



Convenience Retail Asia Limited

利亞零售有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 08052



Third Quarterly Report 2010



Member of the Li & Fung Group



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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

This report (the “Report”), for which the Directors of Convenience Retail Asia Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to Convenience Retail Asia Limited. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief 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

Third Quarterly Results For the period ended 30 September 2010

Three months ended 30 September	Change	2010 HK\$'000	2009 HK\$'000
Revenue	+10.6%	991,896	896,753
Profit attributable to shareholders of the Company	+61.0%	45,832	28,468
Basic earnings per share (HK cents)	+61.0%	6.28	3.90
Nine months ended 30 September	Change	2010 HK\$'000	2009 HK\$'000
Revenue	+5.2%	2,645,296	2,513,519
Financial gain on disposal of property	N/A	16,486	Nil
Profit attributable to shareholders of the Company	+61.1%	103,515	64,240
Basic earnings per share (HK cents)	+61.1%	14.18	8.80
Interim dividend per share (HK cents)	+11.8%	1.90	1.70
Special dividend per share (HK cents)	N/A	2.40	Nil

Operation Highlights

- Higher Group turnover and profitability growth in the third quarter
- Strong comparable store sales growth for Circle K Hong Kong
- Improved performance of Circle K Southern China
- Festive mooncake drives Saint Honore's sales while margins affected by material costs
- Strong cash position of HK\$646.6 million without any bank borrowings as at 30 September 2010

Number of Stores as of 30 September 2010

Circle K Stores	
Hong Kong	313
Guangzhou	56
Shenzhen	1
Subtotal	370
Franchised Circle K Stores	
Guangzhou	5
Macau	19
Zhuhai	12
Subtotal	36
Total number of Circle K Stores	406
Saint Honore Cake Shops	
Hong Kong	84
Macau	7
Guangzhou	14
Total number of Saint Honore Cake Shops	105
Total number of Stores under Convenience Retail Asia	511

Chairman's Statement

Financial Overview

I am pleased to report the unaudited results of Convenience Retail Asia Limited and its subsidiaries (the "Group") for the third quarter of 2010.

During the period, the Group's turnover increased by 10.6% to HK\$991.9 million when compared to the same period last year. This was mainly achieved by an overall increase in sales at comparable stores (stores in existence throughout 2009 and 2010), opening of new stores and strong mooncake sales during the period.

Comparable convenience store sales in Hong Kong increased by 8.2% while comparable convenience store sales in Southern China decreased by 0.3% (after adjusting for a difference in tax treatments for certain sales categories in Southern China) over the third quarter of 2009. Comparable store sales of the Saint Honore operations increased slightly during the same period.

Gross margin and other income as a percentage of turnover decreased to 37% during the third quarter, compared to 37.2% achieved in the same period in 2009.

Operating expenses were carefully controlled, decreasing from 33.2% to 31.4% of turnover year on year.

The Group recorded a net profit attributable to shareholders of HK\$45.8 million during the quarter, representing an increase of 61% over the third quarter of 2009.

Review of the Circle K Hong Kong Operations

In the third quarter, the overall retail market in Hong Kong continued an upward trend of double-digit monthly growth recorded since February of 2010. The growth momentum was underpinned by the significant increase in inbound tourism, contributed notably by visitor arrivals from Chinese Mainland, as well as strong local consumption boosted by improvements in income and the employment market.

For the first eight months of 2010, total retail sales increased by 17.9%¹ in value and 14.9%¹ in volume over the same period last year partly due to a lower base of comparison in 2009 as a result of the global financial tsunami. Assuming there are no unexpected developments in the global economic environment, it is anticipated that the positive growth trend should be sustainable in the coming months with a slightly decelerated momentum.

Note:

¹ Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 4 October 2010.

The Group's operations in Hong Kong were able to benefit from the favourable consumer sentiment and delivered satisfactory business results in the third quarter. This was due to the timely implementation of well executed marketing promotions during the summer months to maximise on the increased customer traffic, and the introduction of new customs regulation restricting visitors from bringing more than 19 sticks of cigarettes to Hong Kong which provided a boost in cigarette sales.

A negative market factor which had previously put pressure on comparable store sales growth was the environmental levy on plastic bags which was introduced in July 2009. This was somewhat neutralised after July 2010 since the comparable store sales was based on similar market condition.

In the third quarter the more comparable base for daily store sales comparison resulted in a much more significant comparable stores sales growth. The Group anticipates a stable and sustainable comparable store sales growth for the remainder of the year.

Review of the Circle K Guangzhou Operations

All economic indicators for Guangzhou reported positive growth during the third quarter, even though a slight deceleration in the growth momentum was nonetheless detected.

Retail sales recorded a 17.0%² growth for the month of August and an accumulated growth of 19.4%² for the first eight months of 2010 compared to the same period last year. This represents a solid indicator of the buoyant consumer sentiment and successful outcome of the government policy to encourage retail consumption.

A helpful contribution of increased expenditure by consumers was the achievement of higher margins even though the number of Circle K stores was significantly reduced as a result of planned network consolidation. The quarterly result was able to report increased margins even though total sales volume decreased.

The encouraging effects of the operation re-structuring were also reflected in substantial savings in operating expenses, increased productivity and overall positive store contribution during the quarter. The Group is confident that with a streamlined operation now in place and through further fine-tuning of the store models, the Circle K operations in Guangzhou is poised for another stage of growth.

The Saint Honore Operations

Saint Honore Cake Shops enjoyed healthy growth in turnover in the third quarter, mainly due to the contribution of sales from the mooncake category which fell squarely within the quarter, unlike in 2009 when festive sales were spread over the third and the fourth quarter.

Note:

² *Published by the Statistics Bureau of Guangzhou Municipality on 20 September 2010.*

Compared to the same festive sales period in 2009, sales of mooncake increased by 20.1%, accounting for a major contribution to the increase in sales and profitability of Saint Honore.

Business Outlook

Looking ahead, the Group expects to maintain satisfactory business growth in all its operations in Hong Kong and Guangzhou, assuming the global and local economic environment remains stable and price inflation is kept under control.

However, market factors which are anticipated to exert pressure on the Group's profit performance include the erratic fluctuation of raw material costs, notably in the food category; a foreseeable double-digit increase in labour costs and further escalation of retail rentals resulting from the robust performance in the retail market sector.

The Group has developed plans to reduce the impact of such cost increases by introducing new product offering with better margins, more creative promotions to generate incremental sales, as well as expanding the convenience services category to generate higher revenue income.

The Group will also continue the consistent implementation of cost control initiatives which have proven to be effective in managing operating expenses.

Victor FUNG Kwok King

Chairman

Hong Kong, 4 November 2010

Executive Director:

Mr. Richard YEUNG Lap Bun (*Chief Executive Officer*)

Non-executive Directors:

Dr. Victor FUNG Kwok King (*Chairman*)

Dr. William FUNG Kwok Lun

Mr. Godfrey Ernest SCOTCHBROOK

Mr. Jeremy Paul Egerton HOBBS

Ms. Louisa WONG Yuk Nor

Independent non-executive Directors:

Dr. Raymond CH'EN Kuo Fung

Mr. Malcolm AU Man Chung

Mr. Anthony LO Kai Yiu

Group Chief Compliance Officer:

Mr. James SIU Kai Lau

Company Secretary:

Miss Maria LI Sau Ping

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 2010, together with the unaudited comparative figures for the corresponding period ended 30 September 2009 as follows:

	Note	Three months ended 30 September		Nine months ended 30 September	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Revenue	2	991,896	896,753	2,645,296	2,513,519
Cost of sales		(643,267)	(580,677)	(1,731,706)	(1,640,240)
Gross profit		348,629	316,076	913,590	873,279
Other income	2	18,588	17,477	56,344	50,839
Other gain/(loss), net	3	(1,273)	(309)	15,475	(3,963)
Store expenses		(250,442)	(237,501)	(689,057)	(670,510)
Distribution costs		(23,377)	(21,430)	(63,590)	(62,169)
Administrative expenses		(36,974)	(38,772)	(111,684)	(106,346)
Operating profit		55,151	35,541	121,078	81,130
Interest income	4	1,494	757	4,366	2,116
Profit before income tax		56,645	36,298	125,444	83,246
Income tax expenses	5	(10,813)	(7,830)	(21,929)	(19,006)
Profit attributable to shareholders of the Company		45,832	28,468	103,515	64,240
Earnings per share					
Basic (HK cents)	6	6.28	3.90	14.18	8.80
Diluted (HK cents)	6	6.27	3.90	14.18	8.80
Dividends	7	–	–	31,386	12,409

Consolidated Statement of Comprehensive Income

For the three months and nine months ended 30 September 2010

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Profit attributable to shareholders of the Company	45,832	28,468	103,515	64,240
Other comprehensive income/(loss) for the period, net of tax				
Exchange differences	583	12	777	(26)
Total comprehensive income attributable to shareholders of the Company	46,415	28,480	104,292	64,214

Notes:

1. Basis of preparation and accounting policies

The unaudited consolidated financial information has 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 accounting policies and methods of computation used in the preparation of these consolidated financial information are consistent with those used in the consolidated financial statements for the year ended 31 December 2009.

The Group has adopted new and amended standards and interpretations of Hong Kong Financial Reporting Standards which are mandatory for accounting periods beginning on or after 1 January 2010. The adoption of such new and amended standards and interpretations does not have material impact on the consolidated financial information and does not result in substantial changes to the Group's accounting policies except the reclassification of leasehold premium for land.

HKAS 17 (Amendment), "Leases", requires leasehold land to be classified as a finance lease and stated at cost less accumulated depreciation if substantially all risks and rewards of the leasehold land have been transferred to the Group. As the present value of the minimum lease payments (i.e. the transaction price) of certain land held by the Group amounted to substantially all of the fair value of the land as if it were freehold, it has been classified as a finance lease. The amendment has been applied retrospectively to unexpired leases at the date of adoption of the amendment on the basis of information existing at the inception of the leases.

Effect of adopting HKAS 17 (Amendment) on the consolidated balance sheet and consolidated profit and loss account are as follows:

	30 September 2010 HK\$'000	31 December 2009 HK\$'000
Increase/(decrease) in assets		
Fixed assets	84,347	86,754
Lease premium for land	(84,347)	(86,754)

	Nine months ended 30 September 2010 HK\$'000	2009 HK\$'000
Increase/(decrease) in expenses		
Depreciation	1,689	2,356
Amortisation	(1,689)	(2,356)

Certain comparative information in the consolidated financial information has been reclassified to conform to the current period's presentation.

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 2010 are as follows:

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Revenue				
Merchandise sales revenue	773,874	702,703	2,115,349	2,020,118
Bakery sales revenue	218,022	194,050	529,947	493,401
	991,896	896,753	2,645,296	2,513,519
Other income				
Service items and miscellaneous income	18,588	17,477	56,344	50,839

3. Other gain/(loss), net

Other gain/(loss), net represents the net gain/loss on disposal of fixed assets. For the nine months ended 30 September 2010, other gain, net includes gain on disposal of a real estate property amounting to HK\$16,138,000.

4. Interest income

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Interest income on bank deposits	1,494	757	4,366	2,116

5. Income tax expenses

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the three months and nine months ended 30 September 2010 and 2009. Taxation on overseas profits has been calculated on the estimated assessable profits for the three months and nine months ended 30 September 2010 and 2009 at the rates prevailing in the countries in which the Group operates.

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

	(Unaudited) Three months ended 30 September 2010		(Unaudited) Nine months ended 30 September 2010	
	2009	2009	2009	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current income tax				
Hong Kong profits tax	8,622	4,846	21,150	17,003
Overseas profits tax	2,785	2,918	3,518	3,490
Deferred income tax	(594)	66	(2,739)	(1,487)
	10,813	7,830	21,929	19,006

6. Earnings per share

The calculation of the Group's basic and diluted earnings per share is based on the unaudited profit attributable to shareholders of the Company for the corresponding periods.

The basic earnings per share is based on the weighted average number of ordinary shares in issue during the corresponding periods.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options as dilutive potential ordinary shares. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Profit attributable to shareholders of the Company	45,832	28,468	103,515	64,240
	Number of shares	Number of shares	Number of shares	Number of shares
Weighted average number of ordinary shares in issue	730,272,996	729,915,974	730,036,289	729,915,974
Adjustment for: Share options	177,354	–	44,332	–
Weighted average number of ordinary shares for diluted earnings per share	730,450,350	729,915,974	730,080,621	729,915,974

7. Dividends

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Interim dividend, proposed of 1.9 HK cents (2009: 1.7 HK cents) per share	–	–	13,868	12,409
Special dividend, proposed of 2.4 HK cents (2009: nil) per share	–	–	17,518	–
	–	–	31,386	12,409

The Board does not recommend payment of an interim dividend for the three months ended 30 September 2010 (2009: nil).

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

Included in the unaudited profit attributable to shareholders of the Company, there is a loss of HK\$5,056,000 (2009: HK\$8,476,000) and HK\$18,517,000 (2009: HK\$25,051,000) from the Group's convenience store operations in Chinese Mainland for the three months and nine months ended 30 September 2010 respectively.

9. Reserves

Movements in reserves of the Group during the three months and nine months ended 30 September 2010 and 2009 are as follows:

	(Unaudited)						
	Three months ended 30 September 2010						
	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 July 2010	281,614	177,087	13,433	13,806	8,856	229,417	724,213
Issue of new shares	5,226	-	-	-	-	-	5,226
Employee share option benefit	-	-	-	(1,178)	-	279	(899)
Exchange differences	-	-	-	-	583	-	583
Profit attributable to shareholders of the Company	-	-	-	-	-	45,832	45,832
Dividends	-	-	-	-	-	(31,386)	(31,386)
At 30 September 2010	286,840	177,087	13,433	12,628	9,439	244,142	743,569

	(Unaudited)						
	Three months ended 30 September 2009						
	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 July 2009	281,614	177,087	13,433	12,887	8,640	197,068	690,729
Employee share option benefit	-	-	-	327	-	310	637
Exchange differences	-	-	-	-	12	-	12
Acquisition of additional interest in subsidiary	-	-	-	-	-	(25,243)	(25,243)
Profit attributable to shareholders of the Company	-	-	-	-	-	28,468	28,468
Dividend	-	-	-	-	-	(12,409)	(12,409)
At 30 September 2009	281,614	177,087	13,433	13,214	8,652	188,194	682,194

(Unaudited)							
Nine months ended 30 September 2010							
	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2010	281,614	177,087	13,433	13,761	8,662	214,457	709,014
Issue of new shares	5,226	-	-	-	-	-	5,226
Employee share option benefit	-	-	-	(1,133)	-	1,351	218
Exchange differences	-	-	-	-	777	-	777
Profit attributable to shareholders of the Company	-	-	-	-	-	103,515	103,515
Dividends	-	-	-	-	-	(75,181)	(75,181)
At 30 September 2010	286,840	177,087	13,433	12,628	9,439	244,142	743,569

(Unaudited)							
Nine months ended 30 September 2009							
	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2009	281,614	177,087	13,433	11,729	8,678	200,801	693,342
Employee share option benefit	-	-	-	1,485	-	950	2,435
Exchange differences	-	-	-	-	(26)	-	(26)
Acquisition of additional interest in subsidiary	-	-	-	-	-	(25,243)	(25,243)
Profit attributable to shareholders of the Company	-	-	-	-	-	64,240	64,240
Dividends	-	-	-	-	-	(52,554)	(52,554)
At 30 September 2009	281,614	177,087	13,433	13,214	8,652	188,194	682,194

In 2009, the Group has acquired an additional 25% of equity interest in Convenience Retail Southern China Limited from a minority shareholder. The difference between the consideration paid and the share of net assets acquired has been debited to retained earnings.

Other Information

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 2010, the interests and short positions of each of the Directors, chief executives and their associates in the shares, underlying shares and debentures of the Company and certain of its major associated corporations (Note 1) (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as required to be recorded in the register maintained by the Company pursuant to section 352 of SFO or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealing by the Directors under the GEM Listing Rules and/or the Code of Conduct for dealings in securities adopted by the Company, were as follows:

The Company

Long positions in shares and the underlying shares of equity derivatives

Name of Directors	Number of shares			Number of underlying shares (share options)	Total interests	Approximate percentage of interests
	Personal interests	Family interests	Corporate/ Trust interests			
Dr. Victor Fung Kwok King	-	-	373,692,000 <i>(Note 2)</i>	-	373,692,000	51.08%
Dr. William Fung Kwok Lun	-	-	373,692,000 <i>(Note 2)</i>	-	373,692,000	51.08%
Mr. Richard Yeung Lap Bun	19,196,000	-	-	1,200,000 <i>(Note 3)</i>	20,396,000	2.78%
Ms. Louisa Wong Yuk Nor	1,588,000	-	-	600,000 <i>(Note 4)</i>	2,188,000	0.29%
Dr. Raymond Ch'ien Kuo Fung	1,000,000	-	-	-	1,000,000	0.13%
Mr. Jeremy Paul Egerton Hobbins	180,000	-	-	-	180,000	0.02%

Major associated corporations

Long positions in shares and the underlying shares of equity derivatives

Name of Directors	Name of associated corporations	Class of shares	Number of (i) shares	(ii) underlying shares	Nature of interests/ Holding capacity	Approximate percentage of interests
Dr. Victor Fung Kwok King	Li & Fung (Distribution) Limited	Full voting ordinary shares	13,800,000	-	(Note 5)	100%
	LiFung Trinity Limited	Ordinary share	1	-	(Note 6)	100%
Dr. William Fung Kwok Lun	Li & Fung (Distribution) Limited	Full voting ordinary shares	13,800,000	-	Corporate interests (Note 5)	100%
	LiFung Trinity Limited	Ordinary share	1	-	Corporate interests (Note 6)	100%

Notes:

1. Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun 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 of 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 20 October 2010. Accordingly, the companies under this section headed "Interests and short positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations" are only the major associated corporations of the Company and are not intended to be exhaustive.
2. King Lun through its indirect wholly owned subsidiary, Li & Fung (Retailing) Limited ("LFR") (a wholly owned subsidiary of Li & Fung (1937) Limited ("LF (1937)")) held 373,692,000 shares in the Company. 50% of the issued share capital of King Lun is owned by HSBC Trustee (C.I.) Limited, the trustee of a trust established for the benefit of the family members of Dr. Victor Fung Kwok King, the remaining 50% is owned by Dr. William Fung Kwok Lun.
3. On 3 May 2007, Mr. Richard Yeung Lap Bun was granted share options pursuant to the 2001 Share Option Scheme (adopted on 6 January 2001) 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. Richard Yeung Lap Bun in three equal lots in relation to the performance year 2007, 2008 and 2009 respectively. Upon confirmation of vesting, the options in relation to the performance year 2007 and 2008 became exercisable during the period from 3 May 2009 to 2 May 2012 and from 3 May 2010 to 2 May 2013 respectively. The remaining options in relation to the performance year 2009 would be exercisable during the period of 3 May 2011 to 2 May 2014.

4. On 3 May 2007, Ms. Louisa Wong Yuk Nor was granted share options pursuant to the 2001 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. Louisa Wong Yuk Nor in three equal lots in relation to the performance year 2007, 2008 and 2009 respectively. Upon confirmation of vesting, the options in relation to the performance year 2007 and 2008 became exercisable during the period from 3 May 2009 to 2 May 2012 and from 3 May 2010 to 2 May 2013 respectively. The remaining options in relation to the performance year 2009 would be exercisable during the period of 3 May 2011 to 2 May 2014.
5. King Lun through its wholly owned subsidiary, LF (1937) held 13,800,000 shares in Li & Fung (Distribution) Limited. Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun 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.
6. King Lun through its indirect wholly owned subsidiary, LFR (a wholly owned subsidiary of LF (1937)) held 1 share in LiFung Trinity Limited. Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun are deemed to have interests in the share through their respective interests in King Lun and LF (1937) and indirect interests in LFR as set out in Note 2 above.

Save as disclosed above, as at 30 September 2010, none of the Directors, chief executives and their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations.

Interests and Short Positions of Shareholders in the Shares and Underlying Shares of the Company

As at 30 September 2010, the interests and short positions of shareholders in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of SFO were as follows:

Long positions in shares

Name of shareholders	Number of shares	Nature of interests/ Holding capacity	Approximate percentage of interests
HSBC Trustee (C.I.) Limited	373,692,000	Trustee <i>(Note 1)</i>	51.08%
King Lun Holdings Limited	373,692,000	Corporate interests <i>(Note 1)</i>	51.08%
Commonwealth Bank of Australia	43,652,000	Corporate interests <i>(Note 2)</i>	5.96%
Aberdeen Asset Management Plc and its associates	67,528,000	Other <i>(Note 3)</i>	9.23%
Arisaig Asia Consumer Fund Limited ("Arisaig Asia")	92,580,000	Other	12.65%
Arisaig Partners (Mauritius) Limited ("Arisaig Partners")	92,580,000	Other <i>(Note 4)</i>	12.65%
Lindsay William Ernest Cooper ("Mr. Cooper")	92,580,000	Corporate interests <i>(Note 5)</i>	12.65%

Notes:

1. These shares were held by LFR. King Lun indirectly owns 100% interests in LFR through its wholly owned subsidiary, LF (1937). All of HSBC Trustee (C.I.) Limited, King Lun, LF (1937) and LFR are taken to be interested in the shares pursuant to SFO. Please refer to Note 2 in the above section headed "Interests and short positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations".
2. These shares were indirectly held by Commonwealth Bank of Australia through a chain of 100% owned companies.
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 Asia of which Arisaig Partners is the fund manager.
5. These shares were held by Arisaig Asia of which Arisaig Partners is the fund manager. Arisaig Partners is indirectly owned as to 33.33% by Mr. Cooper through a chain of companies, namely, through Skye Partners Limited (directly owned as to 33.33% by Mr. Cooper), and in turn Skye Partners Limited wholly owns Arisaig Partners (Holdings) Ltd., which in turn wholly owns Arisaig Partners.

Save as disclosed above, as at 30 September 2010, the Company had not been notified of any other shareholders' interests or short positions as recorded in the register required to be kept under section 336 of SFO.

Directors' Interest in Competing Business

During the period under review, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed or might compete with the business of the Group.

Audit Committee

The Audit Committee was established in January 2001 with defined terms of reference (available to shareholders upon request), which are of no less exacting terms than those set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules. The Audit Committee is responsible for reviewing the Group's financial reporting, internal controls, corporate governance and risk management matters and making recommendations to the Board.

The Audit Committee comprises three independent non-executive Directors, namely Dr. Raymond Ch'ien Kuo Fung (Chairman of the Committee), Mr. Malcolm Au Man Chung, Mr. Anthony Lo Kai Yiu, and two non-executive Directors, namely Mr. Godfrey Ernest Scotchbrook and Mr. Jeremy Paul Egerton Hobbins. All committee members possess appropriate professional qualifications, accounting and related financial management expertise as required under the GEM Listing Rules.

The Audit Committee has reviewed with the management this unaudited quarterly report for the period ended 30 September 2010 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 under review.