275,000, representing a basic loss per share of HK12.25 cents.
- The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2011.
- The Group has a sound financial position with bank and cash balances of approximately HK\$26,906,000 and bank borrowings of approximately HK\$11,582,000 as at 30 September 2011.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine months ended 30 September 2011

	Note	Three months ended 30 September		Nine months ended 30 September	
		2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited and restated)	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited and restated)
Turnover		76,229	27,752	149,415	71,292
Cost of sales and service rendered		(40,514)	(24,216)	(103,852)	(53,987)
Gross profit		35,715	3,536	45,563	17,305
Other income		5,806	66	7,622	197
Selling expenses		(5,093)	–	(5,201)	–
Administrative expenses		(29,780)	(3,023)	(53,781)	(9,350)
Other operating expenses		(12,152)	(2,000)	(17,120)	(5,968)
Impairment of goodwill		–	–	(254,853)	–
Impairment of property, plant and equipment		–	(16,703)	–	(16,703)
Loss from operations		(5,504)	(18,124)	(277,770)	(14,519)
Finance costs		(1,281)	(61)	(1,917)	(380)
Loss before tax		(6,785)	(18,185)	(279,687)	(14,899)
Income tax expense	4	(3,647)	(870)	(3,741)	(4,222)
Loss for the period	5	(10,432)	(19,055)	(283,428)	(19,121)
Attributable to:					
Owners of the Company		(9,629)	(18,970)	(281,275)	(17,754)
Non-controlling interests		(803)	(85)	(2,153)	(1,367)
		(10,432)	(19,055)	(283,428)	(19,121)
Loss per share	6				
Basic		HK(0.38) cent	HK(1.02) cent	HK(12.25) cents	HK(0.96) cent
Diluted		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2011

	Three months ended 30 September		Nine months ended 30 September	
	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited and restated)	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited and restated)
Loss for the period	(10,432)	(19,055)	(283,428)	(19,121)
Other comprehensive income:				
Exchange differences on translating foreign operations	<u>236</u>	<u>-</u>	<u>824</u>	<u>(122)</u>
Other comprehensive income for the period, net of tax	<u>236</u>	<u>-</u>	<u>824</u>	<u>(122)</u>
Total comprehensive income for the period	<u>(10,196)</u>	<u>(19,055)</u>	<u>(282,604)</u>	<u>(19,243)</u>
Attributable to:				
Owners of the Company	<u>(9,393)</u>	(18,970)	<u>(280,451)</u>	(17,876)
Non-controlling interests	<u>(803)</u>	<u>(85)</u>	<u>(2,153)</u>	<u>(1,367)</u>
	<u>(10,196)</u>	<u>(19,055)</u>	<u>(282,604)</u>	<u>(19,243)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2011

	(Unaudited)										
	Attributable to owners of the Company										
	Share capital	Share premium	Translation reserve	Plant and machinery revaluation reserve	Share option reserve	Capital redemption reserve	Convertible loans reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2010, as previously reported	92,903	234,583	1,690	17,344	12,809	150	-	(54,044)	305,435	(3,867)	301,568
Retrospective restatement (note 3):											
Understatement of depreciation charge (note 3(a))	-	-	-	25,901	-	-	-	(25,901)	-	-	-
Overstatement of cost of sales (note 3(b))	-	-	-	-	-	-	-	8,035	8,035	-	8,035
Acquisition of iKan TV Limited (note 3(c))	-	(53,630)	-	-	-	-	-	-	(53,630)	-	(53,630)
Acquisition of Info-Source Media Limited (note 3(d))	-	(14,275)	-	-	-	-	-	-	(14,275)	-	(14,275)
	-	(67,905)	-	25,901	-	-	-	(17,866)	(59,870)	-	(59,870)
At 1 January 2010, as restated	92,903	166,678	1,690	43,245	12,809	150	-	(71,910)	245,565	(3,867)	241,698
Total comprehensive income and changes in equity for the period	-	-	(122)	-	-	-	-	(17,754)	(17,876)	(1,367)	(19,243)
At 30 September 2010	92,903	166,678	1,568	43,245	12,809	150	-	(89,664)	227,689	(5,234)	222,455
At 1 January 2011	101,903	193,678	3,025	19,169	4,270	150	-	(118,567)	203,628	(5,295)	198,333
Total comprehensive income for the period	-	-	824	-	-	-	-	(281,275)	(280,451)	(2,153)	(282,604)
Acquisition of subsidiaries	262,698	234,074	-	-	-	-	1,190	-	497,962	11,331	509,293
Conversion of convertible non-voting preference shares into ordinary shares	(43,000)	43,000	-	-	-	-	-	-	-	-	-
Commencement Fee Shares	562	1,583	-	-	-	-	-	-	2,145	-	2,145
Subscription Shares	1,525	2,475	-	-	-	-	-	-	4,000	-	4,000
Changes in equity for the period	221,785	281,132	824	-	-	-	1,190	(281,275)	223,656	9,178	232,834
At 30 September 2011	323,688	474,810	3,849	19,169	4,270	150	1,190	(399,842)	427,284	3,883	431,167

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2011

1. **Basis of preparation**

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements should be read in conjunction with the 2010 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2010 except as stated below.

The unaudited condensed consolidated financial statements have not been audited by the Company's auditors, but has been reviewed by the Company's audit committee.

2. **Adoption of new and revised Hong Kong Financial Reporting Standards**

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2011. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years except as stated below.

Related Party Disclosures

HKAS 24 (Revised) "Related Party Disclosures" revises the definition of a related party and provides a partial exemption of disclosing related party transactions for government-related entities.

A related party is a person or entity that is related to the Group.

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.

- (b) An entity is related to the Group (reporting entity) if any of the following conditions applies:
 - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

HKAS 24 (Revised) exempts an entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with

- a government that has control, joint control or significant influence over the entity; and
- another entity that is a related party because the same government has control, joint control or significant influence over both entities.

The entity that applies the exemption is required to disclose the following:

- the name of the government and the nature of its relationship with the entity (i.e. control, joint control or significant influence); and
- the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:
 - (i) the nature and amount of each individually significant transaction; and
 - (ii) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

HKAS 24 (Revised) has been applied retrospectively and related party transactions disclosed in the financial information of the Group for the nine months ended 30 September 2010 were no longer considered as related party transactions under the new definition.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. Retrospective restatement

The Group's financial statements for the three months ended 30 September 2010 and nine months ended 30 September 2010 have been restated by the Company:

- (a) The plant and machinery was stated at valuation by the directors as at 31 December 2006, 2007, 2008 and 2009. Consequently, no depreciation on plant and machinery was charged for each of the four years ended 31 December 2009. Hence, there was an understatement of depreciation charge for each of the four years ended 31 December 2009. In view of the aforesaid, the plant and machinery revaluation reserve and accumulated losses at 1 January 2010 were restated accordingly.
- (b) Cost of sales was overstated for each of the three years ended 31 December 2009 representing the overcharge of manufacturing costs by the then related company due to clerical error. The error was discovered in current year and it was agreed between the Group and the then related company that the error be rectified retrospectively. Hence, the accumulated losses at 1 January 2010 was restated accordingly.
- (c) During the year ended 31 December 2009, the Group acquired 53% of the issued share capital of iKanTV Limited which was satisfied by cash of approximately HK\$9,200,000 and issuance of 830,000,000 shares and 140,000,000 shares of the Company on 29 April 2009 and 30 September 2009 respectively. The shares issued by the Company for the acquisition of iKanTV Limited were recorded at the issue prices of HK\$0.048 per share and HK\$0.55 per share, respectively, as stipulated in the sale and purchase agreements. The cost of acquisition of iKanTV Limited was also based on the issue prices of the shares issued by the Company. Pursuant to HKFRS 3 "Business Combination", the cost of acquisition should be based on the fair value of shares issued which then should be determined based on the published share prices of the Company at the dates of exchange. The above accounting treatment resulted in an overstatement of share premium account of approximately HK\$53,630,000 at 1 January 2010. As a consequence, the share premium account at 1 January 2010 was restated accordingly.

- (d) During the year ended 31 December 2009, the Group acquired 20% equity interests in Info-Source Media Limited which was satisfied by cash of approximately HK\$14,400,000 and issuance of 360,000,000 shares and 35,820,895 shares of the Company on 3 February 2009 and 3 September 2009 respectively. The shares issued for the acquisition of Info-Source were recorded at the issue prices of HK\$0.08 per share and HK\$0.402 per share, respectively, as stipulated in the sale and purchase agreement. The cost of acquisition of Info-Source was also based on the issue prices of the shares issued by the Company. Pursuant to HKAS 39 "Financial Instruments: Recognition and Measurement", the cost of acquisition should be based on the fair value of shares issued which then should be determined based on the published share prices of the Company at the dates of exchange. The above accounting treatment resulted in an overstatement of share premium account of approximately HK\$14,275,000 at 1 January 2010. Thus, the share premium account at 1 January 2010 was restated accordingly.

The effects of retrospective restatement are summarised below:

Condensed consolidated income statement for the nine months ended 30 September 2010

	Unaudited			
	2010 HK\$'000 (as previously reported)	Effect of restatement: increase/ (decrease) Adjustment (b) HK\$'000	Reclassification HK\$'000	
Turnover	71,292	–	–	71,292
Costs of sales and service rendered	(55,389)	7,760	(6,358)	(53,987)
Gross profit	15,903	7,760	(6,358)	17,305
Other income	197	–	–	197
Administrative expenses	(8,994)	–	(356)	(9,350)
Depreciation for property, plant and equipment	(6,714)	–	6,714	–
Other operating expenses	(5,968)	–	–	(5,968)
Impairment of property, plant and equipment	(16,703)	–	–	(16,703)
(Loss)/profit from operations	(22,279)	7,760	–	(14,519)
Finance costs	(380)	–	–	(380)
(Loss)/profit before tax	(22,659)	7,760	–	(14,899)
Income tax expense	(2,282)	(1,940)	–	(4,222)
(Loss)/profit for the period	(24,941)	5,820	–	(19,121)
Attributable to:				
Owners of the Company	(23,574)	5,820	–	(17,754)
Non-controlling interests	(1,367)	–	–	(1,367)
	(24,941)	5,820	–	(19,121)
(Loss)/earnings per share				
Basic	HK(1.27) cent	HK0.31 cent	–	HK(0.96) cent
Diluted	N/A	N/A	N/A	N/A

Condensed consolidated income statement for the three months ended 30 September 2010

	Unaudited			
	2010 HK\$'000 (as previously reported)	Effect of restatement: increase/ (decrease) Adjustment (b) HK\$'000	Reclassification HK\$'000	
Turnover	27,752	–	–	27,752
Costs of sales and service rendered	(23,930)	2,587	(2,873)	(24,216)
Gross profit	3,822	2,587	(2,873)	3,536
Other income	66	–	–	66
Administrative expenses	(2,926)	–	(97)	(3,023)
Depreciation for property, plant and equipment	(2,970)	–	2,970	–
Other operating expenses	(2,000)	–	–	(2,000)
Impairment of property, plant and equipment	(16,703)	–	–	(16,703)
(Loss)/profit from operations	(20,711)	2,587	–	(18,124)
Finance costs	(61)	–	–	(61)
(Loss)/profit before tax	(20,772)	2,587	–	(18,185)
Income tax expense	(223)	(647)	–	(870)
(Loss)/profit for the period	(20,995)	1,940	–	(19,055)
Attributable to:				
Owners of the Company	(20,910)	1,940	–	(18,970)
Non-controlling interests	(85)	–	–	(85)
	(20,995)	1,940	–	(19,055)
(Loss)/earnings per share				
Basic	HK(1.12) cent	HK0.10 cent	–	HK(1.02) cent
Diluted	N/A	N/A	N/A	N/A

4. Income tax expense

	Nine months ended 30 September	
	2011	2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited and restated)
Current tax – Hong Kong Profit Tax		
Provision for the period	3,033	–
Current tax – PRC Enterprise Income tax		
Provision for the period	3,336	4,222
Deferred tax	(2,628)	–
	3,741	4,222

Tax charges on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

5. Loss for the period

The Group's loss for the period is arrived at after charging/(crediting):

	Nine months ended 30 September	
	2011	2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest income	(10)	(7)
Depreciation	15,862	6,714
Directors' remuneration	2,961	2,555
Allowance for inventories	5,870	–
Impairment of property, plant and equipment	–	16,703
Impairment of goodwill	254,853	–

6. Loss per share

Basic loss per share

Nine months ended 30 September 2011

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the period attributable to owners of the Company of approximately HK\$281,275,000 (2010 (restated): HK\$17,754,000) and the weighted average number of ordinary shares of 2,296,971,661 (2010: 1,858,055,819) in issue during the period.

Three months ended 30 September 2011

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the period attributable to owners of the Company of approximately HK\$9,629,000 (2010 (restated): HK\$18,970,000) and the weighted average number of ordinary shares of 2,500,121,777 (2010: 1,858,055,819) in issue during the period.

Diluted (loss)/earnings per share

No diluted (loss)/earnings per share are presented as the Company did not have any dilutive potential ordinary share during the nine months ended 30 September 2011 and 2010.

7. Dividend

The directors do not recommend the payment of dividend for the nine months ended 30 September 2011 (2010: Nil).

8. Events after the reporting period

On 27 September 2011, the Group entered into an agreement with an independent third party for the disposal of entire issued share capital of Opcom Holdings (BVI) Limited, a wholly owned subsidiary of the Company, at a consideration of HK\$45,000,000. Further details are set out in the Company's announcement dated 13 October 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

For the nine months ended 30 September 2011, the Group's unaudited total revenue amounted to approximately HK\$149,415,000 (nine months ended 30 September 2010: HK\$71,292,000) representing an increase of approximately 110% increase over the corresponding period in last period. Gross profit was approximately HK\$45,563,000 when compared with that of approximately HK\$17,305,000 (restated) for same period in 2010. The loss attributable to owners of the Company was approximately HK\$281,275,000 when compared with the loss attributable to owners of the Company of approximately HK\$17,754,000 (restated) for the same period in 2010.

The loss attributable to owners was mainly attributable to the impairment of goodwill raising from acquisition of Easy Time Trading Limited of approximately HK\$254,853,000 during the period.

As at 30 September 2011, the Group had bank and cash balances of approximately HK\$26,906,000 representing approximately 34% decrease from approximately HK\$40,603,000 as at 31 December 2010. As at 30 September 2011, the gearing ratio of 78% is calculated as total liabilities divided by total equity (as at 31 December 2010 was 32%).

Acquisition of subsidiaries

On 6 January 2011, the Company (the "Purchaser"), Big Good Management Limited (the "Vendor") entered into the Sale and Purchase Agreement, pursuant to which the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to dispose of the Sale Share, representing 100% of the entire issued share capital of Easy Time Trading Limited at the total consideration of HK\$390,000,000. The completion took place on 31 March 2011.

On 1 April 2011, the Company, Synergy Chain Limited ("Synergy"), Datamax Limited and Capital Master Holdings Limited (the "Vendors") entered into the Sale and Purchase Agreement, pursuant to which Synergy conditionally agreed to acquire and the Vendors conditionally agreed to dispose of the Sale Share, representing 51% of the entire issued share capital of Charmston (Holdings) Limited at the total consideration of HK\$42,500,000. The completion took place on 30 June 2011.

Subscription of shares

On 17 May 2011, the Company entered into the Subscription Agreement with the SpringTree Special Opportunities Fund, LP (“SpringTree”) pursuant to which SpringTree has agreed to pay an aggregate amount of up to HK\$165 million to the Company in Tranches and the Company has agreed to issue such number of Shares at the Subscription Price up to the equivalent amount of HK\$165 million to SpringTree.

The first Tranche of HK\$4 million was paid to the Company on 11 August 2011 and the corresponding subscription shares were issued on 8 September 2011.

On 22 September 2011, the Subscription Agreement terminated by SpringTree and the Company by mutual consent. Further details are set out in the Company’s announcement dated 22 September 2011.

Trade marks licence agreement

On 13 July 2011, Top Achiever Investments Limited (“Top Achiever”), a non-wholly owned subsidiary of the Company, entered into the Licence Agreement with the Licensor pursuant to which the Licensor agreed to grant a sole and exclusive license to Top Achiever to use the Trade Marks, namely “Gay Giano”, “Cour Carré” and “Due G”, in apparel and other products in Hong Kong and the PRC for 20 years.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2011 (nine months ended 30 September 2010: nil).

OPERATIONS & BUSINESS STRATEGY

Following the successful acquisitions of Easy Time Trading Limited and Charmston (Holdings) Limited, the Company is gradually transformed and diversified itself into a garment and apparel retail focused group with both Internet and physical shops sales platforms. The Company undertook a very careful strategic review and consideration of all its existing businesses and together with the potential revenue and income contributions on both the swimwear trading business and apparel retails business, and which will become the key business drivers of the Company. The e-commerce business segment will fully assist and create synergy on the retailing, promotion and advertising for these business segments in the internet platform in both Hong Kong and China. While other non-core businesses will not be ruled out of being divested in an orderly manner whenever any possible opportunity shall arise in future.

The pervious quarters of year 2011 was a challenging period for the Company because it had completed two very substantial acquisitions and the core business focus will be shifted to these two segments. Nonetheless, the Company believed that these two reported segments would gradually emerge its values to our shareholders in the last quarter of year 2011 by providing a steady income stream to the Group.

OUTLOOK & PROSPECTS

The Group will continuously strive for, with its best effort, creating value to its shareholders. It is the core business strategy for the Group to grow in both organic and inorganic ways. The Group will proactively utilize and mobilize its operating and financial resources to assist the expansion and growth for its swimwear business segment and apparel retails business segment. As such, the Company will always look for any potential business acquisitions or business cooperation with reputable apparel brands.

Despite the volatile economic conditions in the US and in some European countries, the economic and business environments in both Hong Kong and China will generally remain stable with steady growth especially in the retail sector. The economic growth driver will be weighted more on the domestic demand in China. In view of such robust economic growth, the Company, in the long run, will continue to formulate its operating strategy by considering to set up flagship retails outlets in the major cities in the China for its two apparel related business segments, especially for the high ended fashion market. The growth momentum in Hong Kong is undoubtedly benefited from the recent and future economic conditions in China. Hence, the Company is optimistic about the prospect of its e-commerce business and its apparel retails business in Hong Kong and China.

DISCLOSURE OF INTERESTS

Interest in Securities of Directors and Chief Executive

As at 30 September 2011, the interests and short positions of the Directors in the shares ("Shares"), underlying Shares or debentures of the Company and its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance, the Laws of Hong Kong (the "SFO") which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Growth Enterprise Market Listing Rules of the Stock Exchange (the "GEM Listing Rules") relating to securities transaction by Directors, were as follows:

(i) Long positions in Shares

Name of Director	Number of Shares	Capacity	Nature of interest	Approximate percentage of issued share capital (Note 1)
Mr. Lau Chi Yuen, Joseph ("Mr. Lau")	606,400,000 (Note 2)	Interest of a controlled corporation	Corporate	23.65%

Notes:

1. The percentage of issued share capital had been arrived at on the basis of a total of 2,563,759,963 Shares in issue as at 30 September 2011.
2. These shares are held by JL Investments Capital Limited, which is wholly owned by Mr. Lau. Mr. Lau is therefore deemed to be interested in the shares held by JL Investments Capital Limited.

Save as disclosed above, as at 30 September 2011, none of the Directors had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules relating to securities transaction by Directors.

(ii) *Short positions in the Shares and underlying Shares of equity derivatives of the Company*

As at 30 September 2011, none of the Directors had short positions in Shares or underlying Shares of equity derivatives of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION

On 18 March 2008, the Company terminated share option scheme adopted by the Company on 29 April 2002 and the rules of the new share option scheme (the "New Share Option Scheme") be approved and adopted as the new share option scheme. For further details of these, please refer to the circular dated 29 February 2008.

The New Share Option Scheme is valid and effective for the period of ten years commencing on the date on which it was adopted. The purpose of the New Share Option Scheme is to provide incentives or rewards for contribution to eligible participants who have made or may make to the Group or any Invested Entity. Under the terms of the New Share Option Scheme, the Board may, at its discretion, grant options to any of the Participant. Participant means any Employees and any Directors (including executive, non-executive and independent non-executive Directors) of any member of the Group or any Invested Entity. The total number of shares which may fall to be issued upon exercise of all of the outstanding options granted and yet to be exercised under the New Share Option Scheme of the Company must not be exceed 30% of the shares in issue from time to time. The New Share Option Scheme will remain in force for a period of ten years commencing the date on which the scheme becomes unconditional.

As a result of the Share Consolidation on 29 May 2009, the exercise price of the outstanding options was adjusted from HK\$0.092 to HK\$0.46 per share and the number shares falling to be issued upon exercise of the options was adjusted from 402,360,000 Shares to 80,472,000 shares. It was certified that the above adjustments are in compliance with Rule 23.03(13) of the GEM Listing Rules.

At 30 September 2011, the number of shares in respect of which options had been granted under the New Share Option Scheme was 26.824 million (nine months ended 30 September 2010: 80.472 million), representing 1.05% (nine months ended 30 September 2010: 4.33%) of the shares of the Company in issue. The total number of shares in respect of which options may be granted under the New Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of approval of the New Share Option Scheme, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. Options granted to a connected person (as such term defined in the GEM Listing Rules) of the Company in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

The subscription price will be determined by the Board and will be the highest of (i) the quoted closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the Offer Date; (ii) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets on the five business days immediately preceding the Offer Date. Any options granted under the New Share Option Scheme shall end in any event not later than ten years from the Grant Date. A nominal value of HK\$10.00 is payable on acceptance of each grant of options.

Details of the share options granted by the Company pursuant to the New Share Option Scheme and the options outstanding as at 30 September 2011 were as follows:

Grantees	Date granted	Balance as at 1 January 2011 '000	Granted during the period '000	Exercised during the period '000	Lapsed during the period '000	Balance as at 30 September 2011 '000	Period during which the options are exercisable	Exercise price per share
Employee	30 May 2008	13,412	-	-	-	13,412	30 May 2008 to 17 March 2017	HK\$0.46
Consultants	30 May 2008	13,412	-	-	-	13,412	30 May 2008 to 17 March 2017	HK\$0.46
		<u>26,824</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,824</u>		

Interests in Securities of Substantial Shareholders

As far as was known to any Director or chief executive of the Company, as at 30 September 2011, the persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

(i) Long positions in Shares

Name of Shareholder	Number of Shares	Capacity	Approximate percentage of issued share capital (%) (Note 1)
JL Investments Capital Limited	606,400,000 (Note 2)	Corporate	23.65%
Mr. Lau	606,400,000	Individual	23.65%
Senrigan Capital Group Limited on behalf of Senrigan Master Fund	300,000,000 (Note 3)	Corporate	11.70%
Joint Fortune Group Limited	189,380,000	Corporate	7.39%

Notes:

1. See Note 1 on page 18.
2. See Note 2 on page 18.
3. These shares are held by Senrigan Capital Group Limited on behalf of Senrigan Master Fund.

Save as disclosed above, as at 30 September 2011, the Directors were not aware of any other person who had an interest or short positions in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

(ii) Long positions in the shares and underlying shares of equity derivatives of the Company

Name of Shareholder	Number of Shares	Nature of interest	Approximate percentage of issued share capital (%) (Note 1)
Mr. Ma Hoi Cheuk ("Mr. Ma")	1,103,333,333 (Note 2)	Interest of controlled corporation	43.04%

Notes:

1. See Note 1 on page 18.
2. Big Good Management Limited was the holder of 1,103,333,333 Convertible Preference Shares which has no voting rights and are convertible into ordinary Shares. Big Good Management Limited is wholly owned by Mr. Ma who is deemed to be interested in the underlying shares held by Big Good Management Limited.

As far as the Directors are aware, saved as disclosed herein, as at 30 September 2011, no persons have short positions in shares or underlying shares of equity derivatives of the Company.

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

The Company had not redeemed any of its Shares during the period. Neither the Company nor any of its subsidiaries had purchased or sold any Shares during the nine months ended 30 September 2011.

COMPETING INTERESTS

The Directors are not aware of, as at 30 September 2011, any business or interest of each Director, substantial shareholder and management shareholder (as defined in the GEM Listing Rules) and their respective associates that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules.

The primary duties of the audit committee are (i) to review the annual reports and accounts, half-year reports and quarterly reports and give advice and comments thereon to the Directors; and (ii) to review and supervise the financial reporting process and internal controls. The audit committee comprises the three independent non-executive Directors of the Company.

The audit committee has reviewed the Group's unaudited condensed consolidated financial statements for the nine months ended 30 September 2011.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintain high standards of corporate governance for the Company. During the period, the Company is in compliance with the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 15 to the GEM Listing Rules except provision A.4.1 of the CG Code as detailed below:

Code Provision A.4.1

Under the code provision A.4.1 of the CG Code, non-executive Directors should be appointed for a specific term, subject to re-election. The current independent non-executive Directors are not appointed for specific terms, but are subject to retirement and re-election.

The current practices of the corporate governance of the Company will be reviewed and updated in a timely manner in order to comply with the requirements of the CG Code.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has complied with the requirements for directors’ securities transactions stated in the GEM Listing Rules. All the Directors have confirmed that they have complied with the requirements as set out in the GEM Listing Rules for the nine months ended 30 September 2011.

By Order of the Board
China Post E-Commerce (Holdings) Limited
Lau Chi Yuen, Joseph
Chairman

Hong Kong, 11 November 2011