

# Convenience Retail Asia Limited

利亞零售有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8052

## First Quarterly Report 2007



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

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

**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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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

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

**FIRST QUARTERLY RESULTS  
FOR THE THREE MONTHS ENDED 31 MARCH 2007**

|  |        | 2007            | 2006            |
|--|--------|-----------------|-----------------|
| • Revenue  | +16.0% | HK\$596,755,000 | HK\$514,388,000 |
| • Profit attributable to shareholders of the Company | +18.9% | HK\$11,980,000  | HK\$10,073,000  |
| • Earnings per share                                 | +15.3% | HK1.73 cents    | HK1.50 cents    |

**HIGHLIGHTS**

- K Strong sales riding on the back of buoyant Hong Kong and Chinese Mainland economies.
- K Consolidation of Saint Honore's results from 23 February 2007.
- K Integration of Saint Honore business expected to be completed by the second quarter of 2007, boosting revenue and profitability growth in the second half of 2007.
- K Group maintained strong net cash position of HK\$293.6 million as of 31 March 2007.



## NUMBER OF OUTLETS AS OF 31 MARCH 2007

### Circle K Convenience Stores

|           |     |
|-----------|-----|
| Hong Kong | 259 |
| Guangzhou | 52  |
| Dongguan  | 8   |
| Shenzhen  | 3   |

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|                 |            |
|-----------------|------------|
| <b>Subtotal</b> | <b>322</b> |
|-----------------|------------|

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### Franchised Circle K Stores

|        |    |
|--------|----|
| Macau  | 16 |
| Zhuhai | 6  |

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|                 |           |
|-----------------|-----------|
| <b>Subtotal</b> | <b>22</b> |
|-----------------|-----------|

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|   |            |
|---|------------|
| <b>Total Number of Circle K Outlets</b> | <b>344</b> |
|---|------------|

### Saint Honore Group

|           |                  |    |
|-----------|------------------|----|
| Hong Kong | – Cake Shop      | 60 |
|           | – Bread Boutique | 14 |

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|  |  |           |
|--|--|-----------|
|  |  | <b>74</b> |
|--|--|-----------|

|           |             |   |
|-----------|-------------|---|
| Macau     | – Cake Shop | 6 |
| Guangzhou | – Cake Shop | 7 |

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|   |           |
|---|-----------|
| <b>Total Number of Saint Honore Outlets</b> | <b>87</b> |
|---|-----------|



## CHAIRMAN'S STATEMENT

### Financial Review

I am pleased to report the unaudited results of Convenience Retail Asia Limited and its subsidiaries (the "Group") for the first quarter of 2007. During the three-month period ended 31 March 2007, the Group recorded strong increases in turnover and profit as a result of very healthy growth in the Circle K business and the consolidation of the results of Saint Honore Holdings Limited ("Saint Honore") from 23 February 2007.

During the first quarter of 2007, the Group's turnover was HK\$596.8 million, an increase of 16.0% when compared to the same period last year. Comparable convenience store sales (stores in existence throughout the first quarter of 2006 and 2007) in Hong Kong and Southern China increased by 0.4% and 14.7% respectively over the first quarter of 2006. The relatively flat comparable store sales in Hong Kong were caused by a drop in cigarette sales, which was the result of new legislation to ban cigarette smoking in public places. Another factor was the launch of a major promotion in March this year instead of January for a similar promotion last year.

Gross margin excluding interest rose from 31.4% in the first quarter of 2006 to 34.3% in the same quarter of 2007. The increase was due to a shift in sales mix, particularly the decrease in lower margin cigarette sales and the increase in higher margin packaged beverage sales resulting from warmer weather this year. Higher margin bakery sales from Saint Honore also had a positive impact on the gross margin.

Store expenses increased from 24.9% to 26.1% of turnover for the first quarter when compared to 2006. This was mainly impacted by the consolidation of Saint Honore's store expenses in this quarter, which also resulted in an increase in distribution and administration expenses as a percentage of sales.

The combination of a 15.2% increase in net profit from the convenience store business and the inclusion of Saint Honore's net results from 23 February 2007 led to an increase in consolidated net profit of 18.9% to HK\$12 million during the quarter when compared to the same period last year.



## **Review of Hong Kong Operations**

The buoyant economy and positive consumer sentiment of 2006 were well sustained in the first quarter of 2007, providing a favourable backdrop for the Group's operations in Hong Kong.

Taking the first two months of 2007 together, total retail sales increased by 11.4%<sup>1</sup> in value, or 8.0%<sup>1</sup> in volume over the same period a year earlier. Most relevant to the Group's store sales mix are the food, alcoholic drink and tobacco sales, which registered a 6.7%<sup>1</sup> increase in volume. Other across-the-board sales increases are strong indications of the continued strength of local consumer spending.

The Group's highlight for the first quarter was the official completion of the acquisition and privatisation of Saint Honore on 22 February 2007. It was probably the first time a GEM Board listed company successfully acquired and privatised a Main Board listed company.

The acquisition has very positive strategic implications for the Group. With over 80 outlets and four production facilities in Hong Kong, Shenzhen and Guangzhou, Saint Honore instantly enhances the Group's store network, food production capability, turnover sales and profitability. As a well-established bakery chain and a household brand name, Saint Honore offers great potential for further business expansion and margin improvement. Most importantly, the forward integration of a previous supplier of chilled dough used in all the Circle K on-site bakeries also means ample opportunities for cost savings, cross-promotion and new product development.

The Group has already initiated the process of integrating the Saint Honore business into its day-to-day operations. It is anticipated that the process will be completed by the end of the second quarter.


## **Review of Guangzhou Operations**

The retail market in Guangzhou continued to register double-digit growth after the outstanding sales performance in 2006, underpinned by strong economic growth and an increase in disposable income. From a macroeconomic perspective, total retail sales of consumer goods also grew by 14.9%<sup>2</sup> nationwide in the first quarter of 2007.

The Group's application for a franchising business licence, officially submitted in the first quarter, is currently under review. This licence will be another major strategic step toward accelerating the Group's expansion plan and achieving a critical mass on the Chinese Mainland with the option of rolling out the franchising model.

### *Notes:*

1. *Provisional Statistics of Retail Sales for February 2007, published by Census and Statistics Department, The Government of the Hong Kong Special Administrative Region on 2 April 2007.*
2. *Retail Sales Statistics in the first quarter of 2007, published by National Bureau of Statistics of China on 20 April 2007.*



The continual increase in labour costs and the shortage of labour in the Pearl River Delta remain key challenges for the management team. Creative solutions to these issues are being pursued diligently. Helping offset these challenges is the stabilised costs of raw materials and energy observed during the first quarter.

## **Business Outlook**

For the Hong Kong operations, sustained improvement in consumer confidence provided an ideal opportunity for price adjustments that will eventually contribute to the overall margin improvement.

More potential store sites became available in Hong Kong and the Group was able to increase nine new stores during the first quarter.

With Saint Honore now on board as a member of the Group, plans are in place to add another 10 new shops in Hong Kong. Renovation and refitting of some of the old premises are also being scheduled in order to rejuvenate the store image and upgrade the customer shopping experience.

The Group's operations in the Pearl River Delta, including Guangzhou, Dongguan and Shenzhen, will continue to ride on the current positive consumer sentiment. Potential threats to future business growth are policy risks such as complications regarding the cigarette retail licence for foreign investors.

In Hong Kong as well as in Guangzhou, keen competition will still be a market reality for the retail sector. The Group has made aggressive plans in the marketing and promotion calendar to ensure that we keep well ahead of the competition in winning consumer preference and growing our customer base.

Considering the strategic initiatives that the Group plans on implementing, as well as our plans for network expansion, it is anticipated that 2007 will be another year of investment in the Pearl River Delta.

**Fung Kwok King, Victor**

*Chairman*

Hong Kong, 2 May 2007



*Executive Directors:*

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

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

*Non-Executive Directors:*

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

Dr. Fung Kwok Lun, William

Godfrey Ernest Scotchbrook

Jeremy Paul Egerton Hobbins

Wong Yuk Nor, Louisa

*Independent Non-Executive Directors:*

Dr. Ch'ien Kuo Fung, Raymond

Au Man Chung, Malcolm

Lo Kai Yiu, Anthony

*Group Chief Compliance Officer:*

Siu Kai Lau, James

*Company Secretary:*

Wong Wing Ha



## RESULTS

The Board of Directors (“the Board”) is pleased to announce the unaudited results of the Group for the three months ended 31 March 2007, together with the comparative unaudited figures for the corresponding period ended 31 March 2006 as follows:

|   | <i>Note</i> | <b>Three months ended<br/>31 March</b> |                            |
|---|-------------|--|----------------------------|
|   |             | <b>2007</b><br>HK\$'000                | 2006<br>HK\$'000           |
| Revenue   | 2           | 596,755                                | 514,388                    |
| Cost of sales   |             | <u>(440,801)</u>                       | <u>(393,069)</u>           |
| Gross profit  |             | 155,954                                | 121,319                    |
| Other income  | 2           | 52,056                                 | 44,539                     |
| Store expenses  |             | (155,757)                              | (128,157)                  |
| Distribution costs  |             | (11,569)                               | (8,736)                    |
| Administrative expenses   |             | <u>(25,920)</u>                        | <u>(18,724)</u>            |
| Operating profit  |             | 14,764                                 | 10,241                     |
| Finance costs   |             | <u>(300)</u>                           | <u>–</u>                   |
| Profit before income tax  |             | 14,464                                 | 10,241                     |
| Income tax expenses   | 3           | <u>(3,782)</u>                         | <u>(2,003)</u>             |
| Profit for the period   |             | <u><u>10,682</u></u>                   | <u><u>8,238</u></u>        |
| Profit attributable to:   |             |  |                            |
| Shareholders of the Company   |             | 11,980                                 | 10,073                     |
| Minority interests  |             | <u>(1,298)</u>                         | <u>(1,835)</u>             |
|   |             | <u><u>10,682</u></u>                   | <u><u>8,238</u></u>        |
| Earnings per share for profit attributable to the shareholders of the Company |             |  |                            |
| – Basic earnings per share  | 5           | <u><u>HK1.73 cents</u></u>             | <u><u>HK1.50 cents</u></u> |

Notes:

**1. Basis of preparation and accounting policies**

The unaudited condensed consolidated accounts have been prepared to comply with the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprises Market of the Stock Exchange of Hong Kong (“the GEM Listing Rules”).

The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31 December 2006. 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. The adoption of these standards does not have significant impact on the accounting policies of the Group.

**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 ended 31 March 2007 are as follows:

|  | <b>(Unaudited)</b>        |                |
|--|---------------------------|----------------|
|  | <b>Three months ended</b> |                |
|  | <b>31 March</b>           |                |
|  | <b>2007</b>               | 2006           |
|  | HK\$'000                  | HK\$'000       |
| Revenue                                |                           |                |
| Merchandise sales revenue              | 517,596                   | 485,846        |
| Bakery sales revenue                   | 79,159                    | 28,542         |
|  | <u>596,755</u>            | <u>514,388</u> |
| Other income                           |                           |                |
| Supplier rebate and promotion fees     | 38,130                    | 31,621         |
| Service items and miscellaneous income | 10,707                    | 8,487          |
| Interest income                        | 3,219                     | 4,431          |
|  | <u>52,056</u>             | <u>44,539</u>  |

### 3. Income tax expenses

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the three months ended 31 March 2007 and 2006. Taxation on overseas profits has been calculated on the estimated assessable profits for the three months ended 31 March 2007 at the rates of taxation prevailing in the countries in which the Group operates (2006: Nil).

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

|                         | <b>(Unaudited)</b><br><b>Three months ended</b><br><b>31 March</b> |                  |
|-------------------------|--|------------------|
|                         | <b>2007</b><br>HK\$'000  | 2006<br>HK\$'000 |
| Current income tax      |  |                  |
| – Hong Kong profits tax | 2,652  | 193              |
| – Overseas profits tax  | 85   | –                |
| Deferred income tax     | 1,045  | 1,810            |
|                         | <u>3,782</u>   | <u>2,003</u>     |

### 4. Dividend

The Board does not recommend payment of an interim dividend for the three months ended 31 March 2007 (2006: Nil).

### 5. Earnings per share

The calculation of the Group's basic earnings per share for the three months ended 31 March 2007 is based on the unaudited consolidated profit attributable to shareholders of the Company of HK\$11,980,000 (2006: HK\$10,073,000).

The basic earnings per share is based on the weighted average of 691,374,925 (2006: 675,281,379) shares of HK\$0.10 each (the "Shares") in issue during the three months ended 31 March 2007.

Diluted earnings per share for the three months ended 31 March 2007 and 2006 are not shown as there is no dilutive effect arising from the share options granted by the Company.

### 6. 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\$6,000,000 (2006: HK\$4,114,000) from the Group's convenience store operations in Chinese Mainland.

## 7. Reserves

Movement in reserves of the Group during the three months ended 31 March 2007 is as follows:

|                               | (Unaudited)                 |                |                 |   |                  |                   |                | 2006           |
|-------------------------------|-----------------------------|----------------|-----------------|---|------------------|-------------------|----------------|----------------|
|                               | Three months ended 31 March |                |                 |   |                  |                   |                |                |
|                               | 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               | 141,198                     | -              | -               | -   | -                | -                 | 141,198        | 1,711          |
| Employee share option benefit | 123                         | -              | -               | 179                                       | -                | -                 | 302            | 774            |
| Exchange differences          | -                           | -              | -               | -   | (63)             | -                 | (63)           | 218            |
| Profit for the period         | -                           | -              | -               | -   | -                | 11,980            | 11,980         | 10,073         |
| At 31 March                   | <u>266,877</u>              | <u>177,087</u> | <u>13,433</u>   | <u>4,825</u>                              | <u>1,382</u>     | <u>151,129</u>    | <u>614,733</u> | <u>429,906</u> |
| Representing:                 |                             |                |                 |   |                  |                   |                |                |
| Reserves                      |                             |                |                 |   |                  |                   | 578,517        | 399,507        |
| Final dividend                |                             |                |                 |   |                  |                   | 36,216         | 30,399         |
|                               |                             |                |                 |   |                  |                   | <u>614,733</u> | <u>429,906</u> |

## 8. Acquisition of Saint Honore Holdings Limited ("Saint Honore")

On 22 February 2007, the Group acquired 100% interest in Saint Honore which is principally engaged in the manufacturing of bakery products and operation of retail chain of bakeries. The purchase consideration of approximately HK\$648,345,000 comprised cash paid, issuance of 46,637,974 Shares at HK\$3.1 per Share and direct costs relating to the acquisition amounting to HK\$494,181,000, HK\$144,578,000 and HK\$9,586,000 respectively. Saint Honore contributed revenue of HK\$44,796,000 and net profit of HK\$371,000 to the Group for the period from 23 February 2007 to 31 March 2007.

## 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 31 March 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/<br>Holding capacity | Approximate percentage of interests |
|---------------------------------|---------------|--------------------------------|--|-------------------------------------|
|                                 | (i)<br>Shares | (ii)<br>underlying<br>Shares   |  |                                     |
| Dr. Fung Kwok King, Victor      | 373,692,000   | –                              | Corporate<br>( <i>Note 2</i> )           | 51.59%                              |
| Dr. Fung Kwok Lun, William      | 373,692,000   | –                              | Corporate<br>( <i>Note 2</i> )           | 51.59%                              |
| Mr. Yeung Lap Bun, Richard      | 17,896,000    | 1,300,000<br>( <i>Note 3</i> ) | Personal /<br>beneficiary                | 2.65%                               |
| Mr. Li Kwok Ho, Bruno           | 2,676,000     | 250,000<br>( <i>Note 4</i> )   | Personal /<br>beneficiary                | 0.40%                               |
| Ms. Wong Yuk Nor, Louisa        | 1,338,000     | 250,000<br>( <i>Note 5</i> )   | Personal /<br>beneficiary                | 0.22%                               |
| Dr. Ch’ien Kuo Fung, Raymond    | 1,000,000     | –                              | Personal /<br>beneficiary                | 0.14%                               |
| Mr. Jeremy Paul Egerton Hobbins | 180,000       | –                              | Personal /<br>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/<br>Holding capacity | Approximate percentage of interests |
|------------------------------------|---|--------------------------------|---------------|---------------------------|--|-------------------------------------|
|                                    |   |                                | (i)<br>shares | (ii)<br>underlying shares |  |                                     |
| Dr. Fung Kwok King,<br>Victor      | Li & Fung (Gemini)<br>Limited                     | Ordinary shares                | 5,684,825     | –                         | Corporate<br>(Note 6)                    |                                     |
|                                    |   |                                | 602,631       | –                         | Corporate<br>(Notes 2 & 7)               | 91.52%                              |
|                                    | Li & Fung (Distribution)<br>Limited               | Full voting<br>ordinary shares | 13,800,000    | –                         | Corporate<br>(Note 8)                    | 100%                                |
|                                    | Integrated Distribution<br>Services Group Limited | Ordinary shares                | 155,860,917   | –                         | Corporate<br>(Note 9)                    |                                     |
| 2,405,509                          |   |                                | –             | Personal/<br>beneficiary  | 51.05%                                   |                                     |
| Dr. Fung Kwok Lun,<br>William      | Li & Fung (Gemini)<br>Limited                     | Ordinary shares                | 5,684,825     | –                         | Corporate<br>(Note 6)                    | 82.75%                              |
|                                    | Li & Fung (Distribution)<br>Limited               | Full voting<br>ordinary shares | 13,800,000    | –                         | Corporate<br>(Note 8)                    | 100%                                |
|                                    | Integrated Distribution<br>Services Group Limited | Ordinary shares                | 155,860,917   | –                         | Corporate<br>(Note 9)                    | 50.28%                              |
| Mr. Jeremy Paul Egerton<br>Hobbins | Li & Fung (Gemini)<br>Limited                     | Ordinary shares                | 462,018       | –                         | Corporate<br>(Note 10)                   | 6.73%                               |
| Mr. Li Kwok Ho, Bruno              | Integrated Distribution<br>Services Group Limited | Ordinary shares                | 4,000         | –                         | Other<br>(Note 11)                       | 0.00%                               |

### *Short position in shares and underlying shares of the major associated corporations*

By virtue of SFO, each of Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William was taken as at 31 March 2007 to have short position through Li & Fung (1937) Limited (“LF (1937)”), in which both of them are deemed to have interests as disclosed in note (2) below, in respect of an aggregate of 8,400,000 underlying shares in Integrated Distribution Services Group Limited (“IDS”), representing 2.71 percent of the total issued share capital of IDS. Such interest constitutes, for the purposes of the SFO, a short position of LF (1937) under unlisted physically settled equity derivative which arise under an agreement made between LF (1937) and a company owned by a director of IDS dated 5 January 2007, pursuant to which options were granted by LF (1937) to such company to require LF (1937) to sell to it 10,500,000 shares in IDS in five tranches, with the first tranche of 2,100,000 shares exercised on 9 January 2007 and each of the remaining tranches having an exercisable period of one year during the period from 1 January 2007 to 31 December 2010.

#### *Notes:*

1. Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William, by virtue of their interests in King Lun Holdings Limited (“King Lun”) and the Company are deemed to be interested in the shares and underlying shares of certain associated corporations of the Company under SFO. A waiver from full compliance from Rule 18.69 of the GEM Listing Rules for the disclosure of Directors’ interests in the shares and underlying shares of the associated corporations has been granted by the Stock Exchange on 27 April 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.
2. King Lun through its indirect wholly owned subsidiary, Li & Fung (Retailing) Limited (“LFR”) (a wholly owned subsidiary of LF (1937)) held 373,692,000 Shares in the Company. 1,332,840 shares in King Lun, representing 50% of its issued share capital, are owned by J.P. Morgan Trust Company (Jersey) Limited, the trustee of a trust established for the benefit of the family members of Dr. Fung Kwok King, Victor. The remaining 50% of King Lun is owned by Dr. Fung Kwok Lun, William.
3. On 24 May 2002, Mr. Yeung Lap Bun, Richard was granted share options to subscribe for 1,300,000 Shares pursuant to the Share Option Scheme of the Company. The options are exercisable at a subscription price of HK\$2.785 per Share during the period from 24 May 2003 to 23 May 2007. No relevant share options have been exercised.
4. On 24 May 2002, Mr. Li Kwok Ho, Bruno was granted share options to subscribe for 250,000 Shares pursuant to the Share Option Scheme of the Company. The options are exercisable at a subscription price of HK\$2.785 per Share during the period from 24 May 2003 to 23 May 2007. No relevant share options have been exercised.
5. On 24 May 2002, Ms. Wong Yuk Nor, Louisa was granted share options to subscribe for 250,000 Shares pursuant to the Share Option Scheme of the Company. The options are exercisable at a subscription price of HK\$2.785 per Share during the period from 24 May 2003 to 23 May 2007. No relevant share options have been exercised.

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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 are owned by a company which is held by J.P. Morgan Trust Company (Jersey) Limited.
  8. Out of the total 13,800,000 shares, LFG holds 6,800,000 shares and LF (1937) holds 7,000,000 shares. Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun and LF (1937) and indirect interests in LFG as set out in notes (2) and (6) above.
  9. Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun, LF (1937), LFG and Li & Fung (Distribution) Limited as set out in notes (2), (6) and (8) above.
  10. 462,018 shares in LFG are held by Martinville Holdings Limited which is owned by Mr. Jeremy Paul Egerton Hobbins.
  11. 4,000 shares in Integrated Distribution Services Group Limited are jointly held by Mr. Li Kwok Ho, Bruno and his wife, Sandra Maria Li Ng.

Save as disclosed above, as at 31 March 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 31 March 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   | Number of Shares | Nature of interests/<br>Holding capacity | Approximate<br>percentage of<br>interests |
|--|------------------|--|---|
| King Lun Holdings Limited                                    | 373,692,000      | Corporate<br>(Note 1)                    | 51.59%                                    |
| Commonwealth Bank of Australia                               | 60,000,000       | Corporate<br>(Note 2)                    | 8.28%                                     |
| Aberdeen Asset Management Plc<br>and its Associates          | 67,672,000       | Other<br>(Note 3)                        | 9.34%                                     |
| Arisaig Greater China Fund Limited<br>("Arisaig China")      | 68,176,000       | Corporate                                | 9.41%                                     |
| Arisaig Partners (Mauritius) Limited<br>("Arisaig Partners") | 68,176,000       | Other<br>(Note 4)                        | 9.41%                                     |
| Cooper Lindsay William Ernest<br>("Mr. Cooper")              | 68,176,000       | Corporate<br>(Note 5)                    | 9.41%                                     |

#### *Notes:*

1. These shares are held by Li & Fung (Retailing) Limited (“LFR”). King Lun Holdings Limited (“King Lun”) indirectly owns 100% interests in LFR through its wholly owned subsidiary, Li & Fung (1937) Limited (“LF (1937)”). All of King Lun, LFR and LF (1937) are taken to be interested in the shares. Please refer to Note (2) in the above section headed “Interests and Short Positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations”.
2. These shares are indirectly held by Commonwealth Bank of Australia through a chain of 100% owned companies, namely Colonial Holding Company Ltd, Commonwealth Insurance Holdings Ltd, Colonial First State Group Ltd, First State Investments (UK Holdings) Ltd, SI Holdings Ltd, First State Investment Management (UK) Ltd and First State Investments International Ltd.
3. Aberdeen Asset Management Plc and its Associates (together “the Aberdeen Group”) on behalf of accounts managed by the Aberdeen Group.
4. These shares are held by Arisaig China of which Arisaig Partners is the fund manager.
5. These shares are held by Arisaig China. Arisaig Partners, which is indirectly owned as to 33.33% by Mr. Cooper through a chain of companies, namely Madelene Ltd. (100%), Arisaig Partners (Holdings) Ltd. (33.33%) and Arisaig Partners (BVI) Limited (100%), is the fund manager of Arisaig China.

Save as disclosed above, as at 31 March 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 qualification, 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 three months ended 31 March 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.