

北京京客隆

商业集团股份有限公司

BEIJING JINGKELONG COMPANY LIMITED

(a joint stock limited company incorporated in the  
People's Republic of China)



# Listing by Introduction

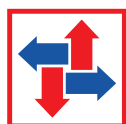
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(Stock Code: 814)

## IMPORTANT

*If you are in any doubt about this document, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.*



**北京京客隆**  
商业集团股份有限公司  
BEIJING JINGKELONG COMPANY LIMITED

**北京京客隆商業集團股份有限公司**  
**BEIJING JINGKELONG COMPANY LIMITED\***  
*(a joint stock limited company incorporated in the People's Republic of China)*

**LISTING BY WAY OF INTRODUCTION OF  
THE ENTIRE H SHARE CAPITAL ON  
THE MAIN BOARD OF  
THE STOCK EXCHANGE OF HONG KONG LIMITED**

**Stock code on Main Board : 814**  
**Stock code on GEM : 8245**

**Sponsor**



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*This document does not constitute an offer of, nor is it calculated to invite offers for, the H shares or other securities of the Company, nor have any such H shares or other securities been allotted with a view to any of them being offered for sale to members of the public. No new H shares will be issued in connection with, or permission to, the publication of this document.*

*The Company was incorporated, and its businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investment in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the shares of the Company. Such differences and certain risk factors are set out in the paragraph headed "Summary of principal legal and regulatory provisions and articles of association" in Appendix IV to this document and the section headed "Risk factors" in this document respectively.*

*The H shares of RMB1.00 each in the capital of the Company (the "H Shares") have been accepted as eligible securities by Hong Kong Securities Clearing Company Limited ("HKSCC") for deposit, clearance and settlement in the Central Clearing and Settlement System ("CCASS") with effect from 25 September 2006, the date on which dealings in the H Shares on the Growth Enterprise Market of the Stock Exchange ("GEM") commenced. Subject to the granting of the listing of, and permission to deal in, the H Shares on the Main Board by the Stock Exchange and the continual compliance with the stock admission requirements of HKSCC, the H Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once dealings in the H Shares on the Main Board commence.*

*All necessary arrangements have been made with HKSCC for the H Shares to continue to be accepted as eligible securities of CCASS. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.*

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## EXPECTED TIMETABLE

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2007<sup>(1)</sup>

Despatch of this document, Shareholders' circular and the related notices of the Extraordinary General Meeting and the Class Meetings and the related forms of proxy and reply slips to the Shareholders in relation to the Proposed Withdrawal and the Introduction . . . . .	Friday, 29 June
Latest time for lodging transfers of H Shares in order to qualify for attending and voting at the Extraordinary General Meeting and/or the separate Class Meetings . . . . .	4:30 p.m., Tuesday, 24 July
Closure of registers of members of the Company for the determination of entitlements of the Shareholders to attend and vote at the Extraordinary General Meeting and the Class Meetings . . . . .	From Wednesday, 25 July to Tuesday, 14 August 2007
Latest time for receiving reply slips for the Extraordinary General Meeting and the Class Meetings . . . . .	4:30 p.m., Wednesday, 25 July
Latest time for lodgment of related forms of proxy for the Extraordinary General Meeting and the Class Meetings . . . . .	10:00 a.m. Monday, 13 August
Extraordinary General Meeting and Class Meetings . . . . .	10:00 a.m. Tuesday, 14 August
Announcement of results of the Extraordinary General Meeting and Class Meetings to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the GEM website . . . . .	Wednesday, 15 August
Notice of the Proposed Withdrawal on or before . . . . .	Wednesday, 15 August
The CSRC granting approval for the listing of the H Shares on the Main Board on or before . . . . .	Monday, 24 September
Announcement in respect of the CSRC granting approval for the listing of the H Shares on the Main Board on or before . . . . .	Tuesday, 25 September
Last day of dealings of the H Shares on GEM. . . . .	Tuesday, 2 October
Proposed Withdrawal to be effective from . . . . .	9:30 a.m., Wednesday, 3 October
Dealings in the H Shares on the Main Board to commence on . . . . .	9:30 a.m., Wednesday, 3 October

*Notes:—*

1. All times refer to Hong Kong local time.
2. If there is any revision to the above timetable, a separate announcement will be made by the Company.

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*You should rely only on the information contained in this document to make your investment decision.*

*The Company has not authorised anyone to provide you with information that is different from what is contained in this document.*

*Any information or representation not made in this document must not be relied on by you as having been authorised by the Company, the Sponsor, any of their respective directors, officers, employees, agents or representatives or any other party involved in the Introduction.*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this document. As the following is a summary, it does not contain all the information that is important to you.*

*There are risks associated with any investment. Some of the particular risks in investing in the Company are set forth in the section headed “Risk factors” in this document. You should read that section carefully before making any decision to invest in the H Shares.*

### **BUSINESS OVERVIEW**

The Group is one of the leading distributors of daily consumer products in the Greater Beijing Region, with a turnover of more than RMB4.5 billion for the year ended 31 December 2006. The Group operates its distribution business under the well-known brands of “京客隆” and “朝批”. According to China Chain Store & Franchise Association, the Group was ranked 27th among the top 100 fast moving consumer goods retail chain in China and 38th among the top 100 chain enterprises in China in 2006. In addition, the Group also generates other income from the following activities: (i) income from suppliers for display space leasing fee, promotion income, information system service income, and merchandise storage and delivery income, and (ii) rental income from (1) sub-leasing third party counters and designated areas of the Retail Outlets and (2) leasing of investment properties of the Group. Details are set out in the section headed “Business – Retail Distribution Operations” in this document.

The distribution network of the Group spans across retail and wholesale distribution channels. As at 30 April 2007, the retail distribution network of the Group comprised 170 Retail Outlets, of which 84 were directly-operated and 86 were under franchise arrangements; and the Group’s directly-operated Retail Outlets comprised five hypermarkets, 40 supermarkets and 39 convenience stores, while the Group’s franchised Retail Outlets comprised one supermarket and 85 convenience stores. The Group also operates a wholesale distribution business through Chaopi Trading and its subsidiaries and associated companies under the well-known “朝批” brandname for the wholesale supply of daily consumer products to customers including the Group’s Retail Outlets and other retail operators and trading companies. Operating in these retail and wholesale distribution formats, the Group has positioned itself to cater for the needs of a diverse range of customers, ranging from retail operators to end consumers.

Since its inception, the Group has been principally operating in the Greater Beijing Region, with a particularly strong network in the Chaoyang District, which is one of the most affluent inner city regions of Beijing. With the hosting of the Beijing Olympic Games in 2008 and the principal event auditoriums being located in the Chaoyang District, the Directors believe that any increase in tourism and the construction of various infrastructure and residential projects will further stimulate economic and population growth in and increase urbanization of the Greater Beijing Region, particularly the Chaoyang District, hence providing Chaoyang-based retail chain operators such as the Group with growth opportunities.

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## SUMMARY

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### **Retail distribution operations**

The retail distribution network of the Group comprises hypermarkets, supermarkets and convenience stores, with a geographical focus in the Greater Beijing Region. Leveraging on its established brandname, the Group has expanded its business model into managing and operating supermarket and convenience store franchises. All Retail Outlets, whether directly-operated or under franchise arrangements, are operated under the “京客隆” service mark. The daily consumer products distributed through the retail distribution channels include live and fresh produce, dry products, beverages, processed food and daily necessities.

The Retail Outlets are generally located at easily accessible and highly visible locations, such as in the vicinity of residential neighborhoods, public transport systems and major roads. This enhances public awareness of the Group’s Retail Outlets and allows the Group to build a strong corporate identity by attracting new consumers and encouraging repeat consumers.

In addition, the Chaoyang District of Beijing, where most of the Retail Outlets are located, is easily accessible by four major motorways in Beijing, namely 京張高速公路 (Jingzhang Motorway), 京石高速公路 (Jingshi Motorway), 京津唐高速公路 (Jingjintang Motorway) and 京沈高速公路 (Jingshen Motorway). The Directors believe that the strategic location and accessibility of the Chaoyang District allows the Group to tap into a large pool of consumers.

All Retail Outlets, whether directly-operated or under franchise arrangements, are operated under the “京客隆” service mark. These Retail Outlets generally followed a uniform and distinctive design, layout and colour scheme, and their staff are attired in standard uniform. The Directors believe that the use of a common layout, colour scheme and design distinguishes the Group from other chain operators and enhances the public recognition of the “京客隆” brand.

The Group’s retail distribution network is supported by two specially designed Logistics Centres: a live and fresh produce Logistics Centre and a dry product Logistics Centre. Both of these Logistics Centres are situated in the Chaoyang District of Beijing and are connected by the Group’s information management systems to the directly-operated Retail Outlets, and they facilitate the Group’s logistics requirements by consolidating orders for, warehousing and coordinating the delivery of daily consumer products to the Retail Outlets in the Greater Beijing Region.

Both of the two Logistics Centres have automatic replenishment systems by which each directly-operated Retail Outlet can automatically generate and place its orders electronically through the intranet system. This enables the Group to achieve high flexibility in delivering goods within 24 hours of receiving an order. The Group is thus able to satisfy various demands at the Retail Outlets covering the different business models of hypermarkets, supermarkets and convenience stores efficiently, hence minimizing disruptions to the supply of daily consumer products and ensuring the stability of product supply and faster fulfilment of orders.

## SUMMARY

The table below sets out the locations of the Retail Outlets as at 30 April 2007:

	Hypermarkets		Supermarkets		Convenience stores		Total	
	Number of stores	Net operating area (sq.m.)	Number of stores	Net operating area (sq.m.)	Number of stores	Net operating area (sq.m.)	Number of stores	Net operating area (sq.m.)
<b>Directly operated by the Group</b>								
大興區 (Daxing District)	1	6,300	-	-	-	-	1	6,300
延慶縣 (Yanqing County)	-	-	1	3,460	-	-	1	3,460
朝陽區 (Chaoyang District)	2	19,450	22	54,902	38	8,717	62	83,069
密雲縣 (Miyun County)	-	-	1	4,580	-	-	1	4,580
廊坊市 (Langfang City)	1	9,381	1	2,620	-	-	2	12,001
昌平區 (Changping District)	1	9,807	-	-	-	-	1	9,807
順義區 (Shunyi District)	-	-	1	1,390	-	-	1	1,390
通州區 (Tongzhou District)	-	-	8	11,690	1	124	9	11,814
東城區 (Dongcheng District)	-	-	1	1,800	-	-	1	1,800
西城區 (Xicheng District)	-	-	1	2,400	-	-	1	2,400
海澱區 (Haidian District)	-	-	3	6,775	-	-	3	6,775
宣武區 (Xuanwu District)	-	-	1	2,700	-	-	1	2,700
<b>Sub-total</b>	<b>5</b>	<b>44,938</b>	<b>40</b>	<b>92,317</b>	<b>39</b>	<b>8,841</b>	<b>84</b>	<b>146,096</b>
<b>Operated by franchisees</b>								
朝陽區 (Chaoyang District)	-	-	1	880	68	12,742	69	13,622
昌平區 (Changping District)	-	-	-	-	3	606	3	606
海澱區 (Haidian District)	-	-	-	-	2	597	2	597
豐台區 (Fengtai District)	-	-	-	-	5	979	5	979
通州區 (Tongzhou District)	-	-	-	-	1	254	1	254
順義區 (Shunyi District)	-	-	-	-	2	718	2	718
大興區 (Daxing District)	-	-	-	-	2	240	2	240
宣武區 (Xuanwu District)	-	-	-	-	1	39	1	39
崇文區 (Chongwen District)	-	-	-	-	1	165	1	165
<b>Sub-total</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>880</b>	<b>85</b>	<b>16,340</b>	<b>86</b>	<b>17,220</b>
<b>Total</b>	<b>5</b>	<b>44,938</b>	<b>41</b>	<b>93,197</b>	<b>124</b>	<b>25,181</b>	<b>170</b>	<b>163,316</b>



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## SUMMARY

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### **Wholesale distribution operations**

The Group's wholesale distribution network is operated through Chaopi Trading and its subsidiaries and associated companies under the “朝批” brandname, and is supported by its Distribution Centres. Chaopi Trading and its subsidiaries and associated companies provide wholesale supply of daily consumer products to the Retail Outlets and its other customers comprising, principally, retail operators and trading companies and is currently providing merchandise of 45 brands such as “金六福”, “塔牌”, “五粮液”, “金龍魚” under sole distributorship in department stores and supermarkets in Beijing and northern China. The Group's wholesale distribution operation recorded a revenue of RMB2,228.5 million for the year ended 31 December 2006. The Group is expanding the customer base of its wholesale business and has established Chaopi Huilong with other investors mainly to engage in wholesale distribution of consumer products to catering business, and exploiting variety of the fast moving consumer products and operates Chaopi Zhongde with another investor mainly to engage in wholesale distribution of consumer sanitary products.

The Group's wholesale distribution operations are supported by two Distribution Centres, one in the Chaoyang District of Beijing and the other in Tianjin. The daily consumer products distributed through Chaopi Trading and its subsidiaries and associated companies include processed food products, beverages, wine products, non-staple food and non-food products. Chaopi Trading and its subsidiaries and associated companies do not distribute fresh or frozen food products.

Each of these Distribution Centres uses an independent information management system to manage its inventory and deliveries. This enables the Group to provide up-to-date product availability information to its wholesale customers.

### **Integrated retail and wholesale distribution operations**

The Group's integrated retail and wholesale business model distinguishes it from other traditional retail chain operators in which its wholesale business provides a robust complementary support to its retail business. The Group is able to monitor market demand and fluctuations at the retail level effectively, hence reducing the risk of stock obsolescence and excessive inventory. Besides, the advantageous position of being both a retail and wholesale distributor provides the Group with a competitive edge in its efficiency in launching and promoting new brands and products for the manufacturers.

The dry product Logistics Centre and Distribution Centres are able to support and supplement each other in terms of order fulfilment and the replenishment needs of the Group's retail and wholesale distribution networks. For example, a Distribution Centre may utilise part of its capacity to assist the dry product Logistics Centre, especially during peak seasons while the dry product Logistics Centre may support the supply capacity of the Distribution Centres in case of a sudden increase in the wholesale business. The Directors believe that such inter-transferability of capacity enables the Group to achieve higher productivity gains, cost efficiencies and attain economies of scale by ensuring that no single Logistics Centre or Distribution Centre is overloaded as well as reducing the risk of stock obsolescence and excessive inventory levels. In addition, the Directors believe that such inter-transferability of capacity between the dry product Logistics Centre and Distribution Centres can enhance distribution efficiency.

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## SUMMARY

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### COMPETITIVE STRENGTHS

The Directors believe that the Group's competitive strengths have enabled the Group to become one of the leading distributors of daily consumer products in the Greater Beijing Region and enable the Group to be well-positioned to take advantage of future growth in the distribution businesses in the PRC. The Group's competitive strengths include:

- Well-recognised brands
- Locality of operations – the Greater Beijing Region (in particular the Chaoyang District)
- Integrated retail and wholesale distribution operations
- Centralised Logistics Centres and Distribution Centres
- Efficient information management systems
- Multi-tiered retail distribution network
- Experienced and stable management

### BUSINESS OBJECTIVES AND STRATEGIES

The Group's mission is to strengthen its foothold in the Greater Beijing Region and to expand into other parts of eastern and northern China. The Group aims to become one of the leading retail and wholesale distribution network operators in the PRC through leveraging on and enhancing its competitive strengths. To achieve its business objectives, the Group has developed the following business strategies:–

- Expanding distribution network
- Increasing operating efficiency
- Further brand-building
- Joint venture collaborations and acquisitions
- Funding for expansion

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## SUMMARY

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### RISK FACTORS

The Group's business is subject to certain risks which can be broadly categorised into (a) risks relating to the Group; (b) risks relating to the PRC distribution industry; (c) risks relating to the PRC; and (d) risks relating to the H Shares. Details of these risks are set out in the section headed "Risk Factors" in this document.

### RISKS RELATING TO THE GROUP

- Locations of Distribution Outlets, rental exposure and renewal of leases
- Resumption of Retail Outlets and neighbourhood property
- Risks associated with leased property interests of Chaopi Trading and the Company
- Employee Loans and other loans to the Group
- Inability to successfully implement its strategy for future growth
- Potential failure on software and hardware systems
- Keen competition in the distribution business
- Potential change of distribution method by suppliers and manufacturers
- Inability to obtain all requisite licences on time
- Product liability
- Quality control on franchisees' operations
- Reliance on key management personnel
- Stock control
- Intellectual property protection and infringement
- The use of the Jingkelong cards and the membership reward cards
- Future dividends
- Operations of the new community shopping centre

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## SUMMARY

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- Reliance on leasehold of third party counters
- Revenue derived from activities outside the ordinary and usual course of business

### **RISKS RELATING TO THE PRC DISTRIBUTION INDUSTRY**

- Domestic competition
- Foreign competition
- Change in consumer preferences and/or purchasing power

### **RISKS RELATING TO THE PRC**

- Political and economic policies of the PRC government
- The PRC legal system
- Holders of the H Shares may not be able to successfully enforce their Shareholders' rights in the PRC under the Company Law or relevant Hong Kong regulatory provisions
- Taxation of holders of H Shares
- Changes in foreign exchange regulations and fluctuation of the RMB
- Payment of dividends subject to restrictions under PRC law
- Domestic Shares may be converted into H Shares
- New corporate income tax law
- Changes in laws and regulations regarding social insurance contributions and other social responsibility aspects

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## SUMMARY

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### RISKS RELATING TO THE H SHARES

- Development of an active market for the H Shares
- Potential dilution of the H Shares

# SUMMARY

## FINANCIAL INFORMATION

The following is a summary of the consolidated results of the Group during the Track Record Period, which has been derived from, and should be read in conjunction with, the audited financial statements included in the Accountants' Report set out in Appendix I to this document. These financial statements have been prepared in accordance with HKFRSs.

	Year ended 31 December								
	2004			2005			2006		
	Continuing operations	Discontinued operations <sup>(1)</sup>	Total	Continuing operations	Discontinued operations <sup>(1)</sup>	Total	Continuing operations	Discontinued operations <sup>(1)</sup>	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	3,568,865	97,893	3,666,758	4,121,748	-	4,121,748	4,530,975	-	4,530,975
Cost of sales	<u>(3,164,852)</u>	<u>(89,137)</u>	<u>(3,253,989)</u>	<u>(3,621,667)</u>	<u>-</u>	<u>(3,621,667)</u>	<u>(3,966,385)</u>	<u>-</u>	<u>(3,966,385)</u>
Gross profit	404,013	8,756	412,769	500,081	-	500,081	564,590	-	564,590
Other income and gains	154,700	1,362	156,062	143,668	-	143,668	224,308	-	224,308
Selling and distribution costs	(317,899)	(7,232)	(325,131)	(369,764)	-	(369,764)	(419,117)	-	(419,117)
Administrative expenses	(88,285)	(1,358)	(89,643)	(88,924)	-	(88,924)	(107,958)	-	(107,958)
Other expenses	(5,800)	(1,422)	(7,222)	(20,452)	-	(20,452)	(29,897)	-	(29,897)
Finance costs	(20,988)	(130)	(21,118)	(19,073)	-	(19,073)	(26,296)	-	(26,296)
Share of profits and losses of associates	<u>2,177</u>	<u>508</u>	<u>2,685</u>	<u>(32)</u>	<u>-</u>	<u>(32)</u>	<u>(139)</u>	<u>-</u>	<u>(139)</u>
Profit before tax	127,918	484	128,402	145,504	-	145,504	205,491	-	205,491
Tax	<u>(44,127)</u>	<u>(106)</u>	<u>(44,233)</u>	<u>(47,158)</u>	<u>-</u>	<u>(47,158)</u>	<u>(74,072)</u>	<u>-</u>	<u>(74,072)</u>
Profit for the year	<u>83,791</u>	<u>378</u>	<u>84,169</u>	<u>98,346</u>	<u>-</u>	<u>98,346</u>	<u>131,419</u>	<u>-</u>	<u>131,419</u>
Attributable to:									
Equity holders of the parent	73,167	361	73,528	75,098	-	75,098	99,577	-	99,577
Minority interests	<u>10,624</u>	<u>17</u>	<u>10,641</u>	<u>23,248</u>	<u>-</u>	<u>23,248</u>	<u>31,842</u>	<u>-</u>	<u>31,842</u>
	<u>83,791</u>	<u>378</u>	<u>84,169</u>	<u>98,346</u>	<u>-</u>	<u>98,346</u>	<u>131,419</u>	<u>-</u>	<u>131,419</u>
Dividends			<u>39,505</u>			<u>56,367</u>			<u>57,693</u>
Earnings per Share attributable to ordinary equity holders of the parent <sup>(2)</sup>									
- basic for profit for the year (RMB)			<u>29.8 cents</u>			<u>30.5 cents</u>			<u>35.1 cents</u>
- basic for profit from continuing operations (RMB)			<u>29.7 cents</u>			<u>30.5 cents</u>			<u>35.1 cents</u>

(1) The motor vehicle and repair operations was discontinued in 2004. For details, please refer to section headed "History and Development and Reorganisation" in this document.

(2) Earnings per Share for each financial year in the Track Record Period have been computed by dividing the profit attributable to equity holders of the parent for each year by the weighted average number of ordinary Shares (2006: 283,672,055 Shares, 2005 and 2004: 246,620,000 Shares) in issue during the Track Record Period.

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## SUMMARY

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### **FURTHER INFORMATION ON THE EMPLOYEE LOANS, THE BITIC LOANS AND THE EMPLOYEE INVESTMENTS**

#### **Employee Loans**

The Company first started to accept voluntary loans from certain of its employees in 1997 (loans of such nature shall be referred to as the “Employee Loans”). While the Group was confident that it would be able to obtain financing from other sources, the Group implemented the Employee Loans as an arrangement that was mutually beneficial to the Group and the relevant employees.

Subsequently in 2004, the Company was advised by its PRC legal advisers that the Employee Loans were not in compliance with the relevant PRC laws. Based on the PRC legal advice obtained, the Group may be subject to a maximum penalty of 5% of the amount of the total Employee Loans.

Chaoyang Auxillary has undertaken to indemnify the Company against any costs and penalties that the Group may suffer due to the non-compliance with the relevant PRC Laws in respect of the Employee Loans, the relevant loan agreements being not enforceable, and the maximum penalty of 5% of the amount of the total borrowings.

#### **BITIC Loans and Employee Investments**

To rationalise the Group’s financing arrangement, in June 2004, the Company obtained a loan of RMB130 million (the “First BITIC Loan”) from Beijing International Trust and Investment Company Limited (“BITIC”; and the First BITIC Loan and the further loans from BITIC shall together be referred to as the “BITIC Loans”). Insofar as the Company is aware, BITIC (a) was founded in 1984 and is 40% owned by the Beijing State-owned Assets Management Co., Ltd.; (b) is an Independent Third Party to the Company and a licensed non-bank financial institution regulated by the China Banking Regulatory Commission; and (c) offers a wide range of trust, corporate finance and agency services.

Prior to granting the First BITIC Loan, BITIC had conducted credit due diligence on the Company. The First BITIC Loan was secured by a guarantee from the Company’s controlling shareholder, Chaoyang Auxillary. Such guarantee from the Company’s controlling shareholder has also covered all subsequent BITIC Loans extended to the Company, whilst other BITIC Loans which were extended to Chaopi Trading was secured by a corporate guarantee from the Company itself. The guarantee from the Company’s controlling shareholder was, upon GEM Listing, replaced by a corporate guarantee from the Company and the pledge of the Company’s 71.7% equity interest in Chaopi Trading.

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## SUMMARY

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In the process of obtaining the First BITIC Loan, the Company introduced BITIC to certain employees of the Group, as these employees, being members of the public, were amongst one of the trust deposit customer groups that, the Company believes, BITIC would, in its ordinary course of business, consider canvassing for funds. BITIC, as a professional and independent service provider, offered an investment proposal to those interested employees of the Group to invest in a trust loan programme such that the investments would be used to fund the BITIC Loans to be provided by BITIC to the Group from time to time (such investment and the further investments made by employees of the Group under this programme shall together be referred to as the “Employee Investments”). One attractive feature of the Employment Investments is that they offer a higher yield to the participating employees of the Group (“Participating Employees”).

Immediately before obtaining the First BITIC Loan, BITIC provided a one-day bridging loan of RMB90 million to the Company through Chaoyang Auxillary. The Company used such bridging loan together with its internal resources to fully repay the Employee Loans. Contemporaneous with the repayment of the Employee Loans, approximately 1,701 Participating Employees voluntarily made Employee Investments with BITIC in an aggregate amount of RMB130 million. In respect of the Employee Investments made by the Participating Employees, investment agreements (“Employee Investment Agreements”) were entered into between certain employee representatives (“Employee Representatives”) and BITIC.

From time to time, BITIC have offered and may continue to offer new tranches of Employee Investments which would be open to all employees of the Group (including all Participating Employees in the previous tranches of Employee Investments). The term of such new tranches of Employee Investments may vary. It would, however, be a term of the Employee Investment that all Employment Investments could only be used to fund the BITIC Loans. It would also be expressly stated in the Employee Investment Agreements that all investment risks and losses arising from the Employee Investments, in the absence of any breach of the Employee Investment Agreements by BITIC, should be borne by the Participating Employees. Pursuant to the Employee Investment Agreements, neither the Group nor any Participating Employee has acted as guarantor or offered any form of collateral in respect of the Employee Investments and the BITIC Loans respectively. Insofar as the Company is aware, all Employee Investments were made by the Participating Employees with express knowledge of the said terms.



## SUMMARY

As at 30 June 2004, 31 December 2004, 31 December 2005 and 31 December 2006, the total accrued sum of Employee Investments made amounted to approximately RMB130 million, RMB220 million, RMB302.3 million and RMB310.0 million, respectively. As at the same dates, the total number of Participating Employees amounted to approximately 1,701 employees, 2,162 employees, 2,525 employees, and 2,128 employees, respectively. Without taking account of any new tranches of Employment Investments or any extension of maturity in respect of the subsisting tranches of Employment Investments, as at the Latest Practicable Date and to the best of the knowledge, information and belief of the Directors, the latest expected maturity date of the subsisting tranches of the Employment Investments is 29 June 2008. The following table sets out a summary of movements in Employee Investments and the BITIC Loans for each of the three years ended 31 December 2006:

### BITIC Loans and Employee Investments

Period	Participating Employees	Balance <i>(RMB'million)</i>	Yield on the Employee Investments	Interest rates on BITIC Loans	Settlement
24/06/04 – 24/06/06	1,701	130	4.00%	4.72%	N/A
			(24/6/04 – 31/3/05)	(24/6/04 – 31/3/05)	
			4.50%	5.2475%	
			(1/4/05 – 24/6/06)	(1/4/05 – 24/6/06)	
16/08/04 – 16/11/05	913	50	4.00%	4.72%	N/A
			(16/8/04 – 31/3/05)	(16/8/04 – 31/3/05)	
			4.50%	5.2475%	
			(1/4/05 – 16/11/05)	(1/4/05 – 16/11/05)	
29/12/04 – 29/12/05	147	40	4.00%	4.72%	N/A
<b>As at 31 December 2004</b>	<b>2,162 *</b>	<b>220</b>			
24/06/04 – 24/06/06	1,701	130	4.00%	4.72%	N/A
			(24/6/04 – 31/3/05)	(24/6/04 – 31/3/05)	
			4.50%	5.2475%	
			(1/4/05 – 24/6/06)	(1/4/05 – 24/6/06)	
16/08/04 – 16/11/05	913	50	4.00%	4.72%	Extended to
			(16/8/04 – 31/3/05)	(16/8/04 – 31/3/05)	16 February 2007
			4.50%	5.2475%	
			(1/4/05 – 16/2/07)	(1/4/05 – 16/2/07)	
01/04/05 – 01/10/06	973	62.3	4.50%	5.2475%	N/A
29/12/04 – 29/12/05	147	40	4.00%	4.72%	Extended to
					29 December 2006
29/12/05 – 29/12/06	124	20	4.00%	4.72%	N/A
<b>As at 31 December 2005</b>	<b>2,525 *</b>	<b>302.3</b>			

## SUMMARY

Period	Participating Employees	Balance <i>(RMB' million)</i>	Yield on the Employee Investments	Interest rates on BITIC Loans	Settlement
24/06/04 – 24/12/07	918	100	4.50%	5.2475%	The 130 million loan was extended to 24 December 2007 upon expiry. The balance was reduced to 100 million and the number of employees participated was reduced to 918.
16/08/04 – 31/03/08	760	50	4.00% (16/8/04 – 16/2/07) 4.50% (16/2/07 – 31/3/08)	4.72% (16/8/04 – 16/2/07) 5.2475% (16/2/07 – 31/3/08)	The 50 million loan was extended to 31 March 2008. The number of employees participated was reduced to 760.
01/04/05 – 31/03/08	676	60	4.50%	5.2475%	The 62.3 million loan was extended to 31 March 2008. The balance was reduces to 60 million and the number of employees participated was reduced to 676.
29/12/04 – 29/06/08	147	40	4.00% (29/12/04 – 29/12/06) 5.2% (29/12/06 – 29/06/08)	4.72% (29/12/06 – 29/12/06) 6.12% (29/12/06 – 29/06/08)	Extended to 29 June 2008
29/12/05 – 29/06/08	124	20	4.00% (29/12/05 – 29/12/06) 5.2% (29/12/06 – 29/06/08)	4.72% (29/12/05 – 29/12/06) 6.12% (29/12/06 – 29/06/08)	Extended to 29 June 2008
29/09/06 – 29/06/08	191	40	5.2%	6.12%	N/A
<b>As at 31 December 2006</b>	<b>2,128 *</b>	<b>310</b>			

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## SUMMARY

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\* *There were approximately 599, 965 and 691 employees participating in more than one tranche of Employee Investment as at 31 December 2004, 31 December 2005 and 31 December 2006 respectively.*

The PRC legal advisers to the Company have confirmed that the Employee Investments, BITIC Loans and Confirmation Letters were valid and comply with all relevant PRC laws and regulations. The primary reason that the Company chose to obtain the BITIC Loans in June 2004 was that the commercial terms offered by BITIC were the most favorable compared to the other potential lenders canvassed by the Group. From the perspective of the risks to, and the obligations of, the Group, the BITIC Loans are no different from any other loans from financial institutions. The BITIC Loans have been used by the Group for working capital purposes and it is intended that they will continue to be used by the Group for such purposes as well as to finance its operations in the future. The Directors confirmed that the Group has not received any complaints for the arrangement of BITIC Loans and Employees Investments. In relation to the other abovementioned borrowings, the PRC legal opinion states that the risk of litigation and hence the risk of penalty, is minimal as the borrowings have been repaid.

Apart from the BITIC Loans, the Group has also obtained other loan facilities from other financial institutions. As at 31 December 2006, the Group had borrowings from such other financial institution of approximately RMB576.4 million being amount repayable within one year and borrowings of RMB120.0 million being amount repayable over one year.

Details of the Employee Loans, the BITIC Loans and the Employee Investments are set out in the section headed “Financial Information – Further Information on the Employee Loans, the BITIC Loans and the Employee Investments”.

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## DEFINITIONS

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*In this document, unless the context otherwise requires, the following expressions have the following meanings:*

“Articles” or “Articles of Association”	the articles of association of the Company adopted by resolutions of its Shareholders on 18 February 2005, and as amended at the 2006 AGM and assuming that the amendments passed at the extraordinary general meeting held on 20 March 2007 have become unconditional, and otherwise as amended from time to time, a summary of certain provisions of the current version of which is set out in Appendix IV to this document
“associate(s)”	has the meaning as ascribed to it in the Main Board Listing Rules
“Audit Committee”	the audit committee of the Board
“BDRC”	北京市發展和改革委員會 (Beijing Municipal Development and Reform Committee)
“Beijing Gaoya”	北京高雅華立科貿有限公司 (Beijing Gaoya Huali Kemao Company Limited), a company incorporated in the PRC and is one of the Promoters
“Beijing Jiazeng”	北京加增工貿有限公司 (Beijing Jiazeng Gongmao Company Limited), a company incorporated in the PRC and is one of the Promoters
“Beijing SASAC”	北京市人民政府國有資產監督管理委員會 (Beijing Municipal Government State-owned Assets Supervision and Administration Commission)
“Board”	the board of Directors
“Business Day”	a day that is not a Saturday, Sunday or a public holiday in Hong Kong
“CAGR”	compounded annual growth rate
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Chaopi Flavourings”	北京市朝批調味品有限責任公司 (Beijing Chaopi Flavourings Company Limited), a limited liability company incorporated in the PRC on 29 April 2001 and an approximately 52.63% held subsidiary of Chaopi Trading
“Chaopi Huaqing”	北京市朝批華清飲料有限責任公司 (Beijing Chaopi Huaqing Beverage Company Limited), a limited liability company incorporated in the PRC on 13 December 2000 and an approximately 53.43% held subsidiary of Chaopi Trading

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## DEFINITIONS

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“Chaopi Huilong”	北京朝批滙隆商貿有限公司 (Beijing Chaopi Huilong Trading Company Limited), a limited liability company incorporated in the PRC on 8 February 2007 and an approximately 51.10% held subsidiary of Chaopi Trading
“Chaopi Jinglong”	北京朝批京隆油脂銷售有限公司 (Beijing Chaopi Jinglong Oil Sales Company Limited), a limited liability company incorporated in the PRC on 9 May 2005 and an approximately 54.23% held subsidiary of Chaopi Trading
“Chaopi Qingdao”	青島朝批錦隆商貿有限公司 (Qingdao Chaopi Jinlong Trading Company Limited), a limited liability company incorporated in the PRC on 28 September 2005 and a wholly owned subsidiary of Chaopi Trading
“Chaopi Shijiazhuang”	石家莊朝批鑫隆商貿有限公司 (Shijiazhuang Chaopi Xinlong Trading Company Limited), a limited liability company incorporated in the PRC on 12 September 2005 and a wholly owned subsidiary of Chaopi Trading
“Chaopi Shuanglong”	北京市朝批雙隆酒業銷售有限責任公司 (Beijing Chaopi Shuanglong Alcohol Sales Company Limited), a limited liability company incorporated in the PRC on 29 August 2002 and an approximately 59.00% held subsidiary of Chaopi Trading
“Chaopi Tianxing”	北京市朝批天興果菜有限責任公司 (Beijing Chaopi Tianxing Vegetables Company Limited), a limited liability company incorporated in the PRC on 31 July 2002 and owned as to approximately 35.48% by Chaopi Trading
“Chaopi Trading”	北京朝批商貿有限公司 (Beijing Chaopi Trading Company Limited), a limited liability company incorporated in the PRC on 31 May 2002 and an approximately 76.42% held subsidiary of the Company
“Chaopi Zhongde”	北京朝批中得商貿有限公司 (Beijing Chaopi Zhongde Trading Company Limited), a limited liability company incorporated in the PRC on 7 February 2007 and a 80.00% held subsidiary of Chaopi Trading
“Chaopi Ziguang”	北京朝批紫光商貿有限公司 (Beijing Chaopi Ziguang Trading Company Limited), a limited liability company incorporated in the PRC on 8 December 2003 and owned as to approximately 45.45% by Chaopi Trading

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## DEFINITIONS

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“Chaoyang Auxillary”	北京市朝陽副食品總公司 (Beijing Chaoyang Auxillary Food Company), a state-owned enterprise under the jurisdiction of SASAC of Chaoyang District and the controlling shareholder of the Company and one of the Promoters. After the completion of the Chaoyang Auxillary State Owned Assets Restructuring in June 2004, the principal business of Chaoyang Auxillary is investment holding in the Company, Tengyuan and Beijing Chaofu Labour Society (北京市朝富勞務服務社), and provision of property management and property leasing to the Group and Independent Third Parties, including the properties leased to the Group as disclosed in the “Connected Transactions” section in this document
“Chaoyang Auxillary State Owned Assets Restructuring”	the restructuring undergone by Chaoyang Auxillary to segregate its operating/performing assets from its non-operating/non-performing assets, and rationalising its various business units and holding structure, details of which are set out in the section headed “History and Development and Reorganisation” in this document
“China Chain Operators Research Report”	二零零四年中國連鎖經營企業經營狀況分析報告 (the 2004 China Chain Operators Research Report) published in May 2005 by 中國連鎖經營協會 (the China Chain Store and Franchise Association), an Independent Third Party
“Class Meetings”	the respective class meetings of the holders of the H Shares and holders of the Domestic Shares to be held at 4th Floor, Block No. 45, Xinyuan Street, Chaoyang District, Beijing, The People’s Republic of China respectively on 14 August 2007 or any adjournment thereof
“Company”	北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited), a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended and in force from time to time
“Company Law”	中華人民共和國公司法 (the Company Law of the PRC) enacted by the Standing Committee of the 8th National People’s Congress on 29 December 1993, and which became effective on 1 July 1994, as amended, supplemented or otherwise modified and in force from time to time

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## DEFINITIONS

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“CSRC”	中國證券監督管理委員會 (the China Securities Regulatory Commission), a regulatory body responsible for the supervision and regulation of the PRC’s securities markets
“DBS Asia” or “Sponsor”	DBS Asia Capital Limited, a corporation licensed under the SFO to engage in types 1, 4, and 6 of the regulated activities (as defined under the SFO)
“Director(s)”	the director(s) of the Company
“Distribution Centre(s)”	the wholesale distribution centre(s) operated by the Group
“Distribution Outlet(s)”	Retail Outlet(s) and Distribution Centre(s)
“Domestic Share(s)”	ordinary share(s) in the capital of the Company, with a RMB denominated par value of RMB1.00 each, which were subscribed by domestic shareholders and credited as fully paid up in RMB, which shall include the State-owned Domestic Shares
“Effective Date”	1 November 2004, the date on which the Company was converted into a joint stock limited company
“Extraordinary General Meeting”	an extraordinary general meeting of the Company to be held at 4th Floor, Block No. 45, Xinyuan Street, Chaoyang District, Beijing, the People’s Republic of China on 14 August 2007 or any adjournment thereof
“GDP”	gross domestic product
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing”	the listing of the H Shares on GEM, the commencement of which took place on 25 September 2006
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended from time to time
“Greater Beijing Region”	the region covering the whole Beijing city and certain parts of Northern China peripheral to Beijing
“Group”	the Company and its subsidiaries or, where the context so requires in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company or some or any of them, as the case may be
“HK\$” or “Hong Kong Dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRSs”	Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards

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## DEFINITIONS

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“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	overseas listed foreign share(s) of nominal value RMB1.00 each in the share capital of the Company, which are subscribed for and traded in HK\$
“Independent Third Party” or “Independent Third Parties”	a person or company who/which is not a director, supervisor, promoter, chief executive or substantial shareholder of the Company or any of its subsidiaries or any of their respective associates
“Individual Promoters”	16 PRC individuals, namely Li Shunxiang, Yang Baoqun, Liu Yanli, Xia Wensheng, Gao Jiaqiang, Gu Hanlin, Wei Tingzhan, Dai Jing, Bai Xianrong, Chen Limin, Zhao Weili, Li Jianwen, Gao Jingsheng, Tian Junying, Qu Xinhua and Li Chunyan, all of them being promoters of the Company
“Introduction”	the proposed listing of the H Shares on Main Board by way of an introduction pursuant to Main Board Listing Rules
“Jin Chaoyang”	北京金朝陽商貿國有資本運營公司 (Beijing Jin Chaoyang State-owned Capital Trading Company), a company incorporated on 1 July 1993 in the PRC as a state-owned enterprise. Pursuant to the notice issued in 2004 by the People’s Government of Chaoyang District titled 《關於區國資委監管範圍及監管方式的通知》 (Notice in relation to the scope and methods of supervision by district SASAC), Jin Chaoyang, Chaoyang Auxillary and the Company were listed as entities within the jurisdiction of the SASAC of Chaoyang District. Jin Chaoyang is an Independent Third Party principally engaged in the administration and management of state-owned assets entrusted by the regional government into the trading system of the Chaoyang District
“Jingkelong Chain”	北京京客隆超市連鎖有限公司 (Beijing Jingkelong Supermarket Chain Company Limited), a limited liability company incorporated in the PRC on 5 July 2006 and a wholly-owned subsidiary of the Company
“Jingkelong Langfang”	北京京客隆(廊坊)有限公司 (Beijing Jingkelong (Langfang) Company Limited), a limited liability company incorporated in the PRC on 26 April 2000 and a 80% held subsidiary of the Company
“Jingkelong Shang Sha”	京客隆商廈 (Beijing Jingkelong Shang Sha), a State-owned enterprise incorporated in the PRC whose establishment in the PRC was approved by Administration for Industry and Commerce of Chaoyang District, Beijing on 12 May 1994 and the predecessor of Jingkelong Supermarket



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## DEFINITIONS

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“Jingkelong Supermarket”	北京京客隆超市連鎖集團有限公司(Beijing Jingkelong Supermarket Chain Group Company Limited), a State-owned holding enterprise incorporated in the PRC whose establishment in the PRC was approved by Beijing Administration for Industry and Commerce on 20 May 2002 and the predecessor of the Company. Prior to 6 December 2002, the name of Jingkelong Supermarket was 北京京客隆超市連鎖有限公司 (Beijing Jingkelong Supermarket Chain Company Limited)
“km”	kilometre(s)
“Latest Practicable Date”	25 June 2007, being the latest practicable date prior to the printing of this document for ascertaining certain information contained in this document
“Listing Committee”	the listing committee of the board of directors of the Stock Exchange
“Logistics Centre(s)”	the retail logistics centre(s) operated by the Group
“m”	metre(s)
“Macau”	the Macau Special Administrative Region of the PRC
“Mandatory Provisions”	到境外上市公司章程必備條款 (the Mandatory Provisions for the Articles of Association of Companies Seeking a Listing Outside the PRC) promulgated on 27 August 1994 by the Securities Commission and the SCRES, as amended, supplemented or otherwise modified from time to time
“Main Board”	the securities market operated by the Stock Exchange prior to the establishment of GEM which continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“Main Board Listing”	the listing of the H Shares on the Main Board
“Main Board Listing Date”	the date on which dealings in the H Shares shall first commence on Main Board (currently expected to be 3 October 2007)
“Main Board Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Main Board Migration”	the proposed migration of the listing of the H Shares from GEM to Main Board, which is the subject matter of the Introduction
“Nomination Committee”	nomination committee of the Board

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## DEFINITIONS

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“NSSF Council”	全國社會保障基金理事會 (The National Social Security Fund Council of the PRC), an organisation authorised by the State Council and is responsible for the administration of the State’s national social security fund
“PBOC”	中國人民銀行 (the People’s Bank of China), the central bank of the PRC
“Placing”	the placing of 85,800,000 H Shares at HK\$4.50 per H Share as referred to in the Prospectus in connection with the GEM Listing
“POS system”	point of sale system, being an electronic cash register system used in retail environments
“PRC” or “China”	the People’s Republic of China which, for the purposes of this document, excludes Hong Kong, Macau and Taiwan
“PRC GAAP”	generally accepted accounting principles in the PRC
“Promoters”	Chaoyang Auxillary, Shanxi Trust, Beijing Gaoya, Beijing Jiazeng, Tianjin Jinganghua and the Individual Promoters, all of them being promoters of the Company
“Promoter Shares”	the Domestic Shares held by the Promoters
“Promoters’ Agreement”	the promoters’ agreement dated 12 August 2004 entered into by the Promoters in relation to, among other matters, the rights and obligations of the Promoters in connection with capital injection and the conversion into and establishment of the Company as a joint stock limited company
“Proposed Withdrawal”	the proposed withdrawal of dealings of the H Shares on GEM
“Prospectus”	the prospectus issued by the Company on 12 September 2006 in connection with the Placing and Public offer
“Public Offer”	the public offer of 66,000,000 H Shares at HK\$4.50 per H Share as referred to in the Prospectus in connection with the GEM Listing
“Reorganisation”	the corporate reorganisation which the Group underwent in preparation for the GEM Listing, details of which are set out in the paragraph headed “The Reorganisation” in Appendix V to this document
“Retail Outlet(s)”	any hypermarket(s), supermarket(s), convenience store(s) and/or community shopping centre(s) of the Group whether directly-operated or franchised

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## DEFINITIONS

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“Remuneration Committee”	remuneration committee of the Board
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“SAFE”	中華人民共和國國家外匯管理局 (the State Administration for Foreign Exchange of the PRC)
“SASAC”	國務院國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of the State Council)
“SCRES”	中國國家經濟體制改革委員會 (the State Commission for Restructuring the Economic System of the PRC), which was dissolved in March 1998, and its successor, 中華人民共和國國家發展和改革委員會 (the National Development and Reform Commission), responsible for matters relating to the restructuring of the economic system in the PRC
“Securities Commission”	中國國務院證券委員會 (the Securities Commission of the State Council of the PRC), a regulatory body established in October 1992 responsible for overseeing the PRC securities markets from a macro-perspective and which was rescinded in March 1998 pursuant to a resolution of the State Council whilst its functions were assumed by CSRC thereafter
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanxi Trust”	山西信託投資有限責任公司 (Shanxi Trust Investment Company Limited), a company incorporated in the PRC and is one of the Promoters
“Share(s)”	Domestic Share(s) and/or H Share(s) of RMB1.00 each in the share capital of the Company, as the case may be
“Shareholder(s)”	the holder(s) of Share(s)
“Shou Lian”	北京首聯商業集團有限公司 (Beijing Shou Lian Group Enterprises Company), a limited liability company established in the PRC
“Special Regulations”	國務院關於股份有限公司境外募集股份及上市的特別規定 (the PRC Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies), issued by the State Council on 4 August 1994, as amended, supplemented or otherwise modified from time to time
“sq.m.”	square metre(s)

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## DEFINITIONS

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“State” or “PRC Government”	the government of the PRC
“State Council”	中華人民共和國國務院 (the State Council of the PRC)
“State-owned Domestic Share(s)”	Domestic Share(s) from time to time held by Chaoyang Auxillary, and comprise 170,169,808 Domestic Shares representing approximately 44.24% of the existing share capital of the Company immediately after the GEM Listing
“State Restructuring Commission”	中華人民共和國國務院經濟體制改革辦公室 (the State Council Office for Restructuring the Economic System of the PRC)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder”	has the meaning given to it by the Main Board Listing Rules, which as at the date of this document means Chaoyang Auxillary
“Supervisor(s)”	member(s) of the supervisory committee of the Company
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Tengyuan”	北京市騰遠興業汽車服務有限公司 (Beijing City Tengyuan Xingye Vehicle Service Limited Company), a company incorporated in the PRC and an approximately 62.73% held subsidiary of the Company prior to the disposal on 22 June 2004, and the Company ceased to have any interest therein with effect from 23 June 2004
“Tianjin Jinganghua”	天津市金港華建築藝術裝飾工程有限公司 (Tianjin Jinganghua Jianzhu Art Decoration Work Company Limited), a company incorporated in the PRC and is one of the Promoters
“Track Record Period”	the periods comprising the three financial years ended 31 December 2004, 2005 and 2006
“US”	the United States of America
“US dollars” or “US\$”	United States dollars, the lawful currency of the US
“VPN”	virtual private network, being a private communications network often used by companies or organisations to communicate confidentially over a public network
“WTO”	the World Trade Organisation
“Xinyang Tongli”	北京欣陽通力商業設備有限公司 (Beijing Xinyang Tongli Commercial Facilities Company Limited), a limited liability company incorporated in the PRC on 31 May 2002 and an approximately 52.03% held subsidiary of the Company

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## DEFINITIONS

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“Xi You”	北京西單友誼集團 (Beijing Xi Dan You Yi Group), a PRC state-owned enterprise
“Yiyuantang”	北京嘉事朝陽醫藥有限公司 (Beijing Jiashi Chaoyang Medicine Company Limited) (formerly known as 北京一元堂醫藥連鎖有限公司 (Beijing Yiyuantang Medicine Chain Company Limited)), a company incorporated in the PRC and an approximately 70.13% held subsidiary of the Company prior to 8 July 2003, and an approximately 35.07% held associate of the Company during the period from 8 July 2003 to 22 June 2004, and the Company ceased to have any interest therein with effect from 23 June 2004
“2006 AGM”	the annual general meeting of the Company held on 18 May 2007
“%”	per cent.

*For ease of reference, the names of the PRC-incorporated or PRC-established companies, institutions and entities have been included in this document in both the Chinese and English languages. In the event of any inconsistency, the Chinese name prevails.*

*Unless otherwise specified in this document, amounts denominated in RMB have been converted, for the purpose of illustration only, into Hong Kong Dollars at a rate of HK\$1.003 = RMB1.00. No representation is made that any amounts in HK\$ or RMB could have been or could be converted at the above rate or at any other rates or at all.*

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## RISK FACTORS

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*You should carefully consider all of the information in this document including the risks and uncertainties described below before making an investment in the H Shares. You should pay particular attention to the fact that the Company is a PRC company and is governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. The business, financial condition or results of operations of the Group could be materially adversely affected by any of these risks. The trading price of the H Shares could decline due to any of these risks, and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below, please refer to Appendix IV "Summary of principal legal and regulatory provisions and articles of association" to this document.*

### RISKS RELATING TO THE GROUP

#### Locations of Distribution Outlets, rental exposure and renewal of leases

The Group's retail distribution network depends significantly on its ability to deploy Retail Outlets at accessible and convenient locations where there is a high population density and pedestrian flow. Given the scarcity of such locations and their relatively high rental, particularly in downtown Beijing, there is no assurance that the Group could secure or obtain such locations on favourable terms. As at 31 December 2006, 77 of the Group's directly-operated Retail Outlets were operated at leased properties whilst five of its directly-operated Retail Outlets were operated at properties owned by the Group. Failure to successfully deploy the Group's existing and future Retail Outlets at such accessible and convenient locations with high population density and pedestrian flow may lead to reduced sales and hence may have an adverse effect on the Group's financial position and its future growth.

The Group's wholesale distribution network comprises of two strategically situated Distribution Centres, serving the Greater Beijing Region. The premises of both Distribution Centres are leased from lessors who are Independent Third Parties. The Distribution Centres are situated in locations with easy access to major transportation highways and roads. Failure to successfully deploy the Distribution Centres at such locations may lead to disruptions and/or increased costs to and hampering growth in the Group's business.

Details of the Group's leases are set out in Appendix III to this document.

During the Track Record Period, the total rental costs of the Distribution Outlets amounted to approximately RMB34.2 million, RMB39.5 million and RMB50.0 million respectively, (representing approximately 0.96%, 0.96% and 1.1% respectively of the Group's revenue of continuing operations).

Given the economic growth in the PRC generally, the costs of properties in the PRC are generally expected to increase. As a result, the Group's profitability may be adversely affected by fluctuations in the PRC property market.

In an effort to control its exposure to rising rental rates, as at 31 December 2006, the Group had negotiated and entered into long-term leases of ten or over ten years for all of its directly-operated Retail Outlets except for six leases of six months, five years, five years, seven and a half years, eight years and nine and a half years respectively. In relation to the Distribution Centres, the Group had negotiated and entered into leases of five years, five years, nine years, ten years and fifteen years

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## RISK FACTORS

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respectively with lessors who are Independent Third Parties. There is no assurance that the Group would be able to renew such leases or negotiate new leases on similar or favourable terms (including, without limitation, on similar tenure and on similar rental charges) in the future or that any such lease would not be terminated early. To the extent that the Group is required to find alternative locations for its Distribution Outlet, there is no assurance that it would be able to secure comparable locations or negotiate leases on comparable terms. This may, in turn, have an adverse effect on the Group's business, financial position and its future growth potential.

### **Resumption of Retail Outlets and neighbourhood property**

Pursuant to 中華人民共和國土地管理法 (the Land Administration Law of the People's Republic of China), 中華人民共和國城市規劃法 (the City Planning Law of the People's Republic of China), 城市房屋拆遷管理條例 (the Regulation on Urban Housing Demolition) and 北京市城市房屋拆遷管理辦法 (the Administrative Rules on Urban Housing Demolition of Beijing), the State is entitled to resume land for various purposes such as town planning, compliance with the reform policy of city adaptation, improvement of dangerous buildings, environmental protection, urban renewal and preservation of historical sites. Monetary compensation or exchange for property rights would be given to the occupants of reclaimed land.

During the Track Record Period, five of the Retail Outlets were closed down primarily as a result of the State's resumption of land. The contributions of revenue and net profits from these five self-owned Retail Outlets to the Group during the Track Record Period were approximately RMB163.5 million and RMB7.6 million, RMB95.2 million and RMB4.1 million, and RMB50.3 million and RMB1.7 million, respectively. Although the State and the demolition and removal party paid compensation to the Group in respect of the closure of such Retail Outlets and the Group recorded income from net compensation for demolished Retail Outlets of approximately RMB12.0 million, RMB11.1 million and 17.0 million respectively during the Track Record Period, and also recorded a gain of exchange of property of approximately RMB27.5 million for the year ended 31 December 2004, the Group has no control over the State's land resumption plans and there is no assurance that any compensation or financial assistance offered by the State and the demolition and removal party in future would be sufficient to even cover the Group's investment costs in respect of any Retail Outlet which had to close. The Directors confirmed that the compensations received during the Track Record Period were sufficient to cover the Group's investment costs. To the extent that the Group is obliged to close down any of its Retail Outlets due to such land resumption and/or to the extent that any resultant compensation or financial assistance offered by the State and the demolition and removal party is insufficient to cover the Group's investment costs for any such Retail Outlet, and if the Group could not find alternative location with comparable operating environment, the Group's business plans and financial position may be adversely affected.

Furthermore, the easily accessible and highly visible locations (such as residential neighborhoods, and in or along major road and transport systems) of the Group's Retail Outlets are critical to the success and performance of the Group's retail operations. However, the State may also resume the land and buildings in the vicinity of, or change the road and transport systems connecting, the Group's Retail Outlets, which may have the effect of reducing and/or limiting the pedestrian and traffic flow, and as a result, the business of the relevant Retail Outlets may be adversely affected.

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## RISK FACTORS

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### **Risks associated with leased property interests of Chaopi Trading and the Company**

Leased properties for five supermarkets numbered 46, 49, 50, 53 and 60 in the section headed “Property Valuation” in Appendix III to this document which as at 31 December 2006 have not registered with relevant PRC authorities, have subsequently completed the relevant registration.

As at 30 April 2007, the tenancy agreements of 20 Retail Outlets, including one hypermarket, 15 supermarkets and four convenience stores, have not been registered with the relevant PRC authorities as required under the PRC laws and regulations.

For the 20 aforementioned Retail Outlets, 16 were in operation as at 30 April 2007; the tenancy agreements of three Retail Outlets were entered in December 2006 and in 2007 of which will be opened in 2007; and the tenancy agreement of one leased property number 59 in the section headed “Property Valuation” in Appendix III to this document with leased terms of six months and expiring in September 2007, which the Group intended not to renew the tenancy and the relevant Retail Outlet will be relocated to other premises upon expiry.

For the above 16 Retail Outlets in operation with an aggregate net operating area of approximately 26,659 sq.m., including one hypermarket, 11 supermarkets and four convenience stores, which have not yet completed the PRC registration procedures. The aggregate annual revenue of these 16 Retail Outlets in 2006 was only approximately RMB106.4 million, representing only 2.3% of the total revenue of the Group for the year 2006. The hypermarket commenced operations on the last day of 2006. The revenue generated by each of the supermarkets and convenience stores accounted for less than 1% of the Group’s revenue for the year ended 31 December 2006.

The Group has selected the above locations because of their high pedestrian flow. In the event that any of the above tenancy agreements is determined to be void, and the use and occupation of any of the above premises are terminated or interrupted, the affected Retail Outlets may be required to move to another location, which may adversely affect the operations of the Group. In this respect, Chaoyang Auxillary has undertaken to indemnify the Company against any costs, expenses, losses and claims that the Company may suffer as a result of such relocation.

The lessor of Chaopi Trading’s Distribution Centre in Beijing has not obtained the relevant building ownership certificate. In addition, the tenancy agreements entered into by Chaopi Trading and the lessor in respect of the Distribution Centre have not been registered with the relevant PRC authorities as required under the PRC laws and regulations. This Distribution Centre was leased by Chaopi Trading under four tenancy agreements. As the lands involved are owned by rural collectives, the relevant tenancy agreements cannot be registered with the relevant PRC authorities as required under the relevant PRC laws and regulations. Though the wholesale distribution business contributed to over 40% of revenue of the Group’ continuing operations during the Track Record Period, the Directors consider that the defects in title would not have a material adverse impact to the Group should Chaopi Trading be evicted from such premises due to (i) such Distribution Centre being a warehouse in nature; (ii) the dry product Logistic Centre can support part of such Distribution Centre’s function; (iii) such Distribution Center is located in rural area of Chaoyang District and a site with similar area and location can be easily identified; (iv) most of the fixed assets installed, for example loading systems, are movable in nature and the costs incurred for relocation would be minimal; and (v) Chaoyang Auxillary has undertaken to indemnify the Company against any costs, expenses, losses and claims that the Company may suffer as a result of such eviction.



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## RISK FACTORS

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For further details, please refer to the section headed “Property Valuation” in Appendix III to this document. As advised by the Company’s PRC legal advisers, the failure to obtain the building ownership certificate and to register the leased property may render the respective tenancy agreements void. The Group may not be capable of invalidating any legally viable claims of right of such properties from any lenient third parties by virtue of the leases. As such, the Group’s occupancies and uses of the properties may cease or terminate. In addition, the Company will complete the registration of such tenancies within a specified timeframe as described in the paragraph headed “Property Interests” in the “Financial Information” section of this document. In the event that such registration cannot be completed in time, the Company would need to terminate the relevant tenancies within 12 months after the specified deadline. Whilst the Company will use its best endeavours to ensure that all of its future lease arrangements are properly registered in accordance with applicable laws and regulations, there can be no assurance that the Company will be able to do so in a timely manner (if at all) on each and every occasion particularly where the circumstances are beyond the Company’s control (such as due to the landlord’s lack of title documents).

### **Employee Loans and other loans to the Group**

The Group had borrowings aggregating approximately RMB181 million as at 31 December 2003 from approximately 2,169 employees (“Employee Loans”) and such Employee Loans were made prior to Chaoyang Auxillary State Owned Assets Restructuring to partly finance the Group’s operation and development. These Employee Loans were unsecured and repayable on demand. The Group had paid interest to such employees at a rate lower than that of the Group’s then prevailing bank loans, and its employees received interest at a rate higher than that generally offered for cash deposited in banks. Accordingly, such arrangement was believed to have been in the benefit of the Group and its employees as a whole. Further information about the Employee Loans are set out in the “Financial Information – Further Information on the Employee Loans, the BITIC Loans and the Employee Investments” section in this document. In addition, apart from bank loans and Employee Loans, the Group had borrowings from other enterprises during the Track Record Period, including various commercial entities and government bodies under the jurisdiction of the SASAC of the Chaoyang District.

Based on a PRC legal opinion obtained by the Company, the Employee Loans and other loans from the abovementioned commercial entities and government bodies might not have been complied with the relevant PRC laws and hence the relevant loan agreements might not have been enforceable. All of the Employee Loans and such other borrowings were therefore repaid in June 2004 and by 28 February 2006 respectively. However, according to the PRC legal opinion, (i) in relation to the Employee Loans, the Group may be subject to a maximum penalty of 5% of the amount of the total borrowings from the said employees and (ii) in relation to the borrowings from commercial entities and government bodies, the Group may be subject to a penalty equivalent to the amount of bank interest only in the event that a lawsuit in this regard is brought. In relation to the Employee Loans, Chaoyang Auxillary has undertaken to indemnify the Company against any costs and penalties that the Group may suffer due to the non-compliance with the relevant PRC laws in respect of Employee Loans, the fact that the relevant loan agreements were not enforceable, and that the Group may be subject to a maximum penalty of 5% of the amount of the total borrowings. In relation to the other abovementioned borrowings, the PRC legal opinion states that the risk of litigation and hence the risk of penalty, is minimal as the borrowings have been repaid.

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## RISK FACTORS

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Since the repayment of the Employee Loans was made in June 2004, the Group had taken out certain loans from Beijing International Trust and Investment Company Limited (“BITIC Loans”). The BITIC Loans were funded by certain investments contributed by certain employees of the Group (“Employee Investments”). The Company’s PRC lawyers have confirmed that the BITIC Loans and the Employee Investments are valid and legal. Further details of the BITIC Loans and the Employee Investments are set out in the “Financial Information” section of this document.

The Company will state in its annual report issued each year after the Main Board Listing whether its borrowings incurred in the relevant financial year are in compliance with applicable laws.

### **Inability to successfully implement its strategy for future growth**

The Directors believe that the success of the Group in the future will substantially depend on, inter alia, the Group’s success in expanding its distribution networks. As at 30 April 2007, the Group directly-operated a distribution network of five hypermarkets, 40 supermarkets and 39 convenience stores, and two Logistics Centres and two Distribution Centres. It had also entered into franchise arrangements for one supermarket and 85 convenience stores.

The Group has formulated plans to further establish not less than 83 Retail Outlets, including approximately 43 directly-operated Retail Outlets and 40 Retail Outlets under franchise arrangements, respectively, during the period from 5 September 2006, being the latest practicable date as defined in the Prospectus, to 31 December 2008. The Group also hopes to expand the coverage of its wholesale distribution network by establishing additional Chaopi Trading’s subsidiaries and associated companies. There is no assurance that any such expansion plans will become successful or materialise.

The successful implementation of such plans may be affected by a number of factors, which may or may not be within the Group’s control. Such factors include, without limitation:

- the Group’s ability to manage such expansion, and to recruit and train appropriate staff
- the Group’s ability to identify strategic locations for establishing Distribution Outlets and secure the relevant lease and/or purchase such locations on favorable terms
- changes in consumer preference and/or purchasing power
- the availability of funds to finance the Group’s expansion plans
- the availability of suitable investment opportunities and whether the return on such investments can meet the Directors’ expectations
- whether the PRC consumer product industry will continue to grow at a pace expected by the Directors
- the level of the competition, domestic and foreign, in the retail and wholesale distribution industries in which the Group operate
- whether the Group is able to effectively complement and coordinate both its retail and wholesale distribution networks, and capitalise on any business opportunities arising from the sharing of data between the distribution networks

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## **RISK FACTORS**

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There is no assurance that the Group will be successful in managing any of the foregoing risks. The Group's growth is also dependent on the continued development of its operating and financial controls, which may entail devising and effectively implementing business plans, training and managing the Group's growing workforce, managing costs and implementing adequate control and reporting systems in a timely manner. This may also place strains on the Group's information management systems. To the extent that the Group is unable to fully carry out its future plans effectively or encounters difficulties in implementing its growth strategies, its business prospects may be adversely affected.

### **Potential failure on software and hardware systems**

Any system failure or inadequacy that causes interruptions to the availability of the Group's distribution networks, or increases the response time of the Group's distribution networks, could reduce customer satisfaction, and thus adversely affect the future growth and the Group's attractiveness to customers.

Although the Group has not experienced any major system failure and electrical outages in the past, the Group may experience minor system failures and electrical outages in future. The Group does not presently have any disaster recovery plan in the event of damage from disasters such as fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins and similar events. Moreover, if any of the foregoing occurs, the Group may experience a computer system shut-down. Although the Group currently has back-up procedures and off-site storage of back-up tapes, the Group may have to make substantial investments to deploy additional servers should the Group decide to take measures against any of the above or other risks.

### **Keen competition in the distribution business**

There is no assurance that the prices (or quality) of the daily consumer products which the Group distributes will not be higher than (or inferior to, as the case maybe) those of competing products supplied by the Group's competitors, or that the overall demand for such products from end-consumers can at all times be sustained. In the event that demand from end-consumers for such products decreases, resulting in a decrease in the demand for such products from the Group, the Group's sales will be affected until the Group is able to source an alternative products or identify alternative sources of supply at desirable prices (or quality) to make up the shortfall. This may have an adverse impact on the Group's revenue and profitability.

In addition, any material cancellation of, reduction in and/or cessation of orders for whatever reasons by any of the Group's major customers, without suitable replacements, would adversely affect the results of operations and financial condition of the Group.

### **Potential change of distribution method by suppliers and manufacturers**

As e-commerce develops and third party logistics providers become more efficient and easily available, the suppliers and manufacturers who presently have arrangements with the Group for distribution may change their sales and/or distribution format or channels by engaging the services of other logistics services providers to undertake direct distribution of their daily consumer products in PRC and/or the Greater Beijing Region on their own. The loss of such distribution business may have an adverse impact on the Group's results.

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## RISK FACTORS

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### **Inability to obtain all requisite licences on time**

Each Retail Outlet and the third party counters in the Retail Outlets offering ancillary services are required to obtain certain licences and/or permits from the relevant PRC governmental authorities in order to sell certain categories of daily consumer products. These include business licenses, hygiene permits, permits for circulation of publications, animal quarantine permits, permit for tobacco monopoly retail business and alcoholic beverages circulation registrations. The obtaining or renewing of such licences and permits may take time and there is no assurance that the Group will be able to ensure that all requisite licences and permits are obtained or renewed for any particular Retail Outlet and/or by any third party counter. It is an offence to sell certain products without the relevant licences and permits and in any such case the operator is liable to financial penalties of up to 10 times of the revenue received and/or foreclosure of the retail store. In addition, the Group may be liable to compensate for any infringement of consumer rights at such third party counters in Retail Outlets.

As at the Latest Practicable Date, one supermarket, the branch of a subsidiary and one associated company of the Group are in the progress of obtaining or renewing certain licences and/or permits for their respective operations. The Directors have undertaken to speed up the process of obtaining and renewing the relevant licences and/or permits. According to the legal opinion of the Group's PRC legal advisers, save as the aforesaid, the Group has obtained all licences and/or permits necessary for their actual operations. The said associated company of the Group recorded a loss and turnover of approximately RMB0.56 million and RMB2.1 million, RMB74,000 and RMB4.7 million, and RMB0.22 million and RMB2.4 million, respectively during the Track Record Period. The said branch of the Group's subsidiary recorded a loss and turnover of approximately RMB0.9 million and RMB42.8 million, and RMB0.8 million and RMB95.5 million for each of the two years ended 31 December 2005 and a profit and turnover of approximately RMB1.7 million and RMB80.5 million for the year ended 31 December 2006. The said supermarket of the Group has not yet commenced operations and no profit and turnover have been recorded.

During the Track Record Period, save as disclosed above, the Group has obtained and maintained all required licences and permits for its Retail Outlets, Logistics Centres and operations of its subsidiaries and associated companies, and was not subject to any penalties or any compensation orders. However, there is no assurance that the Group and its third party counter operators will be able to comply fully with the licensing requirements at all times in the future, which would lead to the cessation of the relevant business activity, and hence the business and results of the Group would be adversely affected.

### **Product liability**

The Group sources its products from third party manufacturers and suppliers. Although the Group adopts quality controls on sourcing daily consumer products, certain consumers may have adverse reactions to or suffer loss from any of the daily consumer products they purchase from any of the Distribution Outlets, which may lead to actual or potential product liability claims. Apart from potential financial losses, the Group is also exposed to reputation damage as a result of any such claim.

Under the current PRC laws, both the manufacturer and vendor of defective products in the PRC may be liable for loss and injury caused by such products, at both criminal and civil levels. Pursuant to 中華人民共和國民法通則 (the General Principles of the Civil Law of the People's Republic of China), which was implemented in 1987, defective products causing any property damages or physical injuries to any person may expose the manufacturer or vendor of such product to civil liability. In 1993, 中華人民共和國消費者權益保護法 (the Law of the People's Republic of China on Protection of Consumers' Rights and Interests) was promulgated which accords further protection to the legal

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## RISK FACTORS

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rights and interests of consumers in connection with the purchase or use of goods and services. At present, all vendors must observe and comply with 中華人民共和國消費者權益保護法 (the Law of the People's Republic of China on Protection of Consumers' Rights and Interests) in the course of selling goods to consumers.

The Group does not maintain product liability insurance. The Group has obtained back-to-back indemnities from a few suppliers. These indemnities are drafted broadly to cover all costs and expenses arising from any litigation claims, with no explicit cap on liability. Although back-to-back indemnity helps to protect the Group and is a risk reduction strategy, it is not available from all of the Group's suppliers, and, for the existing indemnities, they are unlikely to be able to protect the Group against all of the costs which might result from product liability claims, such as investigative effort and administrative overhead. In addition, depending on the nature and scope of the claims, regardless of merit, the reputation and financial position of the Group may be adversely affected. Hence, there is no assurance that the Group will be able to successfully claim any compensation from such manufacturers and/or suppliers or that any such recovered sum will be sufficient to cover the Group's exposure to the relevant product liability claims.

### **Quality control on franchisees' operations**

As at 30 April 2007, the Group had franchise arrangements with one supermarket and 85 convenience stores operating in the Greater Beijing Region under the service mark of “京客隆”. All of these franchised Retail Outlets are independent legal entities with the capacity to bear civil responsibilities independently. Pursuant to its standard franchise agreements, the Group's franchisees are solely liable for their wrongdoings and/or misuse of the Group's service logos, and the Group is entitled to claim compensation for any loss it suffers from such wrongdoings/misuse by the franchisees under the default clauses of the franchise agreements. The Group may also be able to claim compensation for losses suffered by taking other civil actions.

The Group has adopted stringent criteria in selecting its franchisees. However, there is no assurance that the Group's franchisees will be able to adhere to the Group's expected standard of operations. If Group's service logos or trademarks are misused by its franchisees or if any franchisee does not fully comply with the Group's standards for operating franchised Retail Outlet, the Group's reputation and brand image may be adversely affected.

In addition, although the franchisees have operational responsibility over the relevant franchised Retail Outlets, the Group remains exposed to the risk of third party lawsuits for any wrongdoings of the franchisees. This is because the franchisees operate their business in association with the Jingkelong trademark, with the consequence that third parties are given the impression that the franchisees belong to a chain or association of businesses which are associated with the Group. In such circumstances, the Group may incur liability and/or additional costs and expenses and devote management resources to handle such claims, which may have an adverse impact on its business and financial positions as a whole.

### **Reliance on key management personnel**

The future success of the Group is significantly dependent on the strategies and vision of the Group's key management team, including Mr. Wei Tingzhan, Mr. Li Jianwen, Mr. Liu Yuejin, Ms. Chen Limin, Ms. Li Chunyan, Mr. Zhao Weili and Mr. Gao Jingsheng with solid experience in

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## **RISK FACTORS**

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the local retail and wholesale distribution markets. Any unanticipated departure of the Group's key management personnel or other members of the Group's senior management could have a material adverse impact on the Group's business.

Furthermore, there is no assurance that the Group will be able to manage its expansion by retaining its existing executives and other experienced personnel and/or by recruiting additional appropriate employees, as competition for such personnel is and is likely to continue to be intensive.

### **Stock control**

As at 31 December 2006, the Group had stock of approximately RMB499.6 million. Stock provisions as at 31 December 2004, 2005 and 2006 amounted to approximately RMB3.3 million, RMB2.5 million and RMB2.5 million, respectively. The stock turnover days during the Track Record Period were 41 days, 37 days and 41 days, respectively. The Group's stock represented approximately 19.6%, 17.8% and 16.0% of its total assets as at 31 December 2004, 2005 and 2006 respectively. As the Group sells both live and fresh produce and room temperature daily consumer products in the ordinary course of its retail distribution business, it needs to constantly review and monitor its stock control methods and procedures in order to minimise spoilage and overstocking. A failure to do so may have an adverse impact on the Group's future performance. It is also essential for the Group to maintain sufficient inventory of both perishable and non-perishable goods to meet the demands of its customers within a stipulated delivery time. In the event that the Group could not do so, its profitability and reputation could be adversely affected. Furthermore, if the Group cannot sell its stock promptly, the Group's cash flow may be adversely affected. Moreover, if such stock could not be sold before their expiry date, the Group may have to write-off such stock, which may affect the Group's profitability.

In addition, in the event that the Group's stock in the Logistics Centres and Distribution Centres are damaged (for example by fire), this may disrupt the Group's business and affect its profitability adversely. Further, the Group may not be able to fully recover its losses from its insurers.

### **Intellectual property protection and infringement**

#### *Uncertain protection*

The Group's trademarks and other intellectual property rights, such as its service logos and brandnames, are important to the success of its branding and corporate identity. The Group is susceptible to third parties' infringement of its intellectual property rights, and there is no assurance that third parties will not copy or otherwise obtain and use the Group's intellectual property rights without authorisation. Should the Group fail or be unable to assert its rights over these trademarks and intellectual property, there may be an adverse impact on its business and marketing plans.

The Group has registered the trademarks and service marks referred to in the section headed "Intellectual property rights of the Group" in Appendix V to this document.

Although steps have been taken to ensure that the Group's intellectual property rights are protected, it is not possible for the Group to comply fully with, and seek every clearance under, the relevant laws of all possible jurisdictions for the protection and enforceability of its intellectual property rights.



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## RISK FACTORS

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### *Infringement by the Group*

It is also possible that the Group may inadvertently infringe the intellectual property rights of others and face liabilities for such infringements in the course of carrying on its business. The Group, in the ordinary course of its operations, sells products supplied by various manufacturers and suppliers, and it is possible that some of such products may themselves infringe the intellectual property rights of other third parties. The Group, in its capacity as a trader, may attract liability for such infringement, and it is common for proprietary intellectual property owners to first take action against retailers and wholesalers (rather than manufacturers) to stop further sale and circulation of the infringing products by the retailers and wholesalers.

A few of the manufacturers and/or suppliers have provided the Group with a written indemnity covering any third party liability as a result of the infringement of proprietary intellectual property rights. However, there can be no assurance that the indemnity payment will fully cover all of the Group's exposure to such liability claims. To date, there has been no significant action taken against the Group by proprietary intellectual property owners to stop the sale and circulation of any of the products sold by the Group.

### **The use of the Jingkelong cards and the membership reward cards**

As part of the Group's marketing strategy for its retail operations to enhance customer loyalty, the Jingkelong card was launched in December 2003 and the membership reward card was launched in September 2004. As at 31 December 2006, the membership reward card scheme had over 656,000 members and the total amount of value stored in the Jingkelong cards was approximately RMB130 million. Both cards may only be used in the Group's Retail Outlets. Details of the Jingkelong card and the membership reward card are set out in the section headed "Business-marketing and promotion" of this document. The Group has formulated internal controls and procedures in respect of its Jingkelong cards and membership reward cards. However, the operation of the Jingkelong card and the membership reward card programmes otherwise than in accordance with such internal controls and procedures may constitute a breach of the applicable PRC laws and regulations including but not limited to the Contract Law and the Law on Protection of Consumers' Rights and Interests. Such programmes also constitute a breach of the Law on the People's Bank of China and Regulation on Administration of Renminbi, and the Group may be subject to a fine of up to RMB200,000, in addition to being ordered to cease the operation of the programmes. The specific PRC laws are: Article 20 of Law on The People's Bank of China and Article 29 of Regulation on the Administration of Renminbi state that no organization or individual may print or issue promissory notes as substitutes for Renminbi for circulation in the open market. Article 45 of Law on The People's Bank of China further states that in the event that anyone prints or sells promissory notes as substitutes for Renminbi for circulation in the open market, The People's Bank of China shall order the cessation of the breaching actions and impose a fine of up to RMB200,000.

Furthermore, upon cessation of the said programmes, under the relevant PRC laws such as the General Principles of the Civil Law, Law on the Protection of the Rights and Interests of Consumers and Contract Law, the consumer is entitled to ask from the Company for a refund of the money paid and compensation for any losses actually suffered. This is an area of changing rules and regulations and there can be no certainty that relevant PRC governmental authorities may not promulgate new, or change the existing, rules and regulations or require that the provision and use of prepayment cards and membership cards by the Group be modified or terminated, and in which case, there is no assurance that the Group would be able to continue to operate such programmes and/or comply with any such requirement, which may have an adverse effect on the operation and financial condition of the retail business of the Group. In this respect, Chaoyang Auxillary has undertaken to indemnify the Company

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## RISK FACTORS

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against any costs and penalties that the Group may suffer due to any breach of the applicable PRC laws and regulations on the use of the Jingkelong cards and the membership reward cards.

### **Future dividends**

Dividends declared by the Company amounted to approximately RMB39.5 million, RMB56.4 million and RMB57.7 million for the years ended 31 December 2004, 2005 and 2006, respectively.

Investors should be aware that there is no assurance that dividend distributions will continue to be made by the Company in the future. The amount of dividends, if any, to be declared by the Company is subject to the recommendation of the Directors after taking into account, inter alia, the Group's earnings, financial conditions, cash requirements and availability, prospects and other relevant factors. The past dividend distribution record referred to above should not be used as a reference or basis to determine or estimate the amount of dividend payable in the future.

### **Operations of the new community shopping centre**

Without changing its core business format, the Group will develop community shopping centre. The Group's new community shopping centre is situate at Jiuxianqiao in the Chaoyang District, Beijing ("Jiuxianqiao Community Shopping Centre"). The Jiuxianqiao Community Shopping Centre is expected to commence operations in fourth quarter of 2007 and will comprise a hypermarket, theme department stores and other entertainment and ancillary facilities.

As the business model is to a certain extent different from the Group's core business format, the Directors consider that special expertise is involved in the operations of the Jiuxianqiao Community Shopping Centre in particular the operations of the theme department stores. Therefore, the Group may not be able to manage the Jiuxianqiao Community Shopping Centre as efficiently as the other Retail Outlets currently operated by the Group.

Although the Group has entered into a co-operation agreement with a third party authorised by 北京翠微大厦股份有限公司 (Beijing Cui Wei Building Stock Limited Company), which is responsible for liaison of tenants and cooperators and provision of management services and will form project teams among its operational management personnel to ensure overall staffing services of the Jiuxianqiao Community Shopping Centre, there is no assurance that suitable third party operators can be engaged or retained. In the event that the Group fails to manage the Jiuxianqiao Community Shopping Centre efficiently, the Group's overall operations and profitability may be adversely affected.

### **Reliance on leasehold of third party counters**

During the Track Record Period, the Group leased certain counters in the Retail Outlets to third party individuals or enterprises who are all Independent Third Parties. The third party counters offer ancillary services to the customers of the Retail Outlets such as ornaments processing, shoes and watches repairing. The terms of the lease are usually one year and the Group receive fixed rentals from the third party counter operators.

The rentals received from the leasing of third party counters during the Track Record Period were approximately RMB11 million, RMB15 million and RMB18 million respectively which accounted for approximately 0.3%, 0.4% and 0.4% respectively of the Group's total revenue. Accordingly, the Group's profitability depends to a certain extent on its ability to retain existing, and attract new, third party counter operators. The Group only recorded the rental income received from the leased counters



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in other income and gains. The counters operate independent from the Group and accordingly their turnovers are not accounted for by the Group.

If the Group is unable to maintain good relationships with its existing third party counter operators, and develop and maintain new third party counter operators relationships, and as a result, unable to provide certain ancillary services to the Group's customers, the Group's revenue, market positioning and image may be adversely affected.

We derive our revenue from the third party counters in the form of fixed rentals for the leasehold of the counters. To the extent that the third party counter operators are able to reduce the rental when negotiating their leasehold arrangements with the Group, the Group's revenue may decrease and its results of operations may be adversely affected.

### **Revenue derived from activities outside the ordinary and usual course of business**

During the Track Record Period, the Group recorded income and gains which were generated from activities outside the Group's ordinary and usual course of business such as net compensation on demolished properties, gain on exchange and disposal of items of property, plant and equipment, excess over the cost of business combinations, gain on disposal of short term investments, government grants and interest subsidy, and interest income resulted from over-subscription of the H shares at GEM Listing. The aggregate amounts of such income and gains were approximately RMB54.4 million, RMB25.0 million and RMB53.4 million, respectively and accounted for approximately 1.48%, 0.61% and 1.18%, respectively of the Group's total revenue during the Track Record Period.

As such income and gains were generated from activities outside the ordinary and usual course of the Group's business, the Group has less control in such income and gains and there is no assurance that the Group will maintain comparable amounts as recorded in the Track Record Period or at all. Although such income and gains only represented a minimal percentage of the Group's total revenue during the Track Record Period, any substantial decrease in such income and gains or the fact that any significant items of such income and gains do not happen in the future can to an extent affect our profitability.

Moreover, the amount of such income and gains recorded during the Track Record Period should not be used as a reference or basis to determine or estimate the amount of the same items generated in the future. If the Group fails to make comparable amounts in the future, its financial performance will to an extent be affected.

### **RISKS RELATING TO THE PRC DISTRIBUTION INDUSTRY**

#### **Domestic competition**

Domestic competition in the PRC consumer products distribution markets has become increasingly intense since early 1990s. Aside from foreign entrants to the PRC market, the Group also faces intense competition from domestic players whose operations tend to be larger than those of the Group. Although the Group believes that the product knowledge of its sales staff, the range of the products it offers, the competitive pricing of its products and the prime locations of its network of Retail Outlets as well as its local knowledge of its customers' shopping preference are all critical factors which have contributed to its success, the Group's profitability may be adversely affected if there is an oversupply of the products sold by the Group or if competitors drastically reduce their product prices or expand their networks, particularly in view of the hosting of the Beijing Olympics in 2008.

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The Group's profitability may also be adversely affected if domestic retail chain operators expand their businesses to include wholesale distribution of daily consumer products, hence competing with the Group in terms of products and customers and be able to further control their costs. These domestic retail chain operators, particularly the large ones, may have competitive advantages over the Group in terms of established and comprehensive retail chain networks, strong financial resources, brand recognition and management know-how.

Intensified competition from these domestic competitors may lead to lower profit margins due to price competition, loss of customers and slower growth for the Group, thus adversely affecting the Group's profitability.

### **Foreign competition**

In recent years, famous international companies have begun to set up large scale "hypermarket-style" operations with efficient supply chains in China, offering consumers not only goods at lower prices, but also a wide array of goods and services. In addition, these foreign retail chain operators may also undertake wholesale distribution services, similarly integrating their retail and wholesale networks. The Group may also face competition from foreign distributors of daily consumer products who may enter the wholesale distribution market, which may offer competing products at lower prices. Such foreign competitors may have certain competitive advantages over the Group in their business in terms of access to abundant financial resources, brand recognition and management know-how.

There is no assurance that new industry players will not enter the market. These international competitors may form alliances with or acquire companies to set up retail business in the PRC.

Intensified competition from these international competitors may lead to lower profit margins due to price competition, loss of customers and slower growth for the Group, thus adversely affecting the Group's profitability.

Although 《外商投資商業領域管理辦法》 (the "Management Measures on Foreign Investment in Commercial Jurisdiction") issued by the MOC on 16 April 2004 as supplemented by two supplemental rules issued on 9 January 2006 and 3 November 2006 respectively imposes limitations on operation period, categories of goods and time for market entrance in relation to foreign companies entering the PRC retail industry, it still provides a more liberal regulatory environment for foreign operators to operate in the PRC retail industry. The liberal approach adopted by the State Council represents a decision at the central government level to allow controlled competition in order to accomplish two vital goals: the acceleration of further reform of and the introduction of modern management expertise to the PRC retail industry. The Directors believe that such reforms in the PRC retail industry, especially after the PRC's accession to WTO, will probably lead to a significant influx of foreign investment to the PRC, especially with the removal of the limitations on retail outlet locations invested by foreign investors since 11 December 2004. In turn, this may introduce increased market competition to the PRC retail industry as a whole. Accordingly, there is no assurance that the Group will continue to be profitable or maintain its profitability under such competitive environment.

### **Change in consumer preferences and/or purchasing power**

The performance of the retail business of the Group depends primarily upon its customers' selection of supermarkets and/or convenience stores and their purchasing power, while the demand by the Group's wholesale customers depends primarily upon the purchasing power of their own retail

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consumers. There is no assurance that the Group's retail and wholesale customers will continue to purchase from the Group's Retail Outlets and source the products distributed by the Group in the future. If the purchasing habits of the Group's retail and wholesale customers change in the future, the Group's business and financial results may be adversely affected. In addition, although the PRC has experienced rapid economic development in recent years, there is no assurance that such a rate of growth can be sustained in the future. A prolonged period of slow economic development or economic recession in the PRC or, more specifically, in the Greater Beijing Region, may cause a reduction in spending by the Group's retail and wholesale customers in these regions, which in turn may have a material adverse impact on the Group's overall financial results.

### RISKS RELATING TO THE PRC

#### Political and economic policies of the PRC government

The Group's operations are within the PRC. Potential investors should note that changes in the economic and political situation in the PRC and policies adopted by the State to regulate the PRC's economy may affect the Group's operations, performance and profitability.

The economy of the PRC differs from the economies of most countries belonging to the Organisation for Economic Co-operation and Development ("OECD") in aspects such as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, rate of inflation and balance of payments position. The PRC's economy has traditionally been centrally planned, with a series of economic plans promulgated and implemented by the State. Over the past twenty years, the State has been reforming the economic and political systems in the PRC. Such reforms have resulted in significant economic and social advancements. Many of these reforms are unprecedented and are expected to be refined and improved on an ongoing basis, while political, economic and social factors may also lead to further adjustment of the reform measures. The refinement and adjustment process, however, may not always have a positive effect on the operations of the Group. Accordingly, there is no assurance that the Group's performance and profitability will not be adversely affected due to changes in political, economic and social conditions in the PRC or due to changes in State policies such as changes in laws and regulations (or the interpretation thereof), the introduction of measures to control inflation, changes in the rate or method of taxation and the imposition of additional restrictions on currency conversion and overseas remittances. In addition, there is no guarantee that the PRC government will continue to pursue economic liberalisation and other reforms.

#### The PRC legal system

The Company is established under the laws of the PRC. The PRC legal system is based on written statutes. Prior court decisions may be quoted for reference but have limited precedent value. Since 1979, the PRC government has promulgated laws and regulations dealing with economic matters, such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view towards developing a comprehensive system of commercial law. However, as these laws and regulations are relatively new, and because of the limited volume of published cases and their nonbinding nature, interpretation and enforcement of these laws and regulations involve uncertainties.

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The PRC has not entered into any treaty which provides for the reciprocal recognition and enforcement of judgments of courts with countries such as the United States, the United Kingdom and Singapore, and therefore the recognition and enforcement in PRC of judgments of a court in any of these jurisdictions may be difficult or impossible. The Articles and the Main Board Listing Rules provide that most disputes between holders of H Shares and the Company, the Directors, the Supervisors or other officers or holders of Domestic Shares, arising out of the Articles or the Company Law of the PRC and related regulations concerning the Group's affairs or with respect to the transfer of the H Shares, are to be resolved through arbitration by arbitration organisations in Hong Kong or PRC. On 21 June 1999, an arrangement was made between Hong Kong and PRC for the reciprocal recognition and enforcement of arbitral awards. This arrangement was approved by the Supreme People's Court of PRC and the Hong Kong Legislative Council, and became effective on 1 February 2000. The arrangement was made in accordance with the spirit of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958. Under the arrangement, awards that are made by Chinese arbitral authorities recognised under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Likewise, Hong Kong arbitration awards are also enforceable in the PRC. As far as the Directors are aware, no action has been brought in the PRC by any holder of H shares issued by any joint stock limited company established in the PRC to enforce an arbitral award that is made by Hong Kong arbitral authorities and, as such, the Directors are uncertain as to the outcome of any action to be brought in the PRC to enforce an arbitral award made in Hong Kong in favour of the Shareholders.

Furthermore, the Company Law includes provisions for derivative actions. Pursuant to Section 152 of the Company Law, a shareholder of a company may by him/her/itself institute legal proceedings for the benefit of the company against any of the company's directors, supervisors, senior management and any other person who has brought damages to the company. PRC laws, rules and regulation applicable to companies listed overseas do not distinguish among minority and controlling shareholders in terms of their rights and protections. Furthermore, minority shareholders of the Company may not have the same protections enjoyed by shareholders of companies incorporated under the laws of certain other countries.

### **Holders of the H Shares may not be able to successfully enforce their Shareholders' rights in the PRC under the Company Law or relevant Hong Kong regulatory provisions**

The Company is established under the laws of the PRC, and substantially all (if not all) of its assets and subsidiaries are located in the PRC. Given that the Group carries on its business in the PRC, its operations are governed principally by PRC laws and regulations. As a joint stock limited company established in the PRC and offering H Shares for listing outside the PRC, the Company is subject to the Mandatory Provisions. Upon the listing of H Shares on Main Board, the Main Board Listing Rules will also become one of the principal sources for the protection of Shareholders' rights. The Main Board Listing Rules prescribe certain standards of conduct, fairness and disclosure requirements on the Group, the Directors and the Company's controlling shareholder. The legal framework to which the Group is subject in the PRC may be materially different from the Companies Ordinance in relation to, for example, the protection of minority shareholders. In addition, the mechanisms for enforcement of shareholders' rights under the corporate framework within the PRC legal system to which the Company is subject, are also relatively undeveloped and untested compared to those in Hong Kong.

Although the Company will be subject to the Main Board Listing Rules and, depending on the nature of the transactions concerned, the Hong Kong Codes on Takeovers and Mergers and Share Repurchases upon the listing of the H Shares on Main Board, the holders of H Shares will be unable to bring actions on the basis of violations of the Main Board Listing Rules and must rely on the Stock

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Exchange to enforce the Main Board Listing Rules. The Hong Kong Codes on Takeovers and Mergers and Share Repurchases do not carry the force of law and provide merely standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong.

In addition, as most of the Directors and other officers of the Company reside within the PRC, and the assets of such Directors and officers may be located within the PRC, it may not be possible to effect service of process outside of the PRC upon such Directors and officers.

### **Taxation of holders of H Shares**

Under current PRC tax laws, regulations and rulings, dividends paid by the Company to holders of H Shares who are individuals not resident in the PRC or which are foreign enterprises with no permanent establishments in the PRC are not currently subject to PRC withholding tax. In addition, gains realised by individuals or enterprises upon the sale or other disposition of H Shares are not currently subject to PRC capital gains tax. There is no assurance, however, that withholding or capital gains taxes will not become applicable to such dividends or gains in the future. In such event, holders of H Shares could become subject to a withholding tax on dividends or to a capital gains tax, each of which is currently imposed in the PRC upon individuals at the rate of 20%, unless reduced or eliminated by an applicable double taxation treaty.

### **Changes in foreign exchange regulations and fluctuation of the RMB**

All of the operating revenues of the Group are denominated in RMB. However, in relation to dividends payable to Shareholders outside the PRC, a portion of the Group's RMB-denominated revenue must be converted into Hong Kong Dollars. Pursuant to the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (the "Settlement Regulations"), foreign currencies required for the distribution of profits and payment of dividends may be purchased from designated foreign exchange banks upon presentation of tax clearance certificates issued by the relevant government authorities in respect of such dividends and the board resolutions authorising the distribution of profits or dividends of the Company. The Settlement Regulations has abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

As part of the PRC's currency reforms, which came into effect on 1 January 1994, the PRC government abolished its two-tier exchange rate system and replaced it with a unified system which is subject to market demand and supply. Under the new system, the PBOC quotes a daily exchange rate for the RMB to the US Dollar based on the previous day's dealings in the inter-bank foreign exchange market. PBOC announced in 2005 that, with immediate effect, the PRC would switch to a managed floating exchange rate regime based on market demand and supply and adjustments of which would be made by reference to a basket of currencies such that the Renminbi is no longer pegged to only the U.S. dollar. Instead, PBOC announces closing prices of Renminbi against the U.S. dollar and various transacting currencies in the inter-bank foreign exchange market on each business day and based on these closing prices it would determine the median prices of Renminbi against such currencies for the following business day.

Despite such developments, the RMB is still not freely convertible into foreign currencies. Under the current foreign exchange control system, there is no guarantee that sufficient foreign currency will be available to the Group to enable it to pay dividends declared on the H Shares.

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### **Payment of dividends subject to restrictions under PRC law**

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits are the Company's net profit as determined under PRC GAAP or HKFRSs, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that the Group is required to make. As a result, the Company may not have sufficient or any distributable profits to enable it to make dividend distributions to its shareholders in the future, including in respect of periods which its financial statements indicate that its operations have been profitable. Furthermore, the Company may not be able to pay any dividends in a given year if (i) it does not have distributable profits as determined under PRC GAAP, even if it has profits for that year as determined under HKFRSs; or (ii) it does not have distributable profits under HKFRSs, even if it has profits for that year as determined under PRC GAAP.

### **Domestic Shares may be converted into H Shares**

Subject to the approval of the State Council Securities Regulatory Authority, and the approval of the Shareholders in general meeting in accordance with the Articles, Domestic Shares may be transferred to overseas investors, and such shares may be listed or traded on an overseas stock exchange. Any listing or trading of such shares on an overseas stock exchange will also need to comply with the regulatory procedures, rules and requirements of such stock exchange. No separate class shareholders' meeting's approval is required for the listing and trading of such shares on an overseas stock exchange. However, the PRC Company Law provides that in relation to the public offering of a company, the shares of that company which are issued prior to the public offering shall not be transferred within one year from the date of the listing. In the event that the Domestic Shares are successfully converted into H Shares and listed on the Main Board, the number of H Shares available on the market will increase and as a result, the share price of the H Shares may be affected.

In the event the Board exercises the General Mandate, certain Domestic Shares held by Chaoyang Auxillary that may then be allocated by SASAC to the NSSF Council would be converted into H Shares and the share price of the H Shares may be affected.

### **New corporate income tax law**

There can be no assurance that the existing tax laws, their applications and interpretations which are applicable to the activities conducted by the Group will remain in effect and will not change. Any changes in the applicable legislation or regulations or otherwise in the PRC may have a negative impact on the results of the Group's operations.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("New Corporate Income Tax Law") was approved and will become effective on 1 January 2008.

The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, (i) a uniform corporate income tax of 25% will be applied to both the domestic and the foreign invested enterprises in the PRC; (ii) based on the regulation promulgated by the State Council of the PRC, the fixed tax holiday may be enjoyed until its expiry, but if an enterprise has not started to enjoy such holiday because of no profit, such holiday shall commence from the year this law becomes effective; and (iii) other enterprises belonged to the encouraged class confirmed by the



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state may enjoy tax benefits according to the regulations promulgated by the State Council of the PRC. There is no assurance as to when the implementation rules of the Corporate Income Tax Law will be promulgated and how such implementation rules will affect the Group, and there is no assurance that no other changes will be made to other existing tax regulations applicable to the Group. Although the current corporate income tax rate applicable to the Group is 33% and the unification of income tax rate to 25% should be beneficial to the Group, since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law on our PRC operations cannot be reasonably estimated at this stage.

### **Changes in laws and regulations regarding social insurance contributions and other social responsibility aspects**

The Group makes social insurance contributions (including industrial accidents and retirement benefits) in accordance with the applicable PRC laws regulations. The applicable PRC laws and regulations are (i) Decision regarding Perfection of Enterprise Employees Basic Retirement Insurance System (《關於完善企業職工基本養老保險制度的決定》) and Basic Retirement Insurance Regulation of Beijing (《北京市基本養老保險規定》) in relation to provision of basic retirement insurance, (ii) Industrial Accident Insurance Law (《工傷保險條例》) and Implementation Rules of Industrial Accident Insurance Law of Beijing (《北京市實施《工傷保險條例》辦法》) in relation to provision of industrial accident insurance, (iii) Unemployment Insurance Law (《失業保險條例》) and Regulation of Unemployment Insurance Law of Beijing (《北京市失業保險規定》) in relation to provision of unemployment insurance, (iv) Decision regarding Establishment of Basic Medical Insurance System for Employees in Cities and Towns (《國務院關於建立城鎮職工基本醫療保險制度的決定》) and Regulation of Basic Medical Insurance of Beijing (《北京市基本醫療保險規定》) in relation to provision of basic medical insurance, and (v) Rules relating to Birth Insurance for Enterprise Employees (《企業職工生育保險辦法》) and Regulation of Birth Insurance for Enterprise Employees of Beijing (《北京市企業職工生育保險規定》) in relation to provision of birth insurance, respectively. According to the PRC legal advice, the Group has fully complied with all applicable laws and regulations in relation to social insurance contributions and, apart from that, there are no other applicable laws and regulations relevant to the issue of social responsibility. Based on the PRC legal advice, the Directors confirm that the Group's operations are in compliance with the currently applicable labour and safety regulations in all respects.

There is no assurance that the PRC government will not change the existing laws or regulations or impose additional or more stringent requirement regarding social insurance contributions or other social responsibility aspects, compliance with which may cause the Group to incur significant capital expenditure. Moreover, if the Group fails to comply with the present or future regulations relevant to the issue of social responsibility, it may be required to pay substantial fines or cease operations. Consequently, our financial condition, business and reputation may be adversely affected.

### **RISKS RELATING TO THE H SHARES**

#### **Development of an active market for the H Shares**

An active trading market for the H Shares may not develop and the trading price for the H Shares may be volatile. The market price of the H Shares may be subject to significant volatility in response to, among other factors:

- investor's perceptions of the Group and its future expansion plans;
- the market price of and volume fluctuations in the H Shares;

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## RISK FACTORS

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- changes in the estimate of the Group's financial performance by securities analysts, newspapers and other media reports;
- variations in the operating results of the Group;
- the competitive landscape of the markets in which the Group operates;
- changes in the pricing and strategies made by the Group, its competitors or providers of alternative services; and
- general economic and other factors.

In addition, in recent years, stock markets in general have experienced price and volume fluctuations, some of which have been unrelated or disproportionate to the operating performances of individual companies. These broad market and industry fluctuations may adversely affect the market price of the H Shares.

### **Potential dilution of the H Shares**

It is anticipated that additional funds may be required in the future to finance the expansion of the business and operations of the Group. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a pro rata basis to Shareholders, the percentage ownership of the Shareholders may be reduced. This would result in a dilution of the shareholding interest of the then existing Shareholders.

At the annual general meeting of the Company held on 18 May 2007, a special resolution was passed to grant the Board a general mandate to issue Domestic Shares and/or H Shares of the Company. Pursuant to the general mandate, the aggregate nominal amount of H Shares allotted and issued or agreed conditionally or unconditionally to be allotted and issued shall not exceed (i) 20% of the aggregate nominal amount of the Domestic Shares in issue; and (ii) 20% of the aggregate nominal amount of the H Shares in issue, respectively. Full particulars of the general mandate are set out under the section headed "Share capital – Issuing mandate" in this document.

The Board may, during the Relevant Period (as defined in the section headed "Share capital – Issuing Mandate" in this document), at its sole discretion exercise the power of the Company pursuant to the general mandate to issue further H Shares (which, if issued, may comprise the Domestic Shares held by Chaoyang Auxillary that may then be allocated by SASAC to the NSSF Council and converted into H Shares), which exercise may be before and/or after the Main Board Listing.

The shareholding interest of the existing Shareholders may be diluted if the Board exercises the general mandate partially or in full.



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# WAIVERS FROM COMPLIANCE WITH THE MAIN BOARD LISTING RULES

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## CONTINUING CONNECTED TRANSACTIONS

The Company has entered into certain transactions which would constitute non-exempt continuing connected transactions of the Company under the Main Board Listing Rules after the H Shares are listed on the Main Board. The Company has received from the Stock Exchange a waiver from strict compliance with the announcement and/or independent shareholders' approval requirement set out in Chapter 14A of the Main Board Listing Rules for such non-exempt continuing connected transactions. The Company has already obtained a waiver from the Stock Exchange in respect of these transactions under the relevant requirements of GEM Listing Rules upon GEM Listing. Further details of such non-exempt continuing connected transactions and the waiver are set out in the section headed "Connected Transactions" in this document.

## MANAGEMENT PRESENCE

Pursuant to Rules 8.12 and 19A.15 of the Main Board Listing Rules, the Company must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. As the principal business operations of the Group are primarily located in the PRC, the senior members of the Group are therefore based in China. As at the Latest Practicable Date, Mr. Keung Siu Fai, the joint company secretary and qualified accountant of the Company, is ordinarily resident in Hong Kong and none of the executive Directors are Hong Kong residents and are based in Hong Kong. The Directors believe that it would be practically difficult and commercially infeasible for the Company to appoint two Hong Kong residents as executive Directors or to relocate the Company's executive Directors who are resident in China to Hong Kong merely for the purpose of complying with Rules 8.12 and 19A.15 of the Main Board Listing Rules.

The Company has received from the Stock Exchange a waiver from compliance with Rules 8.12 and 19A.15 of the Main Board Listing Rules subject to the following conditions:

- (i) the Company has appointed two authorized representatives pursuant to Rule 3.05 of the Main Board Listing Rules who will act as the Company's principal communication channel with the Exchange and will ensure that they comply with the Listing Rules at all times. The two authorized representatives appointed are Mr. Keung Siu Fai, the qualified accountant and one of the joint company secretaries of the Company and Ms. Li Chunyan, an executive Director. Mr. Keung is an ordinarily resident in Hong Kong.
- (ii) each of the authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by mobile or residential telephone, facsimile and email. Each of the two authorized representatives has been duly authorized to communicate on behalf of the Company with the Stock Exchange.

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## WAIVERS FROM COMPLIANCE WITH THE MAIN BOARD LISTING RULES

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- (iii) the Company has appointed DBS Asia Capital Limited as compliance adviser pursuant to Rule 3A.19 of the Main Board Listing Rules. The contact details of the compliance adviser will be provided to the Stock Exchange in due course. The compliance adviser will also act as the Company's communication channel with the of the Listing Rules Exchange;
- (iv) both authorized representatives have means to contact all members of the board of Directors (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the members of the Board for any matters; and
- (v) all executive Directors and independent non-executive Directors who are not ordinarily resident in Hong Kong have confirmed that either they possess or will be able to apply for valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Stock Exchange within a reasonable period of time, when required.

### NON-DISPOSAL OF SHARES

The Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the restrictions on further issues of securities within six months of listing on the Main Board as required by Rule 10.08 of the Main Board Listing Rules and a consequential waiver from strict compliance with the restrictions under Rule 10.07(1)(a) of the Main Board Listing Rules in respect of the disposal of Shares by the controlling shareholder of the Company upon the issue of securities by the Company within six months of listing on the Main Board subject to the following conditions:

- (i) any issue of H Shares (or convertible securities) during the first six months after listing on the Main Board must be either for cash to fund a specific acquisition or as part or full consideration for an acquisition;
- (ii) the acquisition must be for assets or business(es) that will contribute to the growth of the operation of the Group; and
- (iii) Chaoyang Auxillary, the controlling shareholder of the Company, should not cease to be a controlling shareholder of the Company upon the issue of any Shares within six months of the listing on the Main Board.

The Company has applied to the Stock Exchange for waivers from strict compliance with Rules 10.07(1)(a) and 10.08 of the Main Board Listing Rules for the following reasons:

- (i) the Company will not raise any new funds pursuant to the Introduction. Therefore the existing Shareholders would not suffer any dilution of their interests as a result of the Company listing on the Main Board;
- (ii) Chaoyang Auxillary, the controlling shareholder of the Company, has not disposed of any Shares since the GEM Listing and it intends not to dispose of any Shares owned by it within six months from the date on which the H Shares are listed on the Main Board;

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## WAIVERS FROM COMPLIANCE WITH THE MAIN BOARD LISTING RULES

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- (iii) apart from applying for a consequential waiver from strict compliance with the restrictions under Rule 10.07(1)(a) of the Listing Rules as a result of the waiver to be granted under Rule 10.08 of the Listing Rules, the Company or its controlling shareholder is not applying for a separate waiver under Rule 10.07(1)(a) of the Listing Rules; and
- (iv) the interests of the Shareholders are protected since any further issue of Shares by the Company would be subject to Shareholders' approval as required under Rule 19A.38 of the Listing Rules, as such, the existing Shareholders' interest in the Company will not be diluted as a result of the proposed Introduction nor the requested waivers.

### QUALIFICATION OF COMPANY SECRETARY

As a company secretary of the Company, Ms. Li Chunyan (“Ms. Li”) does not possess the qualification required under Rules 8.17 and 19A.16 of the Main Board Listing Rules, and therefore she does not meet all the requirements under Rules 8.17 and 19A.16 of the Main Board Listing Rules. The Company has appointed Mr. Keung Siu Fai (“Mr. Keung”), a qualified accountant and an employee of the Company, as a joint company secretary, to assist Ms. Li so as to enable her to acquire the relevant experience (required under Rule 8.17(2) of the Main Board Listing Rules) to discharge the duties of a company secretary. Mr. Keung is engaged by the Company in the above capacity for a minimum period of three years commencing from the GEM Listing Date. During his engagement, Mr. Keung will ensure that he will be available to provide assistance to Ms. Li as described above. In addition, the Company will provide Ms. Li with sufficient training through attending relevant external seminars and/or training courses. Upon expiry of the said three-year period, the ability of Ms. Li to discharge the duties of the company secretary of the Company will be further evaluated by the Stock Exchange in order to determine whether the requirements as stipulated in the Main Board Listing Rules can be satisfied. The Company has already obtained a waiver from the Stock Exchange in respect of qualifications of company secretary under the requirements of the GEM Listing Rules upon the GEM Listing.

The Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 8.17 and 19A.16 of the Main Board Listing Rules for a period of three years from the GEM Listing Date. Further details of the waiver granted by the Stock Exchange are set out in the paragraph headed “Joint Company Secretaries and Qualified Accountant” in the section headed “Director, supervisors, senior management and staff” in this document.

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## INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT**

This document, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Main Board Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this document is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this document misleading; and
- (c) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

### **NO CHANGE IN BUSINESS**

No change in business of the Group is contemplated following the Introduction.

### **APPLICATION FOR LISTING ON MAIN BOARD**

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the 151,800,000 H Shares in issue.

### **DISCONTINUATION OF QUARTERLY REPORTING**

Under the GEM Listing Rules, the Company is required to publish its quarterly results on the internet website operated by the Stock Exchange. Upon the listing of the H Shares on the Main Board, the Company will cease the practice of quarterly reporting and will follow the relevant requirements of the Main Board Listing Rules which include, among other things, through paid announcements in newspapers generally circulated in Hong Kong, publishing its interim results and annual results within three months and four months from the end of the relevant period or financial year end, respectively. The Directors are of the view that following the reporting requirements under the Main Board Listing Rules will provide investors and the Shareholders with a high degree of transparency and a complete picture of the performance of the Group during the relevant period. The Directors also believe that the cessation of quarterly reporting would save significant publishing costs and other related expenses, and enable management to devote more management time to other key aspects of the operation of the Group's business.

### **HONG KONG STAMP DUTY**

Dealings in the H Shares registered in the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

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## INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION

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### PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of purchasing, holding or disposing of or dealing in the H Shares, you should consult an expert.

**The Company, the Sponsor, any of their respective directors, officers, employees and/or representatives or other parties involved in the Introduction do not accept responsibility for any tax effects on, or liability of, any person resulting from purchasing or holding or disposing of or dealing in the H Shares or any rights thereof.**

### HONG KONG H SHARE REGISTER

The register of members of the Domestic Shares of the Company will be maintained in the PRC by China Securities Depositing and Clearing Corporation Limited and the register of members of the H Shares of the Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless the Directors otherwise agree, all transfers and other documents of title of H Shares for the purposes of trading on Main Board must be lodged for registration with and registered by the H Share registrar of the Company in Hong Kong and may not be lodged in the PRC.

### REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

The Company has instructed Computershare Hong Kong Investor Services Limited, its Hong Kong H Share registrar, and Computershare Hong Kong Investor Services Limited has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to the share registrar in respect of those H Shares bearing statements to the effect that the holder:

- (i) agrees with the Company and each other Shareholder to observe and comply with the Company Law, the Special Regulations and the Articles of Association;
- (ii) agrees with the Company, each other Shareholder, Director, Supervisor and officer of the Company to refer all disputes and claims arising from the Articles of Association or any rights and obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive;
- (iii) agrees with the Company and each other Shareholder that H Shares in the registered capital of the Company are freely transferable by the registered holder(s) thereof; and
- (iv) authorises the Company to enter into a contract on such holder's behalf with each Director, Supervisor and officer of the Company, whereby such Directors, Supervisor and officers of the Company undertake to observe and comply with their obligations to shareholders as stipulated in the Articles of Association.

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## **INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION**

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### **H SHARES WILL CONTINUE TO BE ELIGIBLE FOR ADMISSION INTO CCASS**

The H Shares have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from 25 September 2006, the date on which dealings in the H Shares on GEM commenced. If the Stock Exchange grants the listing of, and permission to deal in, the H Shares on Main Board and the Company continues to comply with the stock admission requirements of HKSCC, the H Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the H Shares on Main Board. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. Investors should seek advice from their stockbroker or other professional adviser for details of those settlement arrangements, as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the H Shares in issue to continue to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### **COMMENCEMENT OF DEALINGS IN THE H SHARES**

Dealings in the H Shares are expected to commence on Wednesday, 3 October 2007. The H Shares will continue to be traded in board lots of 1,000 shares each.

### **CONDITIONS OF THE INTRODUCTION**

The Introduction is subject to fulfillment of conditions, amongst other things, (1) the CSRC approving the listing of the H Shares on Main Board; (2) the Listing Committee granting the listing of, and permission to deal in, the H Shares on Main Board; and (3) the Shareholders approving the Proposed Withdrawal and the Main Board Migration at the Extraordinary General Meeting and the Class Meetings.

The H Shares are currently listed on GEM. Immediately prior to the Introduction, subject to the fulfillment of the abovementioned conditions, the listing of the H Shares on GEM will be withdrawn in accordance with the GEM Listing Rules.

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## PARTIES INVOLVED IN THE INTRODUCTION

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### EXECUTIVE DIRECTORS

<b>Name</b>	<b>Residential address</b>	<b>Nationality</b>
Wei Tingzhan	No. 2006, Third Building Gong Ti West Lane Chaoyang District Beijing PRC	Chinese
Li Jianwen	No. 601, Gate 1 17th Building Guangximen Bei Lane Chaoyang District Beijing PRC	Chinese
Li Chunyan	No. 101, Gate 4 Seventh Building First District Anzhen West Lane Chaoyang District Beijing PRC	Chinese
Liu Yuejin	No. 502, Gate 2 8th Building Di Tan Bei Lane Dongcheng District Beijing PRC	Chinese

### NON-EXECUTIVE DIRECTORS

<b>Name</b>	<b>Residential address</b>	<b>Nationality</b>
Gu Hanlin	No. 601 Twenty-fifth Building Shifoying West Lane Chaoyang District Beijing PRC	Chinese
Li Shunxiang	No. 303, 2nd Gate Twenty-seventh Building Panjia Garden Chaoyang District Beijing PRC	Chinese

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## PARTIES INVOLVED IN THE INTRODUCTION

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### INDEPENDENT NON-EXECUTIVE DIRECTORS

<b>Name</b>	<b>Residential address</b>	<b>Nationality</b>
Fan Faming	No. 41, Li Shi Lane Dongcheng District Beijing PRC	Chinese
Huang Jiangming	No. 208, 3rd Building Dong Feng Renmin University Haidian District Beijing PRC	Chinese
Chung Chi Kong	Room 1802, Block 6 Yong He Garden No. 3 Dong Bin He Lu Dongcheng District Beijing PRC	Chinese

### SUPERVISORS

<b>Name</b>	<b>Residential address</b>	<b>Nationality</b>
Chen Jie	No. 1503, Second Building Hua Yan North Lane No. 8 Yuan Chaoyang District Beijing PRC	Chinese
Qu Xinhua	No. 1904, 4th Building Gong Ti West Lane Chaoyang District Beijing PRC	Chinese
Yang Baoqun	No. 308, 4th Floor Unit 3, 4th Building Hong Fu Yuan Small Zone Bei Qi Jia Town Changping District Beijing PRC	Chinese



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## PARTIES INVOLVED IN THE INTRODUCTION

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<b>Name</b>	<b>Residential address</b>	<b>Nationality</b>
Chen Zhong	No. 1604, Sixth Building Lanqiying Haidian District Beijing PRC	Chinese
Cheng Xianghong	No. 1406, Block 2, Court 1 Xin Feng Street Xicheng District Beijing PRC	Chinese
Wang Shuying	No. 804, 24th Building Liu Fang South Lane Chaoyang District Beijing PRC	Chinese
<b>Sponsor</b>	DBS Asia Capital Limited 22nd Floor, The Center 99 Queen's Road Central Hong Kong	
<b>Legal advisers to the Company</b>	<i>As to Hong Kong law:—</i> Richards Butler 20th Floor Alexandra House 16-20 Chater Road Hong Kong  <i>As to PRC law:—</i> Jun Ze Jun Law Offices 3rd Floor, Ping An Development Mansion No. 68 Dongsì Shítiao Dongcheng District Beijing 100007 PRC	
<b>Legal advisers to the Sponsor</b>	<i>As to Hong Kong law:—</i> Deacons 5th Floor Alexandra House 18 Chater Road Central Hong Kong	

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## PARTIES INVOLVED IN THE INTRODUCTION

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**Auditors and reporting  
accountants**

Ernst & Young  
*Certified Public Accountants*  
18th Floor, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

**Property valuers**

Vigers Appraisal & Consulting Limited  
10th Floor, The Grande Building  
39 Kwun Tong Road  
Kowloon  
Hong Kong

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## CORPORATE INFORMATION

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<b>Legal address</b>	Block No. 45 Xinyuan Street Chaoyang District Beijing PRC
<b>Place of business in Hong Kong</b>	20th Floor Alexandra House 16-20 Chater Road Hong Kong
<b>Company's website address</b>	www.jkl.com.cn <i>(information on the website does not form part of this document)</i>
<b>Compliance officer</b>	Li Chunyan
<b>Joint company secretaries</b>	Keung Siu Fai, CPA Li Chunyan
<b>Authorised representatives</b>	Li Chunyan No. 101, Gate 4, Seventh Building First District, Anzhen West Lane Chaoyang District Beijing PRC  Keung Siu Fai, CPA Room 10I, Block C Tuanjie Apartment, Tuanjie East Lane Chaoyang District Beijing PRC
<b>Qualified accountant</b>	Keung Siu Fai, CPA
<b>Members of the audit committee</b>	Chung Chi Kong, CPA ( <i>Chairman</i> ) Fan Faming Huang Jiangming
<b>Members of the remuneration committee</b>	Wei Tingzhan ( <i>Chairman</i> ) Fan Faming Huang Jiangming
<b>Members of the nomination committee</b>	Wei Tingzhan ( <i>Chairman</i> ) Fan Faming Huang Jiangming

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## CORPORATE INFORMATION

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**Compliance adviser**

DBS Asia Capital Limited

**Hong Kong share registrar  
and transfer office**

Computershare Hong Kong Investor  
Services Limited  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong

**Principal bankers**

Agricultural Bank of China  
Tuanjie Lake Branch  
2 Tuanjie Lake North Road  
Chaoyang District  
Beijing  
PRC

Bank of Beijing  
Jiulongshan Branch  
117th Building  
Jinsong Dongkou Nongguang Lane  
Beijing  
PRC

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## INDUSTRY OVERVIEW

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*The information in this section below has been derived, in part, from various official government publications unless otherwise indicated. Such information has not been independently verified by us, the Sponsor, or any of our and their respective affiliates or advisers. The information may not be consistent with other information compiled within or outside the PRC. The Sponsor and the Directors have taken reasonable care in the extraction, compilation and reproduction of the information in this section.*

### INDUSTRY HIGHLIGHTS

Consumer retailing in the PRC is generally affected by the size and purchasing power of the population concerned.

The PRC has been one of the world's fastest growing economies in the past decade, and has presented ample sales and marketing opportunities for the distributors of consumer goods. According to the National Bureau of Statistics of China, the PRC population reached approximately 1.31 billion at the end of 2005, with an urbanization rate of 43.0%. The GDP increased from approximately RMB5.8 trillion in 1995 to approximately RMB20.9 trillion in 2006. In light of the growth in population and urbanization rate, the Directors anticipate that there are tremendous opportunities for the development of the consumer goods industry in the PRC.

The Beijing population is one of the most affluent groups in the PRC in terms of residents' disposable income. The per capita annual disposable income of the urban residents of Beijing was RMB19,978 in 2006. The per capita annual consumption expenditure of the urban residents of Beijing was RMB14,825 in 2006.

In addition, Beijing will host the Olympic Games in 2008. It is expected that the increasing tourism and the commencement of various infra-structure projects in connection with the hosting of the Olympic Games will continue to stimulate economic growth and consumption in Beijing and the surrounding areas, creating continual growth opportunities for distributors of consumer goods.

Furthermore, the growth in population, disposable income and living expenditure in Beijing will similarly provide ample business and marketing opportunities for the distributors of consumer goods. Retail sales of consumer goods in Beijing increased from approximately RMB95.0 billion in 1995 to approximately RMB327.5 billion in 2006.

As a result of the PRC's accession to the WTO, the PRC chain store industry was significantly less regulated in terms of shareholding restriction and location restriction. This is expected to lead to the rapid growth of the consumer goods industry as foreign retailers enter the PRC market. In this respect, the Directors believe that the growth of the consumer goods industry would continue as a result of the rapid growth of the PRC population, disposable income and living expenditure.

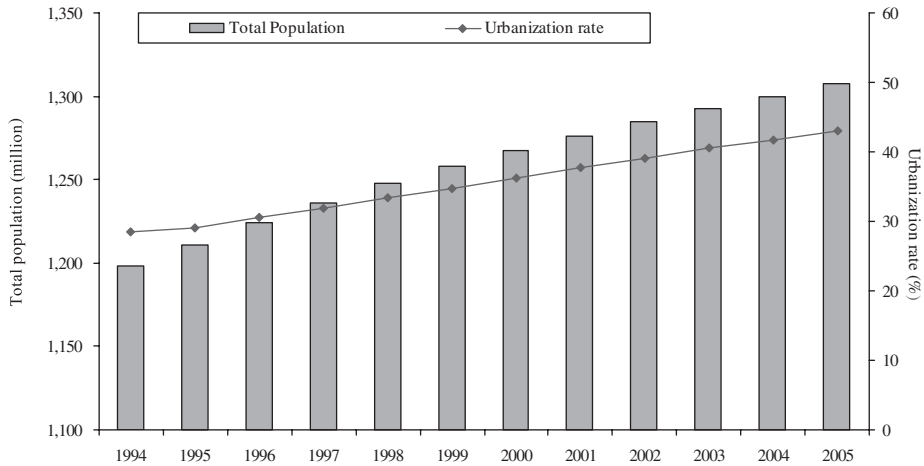
### The economy of the PRC

Consumer retailing in the PRC is generally affected by the size and purchasing power of the population concerned.

## INDUSTRY OVERVIEW

The population of the PRC has grown continuously during the past decade. According to the National Bureau of Statistics of China, the PRC population reached approximately 1.31 billion at the end of 2005 while urbanization rate reached 43.0%. In light of the growth in population and urbanization rate, the Directors anticipate that there are tremendous opportunities for the development of the retail industry in the PRC. The chart below illustrates the growth in population and urbanization rate in the PRC during 1995-2005:

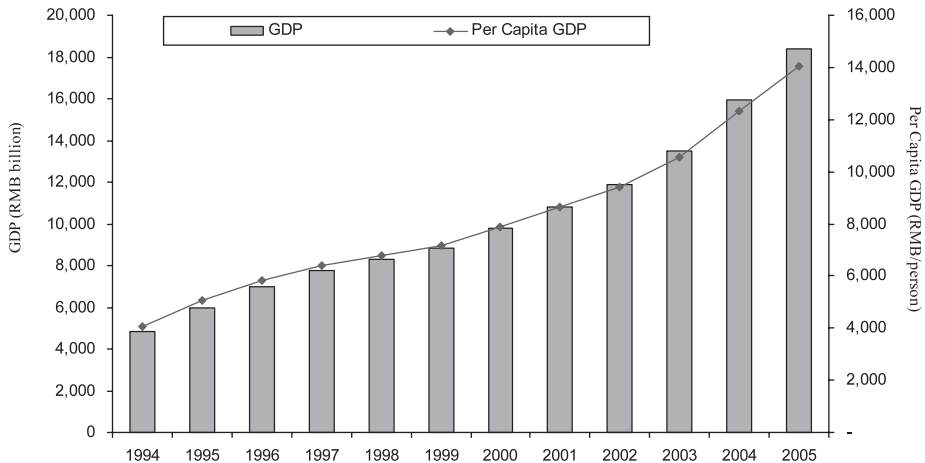
### The growth in population and urbanization rate of the PRC



Source: National Bureau of Statistics of China

The PRC has been one of the world's fastest growing economies in the past decade. Its GDP increased from approximately RMB5.8 trillion in 1995 to approximately RMB20.9 trillion in 2006. The GDP per capita increased from approximately RMB5,046 in 1995 to approximately RMB14,040 in 2005, representing a CAGR of approximately 10.8%.

### The growth in GDP and Per Capita GDP of the PRC



Source: National Bureau of Statistics of China

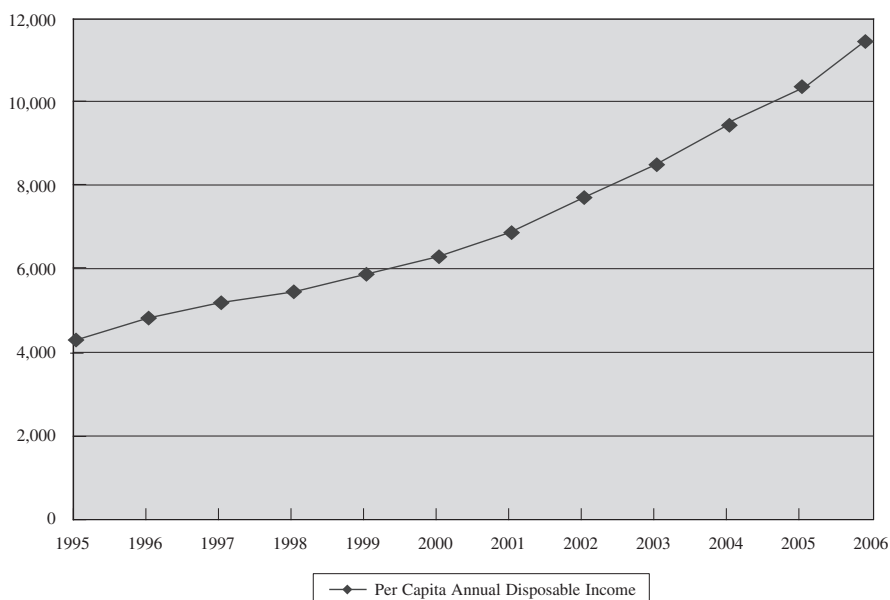
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## INDUSTRY OVERVIEW

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The strong economic growth of the PRC has led to an improvement in living standards, in particular for those in the urban areas. According to the National Bureau of Statistics of China, the per capita annual disposable income of urban households increased from approximately RMB4,283 in 1995 to approximately RMB11,759 in 2006.

### Per Capita Annual Disposable Income of Urban Households of the PRC



Source: National Bureau of Statistics of China

### The economy of Beijing

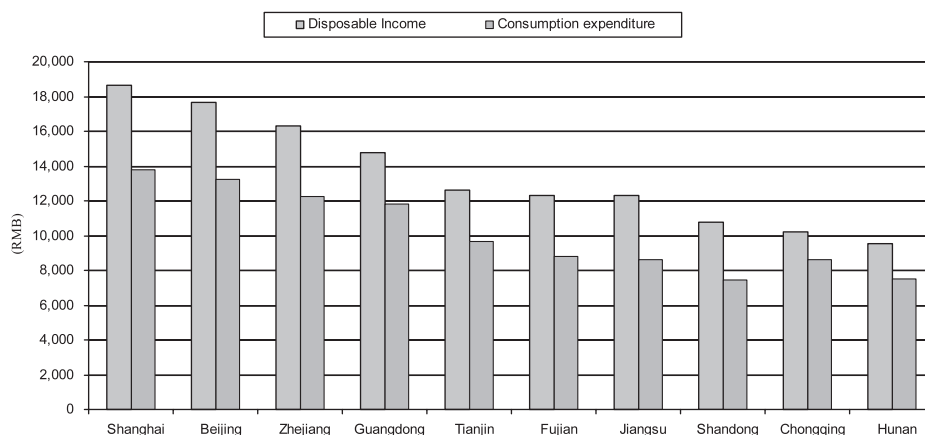
Beijing is the capital of the PRC and is one of the most populated cities of the country. According to the Beijing Municipal Bureau of Statistics, the population of Beijing increased from approximately 12.51 million in 1995 to approximately 15.81 million in 2006.

Beijing will host the Olympic Games in 2008. It is expected that the increasing tourism and various infra-structure projects for the Olympic Games will continue to stimulate economic growth and consumption in Beijing and the surrounding areas.

The Beijing population is one of the most affluent groups in the PRC in terms of the residents' disposable income. The per capita annual disposable income of urban residents of Beijing was RMB19,978 in 2006, which was second highest within the country. The per capita annual consumption expenditure of urban residents of Beijing was RMB14,825 in 2006, the second highest within the country.

## INDUSTRY OVERVIEW

### Per Capita Annual Disposable Income and Per Capita (Annual Consumption Expenditure) of Urban Residents of regions in the PRC in 2005



Source: National Bureau of Statistics of China

The growth in population, disposable income and consumption expenditure in Beijing has provided ample business opportunities for the retail business sector. Retail sales of consumer goods in Beijing increased from approximately RMB95.0 billion in 1995 to approximately RMB327.5 billion in 2006.

#### The economy of the Chaoyang District

The Chaoyang District is located in eastern Beijing, covering 455.08 square km and having a population of approximately 2.5 million.

The Chaoyang District is the window of Beijing. Being the central business district of Beijing, more than 90 percent of foreign embassies and majority of the city's five star hotels are located in the Chaoyang District. Major facilities in the district include the Beijing Capital Airport, Beijing Workers' Stadium and Asian Games Village.

The Chaoyang District is one of the largest and most populated districts in Beijing. The residents of Chaoyang are among the most affluent groups in Beijing. The high-income population provides ample business opportunities for retail chain operators. The table below illustrates the number and annual remuneration of employed persons of the Chaoyang District as compared to the other districts in Beijing:



## INDUSTRY OVERVIEW

### Number of employed persons and annual remuneration of districts in Beijing in 2005

District	Number of employed persons ( '000)	Annual remuneration (RMB million)
海淀區 (Haidian)	984	35,314
朝陽區 (Chaoyang)	840	35,489
西城區 (Xicheng)	583	24,075
豐台區 (Fengtai)	439	11,100
東城區 (Dongcheng)	435	17,039
宣武區 (Xuanwu)	241	8,295
順義區 (Shunyi)	220	5,883
大興區 (Daxing)	211	5,727
昌平區 (Changping)	197	4,570
通州區 (Tongzhou)	182	3,198
石景山區 (Shijingshan)	160	4,855
房山區 (Fangshan)	132	3,050
崇文區 (Chongwen)	103	3,008
密雲縣 (Miyun)	79	1,552
平谷區 (Pinggu)	74	1,306
懷柔區 (Huairou)	64	1,634
門頭溝區 (Mentougou)	62	1,437
延慶縣 (Yanqing)	40	944

*Source: Beijing Municipal Bureau of Statistics*

### Number of employed persons and annual average wage of selected regions in the PRC in 2005

District	Number of employed persons ( '000)	Annual average wage (RMB)
北京 (Beijing)	5,056	34,191
上海 (Shanghai)	3,332	34,345
廣東 (Guangdong)	9,043	23,959

*Source: National Bureau of Statistics of China*

Beijing's success in the bid for the 2008 Olympic Games has provided the city and particularly the Chaoyang District with great opportunities for development. The Olympic Green, located in the Wali and Datun area in north Chaoyang, covers 12.15 square km. The construction of the central business district and the Olympic Green will greatly expedite the process of the urbanization of rural Chaoyang, the modernization of urban areas and internationalization of the district as a whole.

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## INDUSTRY OVERVIEW

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### THE PRC RETAIL INDUSTRY

With the largest population of the world and a rapid economic growth, the retail market in the PRC presents immense sales and marketing opportunities for distributors of consumer goods. The increase in personal wealth and purchasing power for the majority of the people in the PRC has also led to an expansion of retail business in the PRC in the past ten years.

The different formats of retail distribution of daily consumer products in the PRC are characterised by their location, size, decoration of stores, target customers, types of merchandise and operating styles. The primary retail formats that have been established include hypermarkets, supermarkets and convenience stores. The table below show key features of these retail formats.

Classification	Location	Size	Merchandise
Hypermarket	Commercial districts at main traffic junctions	Over 6,000 m <sup>2</sup>	Clothings, food and beverages, household goods
Supermarket	Residential and commercial districts	Less than 6,000 m <sup>2</sup>	Packaged food, fresh food products and household goods
Convenience store	Commercial districts, high traffic volume areas, public facilities such as bus stations, hospitals, schools, entertainment facilities, office buildings and gas stations	Around 100 m <sup>2</sup>	Instant food, drinks and groceries

*Source: MOC – 2004*

### Chain stores in the PRC

Prior to the PRC's accession to the WTO, the PRC chain store industry was strictly regulated in terms of shareholding restriction and location restriction. However, after 11 December 2004, wholly-foreign owned investment in retail sector is permitted and most restrictions on location and number of outlets have been removed. It is expected that foreign retailers will further penetrate the PRC retail industry in the future. The entry of large foreign chain store groups is expected to intensify competition and speed up the modernization of the industry.

Large retail chain operators in the PRC enjoyed substantial growth in the previous years. The sales of the top 100 retail chain operators accounted for an increasing portion of the total retail sales of consumer goods in the PRC each year from 2000 to 2006. The table below sets out the growth in retail sales of consumer goods and sales of the top 100 chain store operators in the PRC during such period.

## INDUSTRY OVERVIEW

### Retail sales of consumer goods and sales by the top 100 retail chain operators in the PRC

Year	2001	2002	2003	2004	2005	2006
Sales of the top 100 retail chain operators (RMB billion)	162	247	358	497	708	855.2
Growth rate	65%	52%	45%	39%	42%	25%
Annual growth of retail sales of consumer goods	10.1%	10.2%	9.2%	10.2%	12.9%	13.7%
Percentage of sales of the top 100 retail chain operators comprising the retail sales of consumer goods	4.3%	6.0%	7.8%	9.3%	10.5%	11.2%

Source: China Chain Store & Franchise Association

The Directors believed that the growth of the retail chain store industry would continue as a result of the growth of the PRC economy. With the intense competition from the foreign operators, the Directors expect that (i) Chinese retail chain operators will converge their supply chains and create their proprietary brands; (ii) some large Chinese retail chain operators will reposition themselves and co-operations with international retail chain operators are expected; and (iii) retail chain operators, particularly supermarket chain operators, will carry out greater assets and resources integration.

### Retail chains in Beijing

Beijing is one of the PRC cities where retail chains have a high penetration rate. According to the China Chain Store & Franchise Association, by the end of 2005, the number of chain stores in Beijing reached 5,973. The sales by retail chains in Beijing for 2004 increased by 32.6%, as compared to that for the previous year, and accounted for approximately 29% of total retail sales of daily consumer products in Beijing. The table below sets out the top supermarket chain operators in Beijing in terms of sales in 2006.

#### Top Supermarket Chain Operators in Beijing in 2006

	Types of Retail Outlets	Number	(Sales of Retail Outlets in RMB million)
物美集團 (Wumart Group) (including 北京美廉美 (Beijing Mei Lian Mei))	Hypermarkets/Supermarkets/ Convenience Stores	751	25,520
北京京客隆 (Beijing Jingkelong)	Hypermarkets/Supermarkets/ Convenience Stores	171	6,134 <sup>(1)</sup>
北京超市發 (Beijing Chao Shi Fa)	Supermarkets	51	1,681
北京順天府 (Beijing Shun Tian Fu)	Supermarkets	20	992

Source: China Chain Store & Franchise Association

Note:

- (1) The figure reported by the China Chain Store & Franchise Association represents the aggregated sales of members of the Group before any elimination of intra-group transactions, audit adjustments and GAAP adjustments. Therefore the figure is not the same as the consolidated revenue amount appears in Appendix I to this document.

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## INDUSTRY OVERVIEW

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### Laws and regulations concerning the PRC retail industry

Pursuant to applicable PRC laws, operators of hypermarkets, supermarkets and convenience chain stores are required to obtain various permits and licences from certain PRC government authorities such as licences include:

1. hygiene permit
2. permit for tobacco monopoly retail business
3. permit for circulation of publications
4. animal quarantine permit

The PRC had started to progressively admit foreign-invested entities to the country's retail market since early 1990s. In 1992, the State Council stipulated the qualifying conditions for foreign investment in commercial retail enterprises by promulgating the guidelines on 《關於商業零售領域利用外資問題的批覆》 (Approval Regarding Foreign Investments in the Commercial Retail Industry) and permitted trial operation of certain foreign investment commercial enterprises in six major cities (including Beijing and five Special Economic Zones).

《中華人民共和國反不正當競爭法》 (The PRC Law Against Unfair Competition), which was promulgated in 1993, states that business operators are not permitted to sell commodities below cost for the purpose of eliminating competition. Only the following shall not be deemed as unfair competition acts: (1) sale of live commodities; (2) disposal of commodities near their expiration dates, or inventory that have been held for a long period of time; (3) seasonal sales; and (4) sale of commodities at a reduced price for the purpose of clearing off debts, change of business or suspension of operation. Violation of this regulation renders the offender liable to compensate losses suffered by other business operators.

In June 1998, the State Internal Trade Bureau promulgated 《零售業態分類規範意見(試行)》 (the Opinion Regarding Standardization of Retailing Business Classification (Provisional)), which clearly defines, for the first time, various types of retail business such as department stores, supermarkets and hypermarkets.

Pursuant to 《外商投資商業領域管理辦法》 (the Administrative Rules on Foreign Investments in Business Areas) promulgated in April 2004 by the Ministry of Commerce, any foreign investor who has acquired a good reputation and has never been acting in such manner that was in breach of any laws, administrative regulations and relevant rules in the PRC may establish a foreign-owned business enterprise and open retail outlets for business, subject to prior approval by relevant department on commercial affairs, as well as the registration requirement by the relevant administrating institutions.

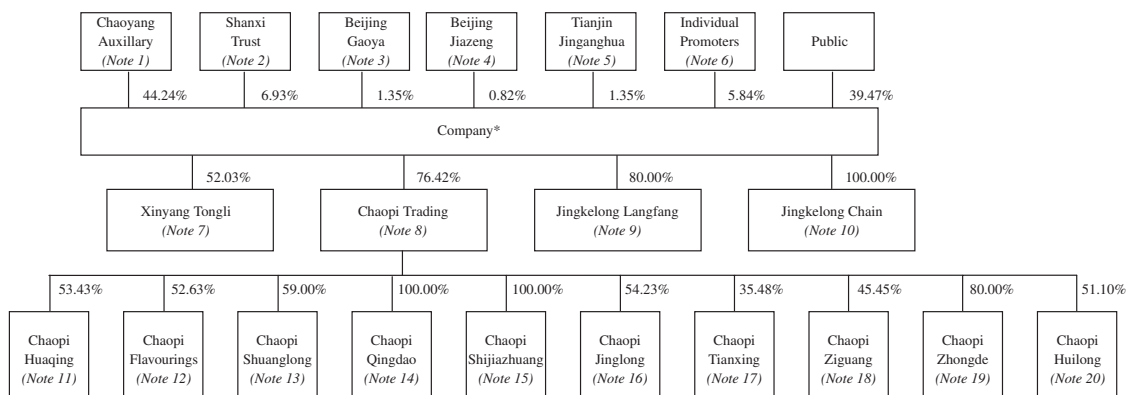
Pursuant to the notice regarding full implementation of the State standard of 《零售業態分類》 (Retail Industry Classification) in August 2004 by the Ministry of Commerce, the retail industry has been categorised into 17 formats such as eatery, convenience store, discount shop, supermarket, hypermarket, department store and specialty store, etc.

Pursuant to the Administrative Rules on Franchise Business Operations promulgated in December 2004 by the Ministry of Commerce, a foreign enterprise shall extend its scope of business to include "business operation in franchise mode" in order to be allowed to conduct operations in a franchising format.

# GROUP STRUCTURE

## GROUP STRUCTURE

The following chart sets out the Shareholders, subsidiaries and associated companies of the Company immediately following the commencement of the H Shares on Main Board, assuming no changes in shareholding after the Latest Practicable Date.



\* The Company is principally engaged in the operation of hypermarkets, supermarkets and convenience stores.

### Notes:

1. Chaoyang Auxillary, one of the Promoters, is a state-owned enterprise. Chaoyang Auxillary's principal business is investment holding and property management.
2. Shanxi Trust, one of the Promoters, was incorporated in the PRC as a limited liability company. It is a professional trustee company and is holding these Domestic Shares as trustee for 122 employees and officers of the Company, all of whom (save for Ms. Li Chunyan and Mr. Liu Yuejin, who are executive Directors and Ms. Wang Shuying, who is a Supervisor) are Independent Third Parties.

In accordance with Article 10 of the "Trust Law of People's Republic of China", in respect of any trust for which registration of trust properties is required, a trust shall only become legally valid upon registration of its trust assets in accordance with the relevant PRC laws and regulations. However, there are no PRC laws or regulations requiring such registration in relation to trust assets under the aggregated trust fund under the trust agreement between Shanxi Trust and the said employees and officers. Therefore, the Company's PRC legal advisers have confirmed that the aggregated trust fund under the said trust agreement is valid without the aforesaid registration.

3. Beijing Gaoya, one of the Promoters, was incorporated in the PRC as a limited liability company. Beijing Gaoya is principally engaged in the sale of general merchandise. The sole shareholder of Beijing Gaoya has no representation on the Board and is Independent Third Party save for his indirect equity interests in the Company.

The table below sets out the sole shareholder of, and his shareholdings in, Beijing Gaoya:

Shareholder of Beijing Gaoya	Approximate percentage interest in the total share capital of Beijing Gaoya (%)
吳少華 (Wu Shaohua)	100.0

4. Beijing Jiazeng, one of the Promoters, was incorporated in the PRC as a limited liability company. Beijing Jiazeng's principal business is the sale of cooked meat and other food products. None of the shareholders of Beijing Jiazeng has any representation on the Board. All the shareholders of Beijing Jiazeng are Independent Third Parties, save for their indirect equity interests in the Company.

## GROUP STRUCTURE

The table below sets out the shareholders of, and their shareholdings in, Beijing Jiazeng:

<b>Shareholder of Beijing Jiazeng</b>	<b>Approximate percentage interest in the total share capital of Beijing Jiazeng (%)</b>
馬家增 (Ma Jiazeng)	59.7
楊玉華 (Yang Yuhua)	4.9
陳宏銀 (Chen Hongyin)	7.9
陳建萍 (Chen Jianping)	16.5
劉淑英 (Liu Shuying)	4.9
陳愛萍 (Chen Aiping)	6.1

5. Tianjin Jinganghua, one of the Promoters, was incorporated in the PRC as a limited liability company. Tianjin Jinganghua's principal business is the provision of decoration services. None of the shareholders of Tianjin Jinganghua has any representation on the Board. All the shareholders of Tianjin Jinganghua are Independent Third Parties, save for their indirect equity interests in the Company.

The table below sets out the shareholders of, and their shareholdings in, Tianjin Jinganghua:

<b>Shareholder of Tianjin Jinganghua</b>	<b>Approximate percentage interest in the total share capital of Tianjin Jinganghua (%)</b>
楊月春 (Yang Yuechun)	74.70
呂征 (Lu Zheng)	25.30

6. The following individuals directly hold an aggregate shareholding interest of approximately 5.84% in the Company. Li Shunxiang, Gu Hanlin, Wei Tingzhan, Li Jianwen and Li Chunyan are Directors of the Company; Yang Baoqun and Qu Xinhua are Supervisors of the Company; Zhao Weili, Chen Limin and Gao Jingsheng are senior management members of the Company; and the remaining individuals are other Individual Promoters.

<b>Minority shareholder of the Company</b>	<b>Approximate percentage interest in the total share capital of the Company (%)</b>
<b>Director</b>	
Li Shunxiang	1.35
Gu Hanlin	0.37
Wei Tingzhan	0.37
Li Jianwen	0.35
Li Chunyan	0.05
<b>Supervisor</b>	
Yang Baoqun	0.27
Qu Xinhua	0.22
<b>Senior management</b>	
Zhao Weili	0.24
Chen Limin	0.22
Gao Jingsheng	0.22
<b>Other Individual Promoter</b>	
Liu Yanli	0.62
Xia Wensheng	0.54
Gao Jiaqiang	0.54
Bai Xianrong	0.22
Dai Jing	0.13
Tian Junying	0.13

## GROUP STRUCTURE

7. Xinyang Tongli was incorporated as a limited company in the PRC. It is principally engaged in the production of plastic packing material, and installation and maintenance of commercial equipments. The remaining approximately 47.97% is held by seven individuals, all of whom are Independent Third Parties.

The table below sets out the said seven individual shareholders of, and their shareholdings in, Xinyang Tongli:-

<b>Shareholder of Xinyang Tongli</b>	<b>Approximate percentage interest in the total share capital of Xinyang Tongli (%)</b>
李萬鎰 (Li Wanyi)	15.00
趙光宇 (Zhao Guangyu)	7.50
胡一濱 (Hu Yibin)	7.50
謝景霞 (Xie Jingxia)	7.19
于順民 (Yu Shunmin)	3.59
許福林 (Xu Fulin)	3.59
劉金花 (Liu Jinhua)	3.59

8. Chaopi Trading was incorporated in the PRC as a limited liability company. Chaopi Trading is principally engaged in the wholesale distribution of general merchandise such as food, non-staple food, edible oil, beverages, grain and groceries. The remaining aggregate equity interest of approximately 23.58% is owned by Shanxi Trust and 27 individuals. All of the said individuals, save for their shareholdings in Chaopi Trading and the shareholdings and directorships listed below, are Independent Third Parties. In relation to the aforementioned individuals, (i) 李俊偉 (Li Junwei, a director of Chaopi Flavours and Chaopi Jinglong) also holds approximately 30.84% of Chaopi Flavouring's equity and approximately 31.78% of the equity of Chaopi Jinglong, (ii) 李蘭柱 (Li Lanzhu) is a director of each of Chaopi Flavours, Chaopi Huaqing, Chaopi Shijiazhuang, Chaopi Qingdao, Chaopi Shuanglong, Chaopi Jinglong, Chaopi Tianxing, Chaopi Ziguang, Chaopi Huilong and Chaopi Zhongde, (iii) 孫文輝 (Sun Wenhui) is a director of each of Chaopi Flavours, Chaopi Huaqing, Chaopi Shuanglong, Chaopi Jinglong, Chaopi Ziguang, Chaopi Huilong and Chaopi Zhongde, (iv) 賈明 (Jia Ming) is a director of each of Chaopi Flavours, Chaopi Huaqing, Chaopi Shuanglong and Chaopi Jinglong, and also is a supervisor of Chaopi Zhongde (v) 王春林 (Wang Chunlin) is a director of Chaopi Shuanglong, and Chaopi Huilong and also holds approximately 28.50% of the equity of Chaopi Shuanglong and 16.30% of the equity of Chaopi Huilong, (vi) 黃玉華 (Huang Yuhua) is a director, and also holds approximately 26.38% of the equity of Chaopi Huaqing, (vii) 王殿霞 (Wang Dianxia) is a supervisor of Chaopi Ziguang, and (viii) 唐勇力 (Tang Yongli) is a supervisor of Chaopi Flavours, Chaopi Huaqing, Chaopi Shuanglong, Chaopi Jinglong, Chaopi Zhongde and Chaopi Huilong.
9. Jingkelong Langfang was incorporated in the PRC as a limited liability company. It is principally engaged in the retail of general merchandise. The remaining 20% equity interest is owned by 廊坊市華夏房地產開發有限公司 (Langfang City Huaxia Real Estate Development Company Limited) who, save for its shareholding in Jingkelong Langfang, is an Independent Third Party.
10. Jingkelong Chain was incorporated as a limited company in the PRC. It is principally engaged in the retail of general merchandise.
11. Chaopi Huaqing was incorporated as a limited company in the PRC. It is principally engaged in the wholesale distribution of drinks and food. The remaining equity interest of approximately 46.57% is held by 33 individuals. None of them holds more than 30% of Chaopi Huaqing's equity interest and save for their shareholdings in Chaopi Huaqing, they are Independent Third Parties, except for 黃玉華 (Huang Yuhua) who holds 26.38% equity interest in Chaopi Huaqing and who also holds approximately 0.67% of the equity of Chaopi Trading.

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## GROUP STRUCTURE

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12. Chaopi Flavourings is a limited company established in the PRC. It is principally engaged in the wholesale of flavourings, food and edible oil. The remaining aggregate equity interest of approximately 47.37% is held by 29 individuals. None of them (except for 李俊偉 (Li Junwei)) holds more than 30% of Chaopi Flavouring's equity interest and save for their shareholdings in Chaopi Flavourings, they are Independent Third Parties. 李俊偉 (Li Junwei, a director of Chaopi Flavourings, and holds approximately 30.84% of Chaopi Flavouring's equity) is also a director of Chaopi Jinglong and holds approximately 31.78% of the equity of Chaopi Jinglong and approximately 0.79% of the equity of Chaopi Trading. Accordingly, since 李俊偉 (Li Junwei) is a director and a substantial shareholder (as the case may be) of two non-wholly owned subsidiaries of the Company and Chaopi Flavourings is an associate of 李俊偉 (Li Junwei), therefore Chaopi Flavourings is a connected person of the Company.
13. Chaopi Shuanglong was incorporated as a limited company in the PRC. It is principally engaged in the wholesale of alcoholic beverages. The remaining aggregate equity interest is owned by 北京紅星股份有限公司 (Beijing Red Star Holding Limited), 北京順鑫農業股份有限公司 (Beijing Shunxin Agricultural Holding Company Limited) and 王春林 (Wang Chunlin) as to approximately 8.33%, 4.17% and 28.50%, respectively, and all of them, save for their shareholdings in Chaopi Shuanglong, and except 王春林 (Wang Chunlin), are Independent Third Parties. 王春林 (Wang Chunlin) also holds 16.30% of the equity of Chaopi Huilong and approximately 0.89% of the equity of Chaopi Trading.
14. Chaopi Qingdao was incorporated as a limited company in the PRC. It is principally engaged in the wholesale of alcoholic beverages in the Shandong Province, the PRC.
15. Chaopi Shijiazhuang was incorporated as a limited company in the PRC. It is principally engaged in the wholesale of alcoholic beverages in the Hebei Province, the PRC.
16. Chaopi Jinglong was incorporated as a limited company in the PRC. It is principally engaged in the wholesale of edible oil. The remaining equity interest of approximately 45.77% is held by 22 individuals. None of them (except 李俊偉 (Li Junwei)) holds more than 30% of Chaopi Jinglong's equity interest and, save for their shareholdings in Chaopi Jinglong, they are Independent Third Parties. 李俊偉 (Li Junwei, a director of Chaopi Jinglong and who holds approximately 31.78% of Chaopi Jinglong's equity) is also a director of Chaopi Flavourings and holds approximately 30.84% of the equity of Chaopi Flavourings and a director of Chaopi Trading and holds approximately 0.79% of the equity of Chaopi Trading. Accordingly, since 李俊偉 (Li Junwei) is a director and a substantial shareholder (as the case may be) of two non-wholly owned subsidiaries of the Company and Chaopi Jinglong is an associate of 李俊偉 (Li Junwei), therefore Chaopi Jinglong is a connected person of the Company.
17. Chaopi Tianxing was incorporated as a limited company in the PRC and an approximately 35.48% associated company of the Company. It is principally engaged in the retail of fruits and vegetables. The remaining equity interest of approximately 64.52% is held by an individual, who is an Independent Third Party.
18. Chaopi Ziguang was incorporated as a limited company in the PRC and an approximately 45.45% associated company of the Company. It is principally engaged in the wholesale of alcoholic beverages. The remaining equity interest is held by Beixin Investment Holding Company Limited (北信投資控股有限責任公司) and 陳樹立 (Chen Shuli, who is also a director of Chaopi Ziguang) as to approximately 45.45% and 9.1%, respectively, all of whom are Independent Third Parties.
19. Chaopi Zhongde was incorporated as a limited liability company in the PRC. It is principally engaged in the wholesale distribution of daily consumer sanitary products in the PRC. The remaining equity interest of approximately 20.00% is held by 北京中得高雅經貿有限公司 (Beijing Zhongde Gaoya Jingmao Company Limited), which is an Independent Third Party.
20. Chaopi Huilong was incorporated as a limited company in the PRC. It is principally engaged in the wholesale of general merchandise. The remaining aggregate equity interest is owned by 王春林 (Wang Chunlin), 張西西 (Zhang Xixi) and 胡靜芳 (Wu Jingfang) as to 16.30% each. All of them, save for their shareholdings in Chaopi Huilong and except 王春林 (Wang Chunlin), who is a director, are Independent Third Parties. 王春林 (Wang Chunlin) also holds approximately 28.50% of Chaopi Shuanglong and approximately 0.89% of the equity of Chaopi Trading.



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*Unless the context stipulates to the contrary or requires otherwise, references to the Company in this section includes the Company's predecessor.*

### **CHAORYANG AUXILLARY STATE OWNED ASSETS RESTRUCTURING AND THE REORGANISATION**

The Company was converted with the authorisation of BDRC in accordance with 《關於同意北京京客隆超市連鎖集團有限公司變更為北京京客隆商業集團股份有限公司的函》(京發改[2004] 2241號) (Letter in relation to the authorisation of converting “Beijing Jingkelong Supermarket Chain Group Company Limited” to “Beijing Jingkelong Company Limited”) (Jing Fa Gai [2004] 2241) from Jingkelong Supermarket and established as a joint stock limited company.

#### **1. THE ESTABLISHMENT OF JINGKELONG SUPERMARKET**

The establishment of the predecessor of the Company evolved from the restructuring of 北京關東店商廈 (Beijing Guandongdian Shang Sha (“Guandongdian Shang Sha”)), being a state-owned enterprise.

On 12 May 1994, upon the approval and the issuance of the business licence by 北京市朝陽區工商行政管理局 (Administration for Industry and Commerce of Chaoyang District, Beijing), the Company was first established in the PRC under the name of Guandongdian Shang Sha as a state-owned enterprise. At the time, the Company's registered capital was RMB2,000,000.

On 6 February 1996, upon the approval and the issuance of business licence by Administration for Industry and Commerce of Chaoyang District, Beijing, the name of the Company was changed to “Beijing Jingkelong Shang Sha”.

On 4 June 1997, upon the approval and the issuance of business licence by Administration for Industry and Commerce of Chaoyang District, Beijing, the registered capital of the Company was increased to RMB22,190,000.

On 28 April 2002, Chaoyang Auxillary proposed a restructuring of its assets to 金朝陽 (Jin Chaoyang) (which proposal is entitled 《北京市朝陽副食品總公司關於進行企業改制設立北京京客隆超市連鎖有限公司的改制方案》 (Enterprise restructuring proposal by Chaoyang Auxillary in relation to Beijing Jingkelong Supermarket Chain Company Limited)), which was aimed to segregate its operating/performing assets from its non-operating/non-performing assets, and rationalise its various business units and holding structure. Pursuant to the Chaoyang Auxillary State Owned Assets Restructuring, of which the Reorganisation forms part, Chaoyang Auxillary injected Jingkelong Shang Sha together with its other interests including 北京市朝陽肉禽水產批發部 (Beijing City Chaoyang Poultry and Seafood Wholesale Department), 北京市生命綠洲健康服務中心 (Beijing City Life Health Service Centre), 北京市朝陽肉禽蔬菜公司 (Beijing City Chaoyang Poultry and Vegetables Company), 北京市朝陽藥品器材經營公司 (Beijing City Chaoyang Medical Equipment Operating Company), 北京市朝陽區文化用品批發公司 (Beijing City Chaoyang District Cultural Commodities Wholesale Company), 北京市朝陽副食品批發總公司 (Beijing City Chaoyang Food Wholesale Company), 北京月盛元飯店 (Beijing Yue Sheng Yuan Restaurant), 北京市朝陽東方招待所 (Beijing City Chaoyang Eastern Service Centre), 北京市騰遠汽車維修中心 (Beijing City Teng Yuan Vehicle Repair Centre), 北京市朝陽區商業設備公司 (Beijing City Chaoyang District Business Equipment Company), 北京市朝陽東方加油站 (Beijing City Chaoyang Eastern Petrol Station) and 北京市朝陽區騰遠出租汽車公司 (Beijing City

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Chaoyang District Teng Yuan Car Rental Company), and cash, aggregating RMB176,540,000, whilst the other investors (comprising officers, employees and business partners of the Group) contributed cash in the aggregate amount of RMB60,120,000, to establish 北京京客隆超市連鎖有限公司 (Beijing Jingkelong Supermarket Chain Company Limited).

After the aforesaid assets and equity interest were injected into the Company, they were further rationalised into the different entities set out in the chart contained in the section headed “Group structure” in this document, together with the dissolutions of Beijing City Chaoyang Poultry and Seafood Wholesale Department, Beijing City Life Health Service Centre and Beijing City Chaoyang Poultry and Vegetables Company on 12 January 2006, the reorganisation of Beijing City Chaoyang Medical Equipment Operating Company and Beijing City Chaoyang District Cultural Commodities Wholesale Company into Yiyuantang on 8 November 2002, the conversion of Beijing City Chaoyang Food Wholesale Company into Chaopi Trading on 31 May 2002, the conversion of Beijing City Chaoyang District Business Equipment Company into Xinyang Tongli on 31 May 2002, the conversion of Beijing City Chaoyang District Teng Yuan Car Rental Company into Tengyuan on 31 May 2002 and concurrently the injection of Beijing Yue Sheng Yuan Restaurant, Beijing City Chaoyang Eastern Service Centre, Beijing City Teng Yuan Vehicle Repair Centre and Beijing City Chaoyang Eastern Petrol Station into Tengyuan, pending the final steps of this restructuring, being the Reorganisation set out below.

On 20 May 2002, Beijing Administration for Industry and Commerce (“BAIC”) authorised the establishment of Beijing Jingkelong Supermarket Chain Company Limited with a registered capital of approximately RMB236,660,000. Chaoyang Auxillary invested RMB176,540,000, representing approximately 74.60% of the registered capital of Beijing Jingkelong Supermarket Chain Company Limited. The remaining shareholders were other legal corporate entities and individuals.

On 6 December 2002, the name of Beijing Jingkelong Supermarket Chain Company Limited was changed to “北京京客隆超市連鎖集團有限公司” (Beijing Jingkelong Supermarket Chain Group Company Limited).

## 2. THE REORGANISATION

However, as the establishment of the Company was only part of the Chaoyang Auxillary State Owned Assets Restructuring which was designed to rationalise the diverse business interests of Chaoyang Auxillary, certain unrelated and independent businesses were also transferred to and held by the Company pending further administrative actions then to be taken in respect thereof.

Accordingly, subsequent to the establishment of the Company, with a view to further rationalising the various business functions and holding structure of Chaoyang Auxillary and those of the Group and in preparation for the GEM Listing, in June 2004:

- (i) the Company acquired approximately 1.25% and 0.79% equity interest in Chaopi Trading at consideration of approximately RMB1,000,000 and RMB628,000, representing the initial cost of investments, from Chaopi Huaqing and Chaopi Flavourings, respectively in June 2004 and thereby increasing its equity interest in Chaopi Trading to approximately 71.7%;

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- (ii) Chaopi Trading entered into two equity transfer agreements with Chaoyang Auxillary to acquire an additional approximately 11.11% and 12.50% equity interest in Chaopi Huaqing and Chaopi Flavourings (at a consideration of RMB1,305,959.90 and RMB2,152,867.86 determined by an independent PRC valuer by reference to the net asset value attributable to the relevant equity interest being transferred) respectively, in June 2004. Upon the completion of the equity transfers, Chaopi Trading owned a total interest of approximately 52.22% and 56.25% in Chaopi Huaqing and Chaopi Flavourings, respectively. The Group accounted for Chaopi Huaqing and Chaopi Flavourings as associates for the period from January 2004 to June 2004 and as subsidiaries by the purchase method of accounting thereafter;
- (iii) the Company transferred its entire 10% equity interest in Chaopi Shuanglong to Chaopi Trading for approximately RMB1,611,000 determined by an independent PRC valuer by reference to the net asset value attributable to the relevant equity interest being transferred so as to consolidate the Group's equity holding in Chaopi Shuanglong in Chaopi Trading;
- (iv) the Company disposed of its entire approximately 62.73% equity interest in Tengyuan to Chaoyang Auxillary for approximately RMB9,038,000 determined by an independent PRC valuer by reference to the net asset value attributable to the relevant equity interest being transferred. Tengyuan was principally engaged in the sale of motor vehicles and the provision of car repair services, which was an independently operated business unit of Chaoyang Auxillary, and such equity interest was only injected into the Company by Chaoyang Auxillary at the time of the Company's establishment as a transitional arrangement (being part of the Chaoyang Auxillary State Owned Assets Restructuring) pending this disposal, which was amongst the final steps under the Chaoyang Auxillary State Owned Assets Restructuring to rationalise the different business units of Chaoyang Auxillary; and
- (v) the Company disposed of its entire approximately 35.07% equity interest in Yiyuantang to Chaoyang Auxillary for approximately RMB14,984,000 determined by an independent PRC valuer by reference to the net asset value attributable to the relevant equity interest being transferred. Yiyuantang was principally engaged in the sale of pharmaceutical products, which was an independently operated business unit of Chaoyang Auxillary, and such equity interest was only injected into the Company by Chaoyang Auxillary at the time of the Company's establishment as a transitional arrangement (being part of the Chaoyang Auxillary State Owned Assets Restructuring) pending this disposal, which was amongst the final steps under the Chaoyang Auxillary State Owned Assets Restructuring to rationalise the different business units of Chaoyang Auxillary.

Each of the equity interest disposal in paragraphs (ii), (iii), (iv) and (v) above was conducted at a consideration determined by an independent PRC valuer by reference to the net asset value attributable to the relevant equity interest being transferred and was approved by the SASAC of Chaoyang District, Beijing.

Although the holding by the Group of the equity interests of Tengyuan and Yiyuantang was a transitional arrangement which formed part of the Chaoyang Auxillary State Owned Assets Restructuring exercise, for accounting purposes, the Group accounted its equity interests in Tengyuan and Yiyuantang under discontinued operations in the Accountants' Report included as Appendix I to this document. The operating results of Tengyuan were consolidated into the Group until June 2004 when the Group transferred its entire equity interest therein to Chaoyang Auxillary under the Chaoyang Auxillary State Owned Assets Restructuring. The operating results of Yiyuantang were consolidated into the Group until the Company disposed of its approximately 35.07% equity interest therein to a third party in July 2003 for RMB14,467,900, representing the initial cost of investment, and then, the operating results of Yiyuantang were accounted for as a share of result of associates until June 2004 when the Group transferred the balance of its equity interest therein (being approximately 35.07%) to Chaoyang Auxillary under the Chaoyang Auxillary State Owned Assets Restructuring.

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On 22 November 2004, the equity holders of Chaopi Flavourings resolved, at a meeting of its equity holders, to increase the registered capital of Chaopi Flavourings from RMB8,000,000 to RMB9,500,000, and Chaopi Flavourings received cash contributions from (i) Chaopi Trading (which was then already an equity holder of Chaopi Flavourings) in the sum of RMB1,075,000 (of which RMB500,000 was paid and recorded as capital and RMB575,000 was paid and recorded as reserves), and (ii) 李俊偉 (Li Junwei, being a then existing equity holder of Chaopi Flavourings) in the sum of RMB2,150,000 (of which RMB1,000,000 was paid and recorded as capital and RMB1,150,000 was paid and recorded as reserves), and as a result thereof, Chaopi Trading held approximately 52.63% of Chaopi Flavourings' equity.

On 25 July 2005, Chaopi Trading acquired an approximately 7.33% equity interest in Chaopi Shuanglong at consideration of RMB880,000, representing the initial cost of investment, from Shenzhen Yunzhongyuan Trading Company Limited and thereby increasing its equity interest in Chaopi Shuanglong to approximately 59.00%.

On 1 August 2005, the equity holders of Chaopi Trading resolved, at a meeting of its equity holders, to increase the registered capital of Chaopi Trading from RMB80,000,000 to RMB96,000,000, and Chaopi Trading received cash contribution from the Company in the sum of RMB17,206,400 (of which RMB16,000,000 was paid and recorded as capital and RMB1,206,400 was paid and recorded as reserves), and as a result thereof, the Company held approximately 76.42% of Chaopi Trading's equity.

On 7 February 2007, Chaopi Zhongde was incorporated with registered capital of RMB28,000,000 and is principally engaged in wholesale of general merchandise and provision of storage services. At the time of its incorporation, Chaopi Zhongde was wholly held by Chaopi Trading. On 18 April 2007, Chaopi Trading transferred 20% of Chaopi Zhongde's equity to 北京中得高雅經貿有限公司 (Beijing Zhongde Gaoya Jingmao Company Limited), an independent third party, at a consideration of RMB5,600,000, representing the initial cost of investment and thereby reducing its equity interest in Chaopi Zhongde to 80.00%.

On 8 February 2007, Chaopi Huilong was incorporated with registered capital of RMB12,000,000 and is principally engaged in the wholesale of general merchandise. At the time of its incorporation, Chaopi Trading held approximately 51.10% of Chaopi Huilong's equity.

On 23 April 2007, the equity holders of Chaopi Trading resolved at a meeting of its equity holders to (i) increase the registered capital of Chaopi Trading from RMB96,000,000 to RMB192,000,000 and the said equity holders were offered to subscribe for the increase in registered capital pro-rata to their holdings of equity in Chaopi Trading, and (ii) declare a dividend of RMB28,800,000. The said dividend of RMB28,800,000 was re-invested by the equity holders as registered capital, and the balance of the increase in registered capital was contributed by the said equity holders by way of cash payments. Accordingly, the Company has contributed RMB51,352,700 by way of cash payment to Chaopi Trading as further registered capital to maintain its approximately 76.42% interest in Chaopi Trading. Furthermore, Shanxi Trust has also contributed RMB6,665,400 by way of cash payment as further registered capital to Chaopi Trading to maintain its approximately 9.92% interest in Chaopi Trading. Accordingly, the registered capital of Chaopi Trading was increased to RMB192,000,000, while the proportionate equity interest of the Company and Shanxi Trust in Chaopi Trading remained unchanged respectively.

On 24 April 2007, the equity holders of Chaopi Huaqing resolved at a meeting of its equity holders to (i) increase the registered capital of Chaopi Huaqing from RMB9,000,000 to RMB18,000,000 and the said equity holders were offered to subscribe for the increase in registered capital pro-rata to their holdings of equity in Chaopi Huaqing, and (ii) declare a dividend of RMB2,700,000. The

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said dividend of RMB2,700,000 was re-invested by the equity holders as registered capital, and the balance of the increase in registered capital was contributed by the said equity holders by way of cash payments. Accordingly, Chaopi Trading has contributed RMB3,507,000 by way of cash payments to Chaopi Huaqing as further registered capital to maintain its holdings of equity in Chaopi Huaqing and acquired a further interest of approximately 1.21% in Chaopi Huaqing, and as a result thereof, Chaopi Trading held approximately 53.43% of Chaopi Huaqing's equity.

On 27 April 2007, the equity holders of Chaopi Flavourings resolved at a meeting of its equity holders to (i) increase the registered capital of Chaopi Flavourings from RMB9,500,000 to RMB23,750,000; and (ii) declare a dividend of RMB10,450,000. The said dividend of RMB10,450,000 was re-invested by the equity holders as registered capital, and the balance of the increase in registered capital was paid out by the reserve of Chaopi Flavourings in the sum of RMB3,800,000. Accordingly Chaopi Trading maintained its approximately 52.63% interest in Chaopi Flavourings.

On 23 April 2007, Chaopi Trading acquired 25.00%, 12.50% and 3.50% equity interests in Chaopi Qingdao from 王春林 (Wang Chunlin), 劉東 (Liu Dong) and 王曉娟 (Wang Xiaojuan) respectively at consideration of RMB490,000, RMB250,000 and RMB70,000, representing the initial cost of investments, and thereby increasing its equity interest in Chaopi Qingdao to 100.00%. All of them, save for 王春林 (Wang Chunlin) who is a director of Chaopi Shuanglong, and Chaopi Huilong and also holds approximately 28.50% of the equity of Chaopi Shuanglong, 16.30% of the equity of Chaopi Huilong and 0.89% of the equity of Chaopi Trading are Independent Third Party. On the same date, Chaopi Trading, being the sole equity holder of Chaopi Qingdao, resolved to increase the registered capital of Chaopi Qingdao from RMB2,000,000 to RMB5,000,000 of which Chaopi Qingdao received cash contribution from Chaopi Trading in the sum of RMB3,000,000 and was recorded as capital of Chaopi Qingdao.

On 23 April 2007, Chaopi Trading acquired 25.00%, 12.50% and 3.50% equity interests in Chaopi Shijiazhuang from 王春林 (Wang Chunlin), 段雲洪 (Duan Yunhong) and 王曉娟 (Wang Xiaojuan) respectively at consideration of RMB500,000, RMB250,000 and RMB70,000, representing the initial cost of investments, and thereby increasing its equity interest in Chaopi Shijiazhuang to 100.00%. All of them, save for 王春林 (Wang Chunlin) who is a director of Chaopi Shuanglong, and Chaopi Huilong and also holds approximately 28.50% of the equity of Chaopi Shuanglong, 16.30% of the equity of Chaopi Huilong and 0.89% of the equity of Chaopi Trading are Independent Third Party. On the same date, Chaopi Trading, being the sole equity holder of Chaopi Shijiazhuang, resolved to increase the registered capital of Chaopi Shijiazhuang from RMB2,000,000 to RMB5,000,000 of which Chaopi Shijiazhuang received cash contribution from Chaopi Trading in the sum of RMB3,000,000 and was recorded as capital of Chaopi Shijiazhuang.

On 27 April 2007, the equity holders of Chaopi Jinglong resolved at a meeting of its equity holders to (i) increase the registered capital of Chaopi Jinglong from RMB12,000,000 to RMB18,000,000 and the said equity holders were offered to subscribe for the increase in registered capital pro-rata to their holdings of equity in Chaopi Jinglong, and (ii) declare a dividend of RMB3,600,000. The said dividend of RMB3,600,000 was re-invested by the equity holders as registered capital, and the balance of the increase in registered capital was contributed by the said equity holders by way of cash payments. Accordingly, Chaopi Trading has contributed RMB1,301,496 by way of cash payments to Chaopi Jinglong as further registered capital to maintain its approximately 54.23% interest in Chaopi Jinglong.

On 27 April 2007, the equity holders of Chaopi Shuanglong resolved at a meeting of its equity holders to (i) increase the registered capital of Chaopi Shuanglong from RMB12,000,000 to RMB24,000,000, and (ii) declare a dividend of RMB12,000,000. The said dividend of RMB12,000,000 was re-invested by the equity holders as registered capital. Accordingly, Chaopi Trading maintained its 59% interest in Chaopi Shuanglong.



### 3. CONVERTING JINGKELONG SUPERMARKET TO THE COMPANY

On 12 August 2004, the shareholders of Jingkelong Supermarket at a shareholders' meeting resolved to convert their company into a joint stock limited company. On the same day, all shareholders of Jingkelong Supermarket signed the Promoters' Agreement. For the purpose of converting the Company (being in the form of a limited company under the name of 北京京客隆超市連鎖集團有限公司 (Beijing Jingkelong Supermarket Chain Group Company Limited)) into a joint stock limited company, the net asset value of the Company of RMB246,620,000 (as determined by 安永華明會計事務所 (Ernst & Young Hua Ming, the PRC auditors of the Company) by deducting the amount of the declared dividend of RMB29,135,259 from the net asset value as at 31 December 2003 of RMB275,755,259) was converted into 246,620,000 shares of RMB1.00 each of the Company.

On 28 September 2004, Beijing SASAC authorised the establishment of the Company as a joint stock limited company in accordance with 《關於北京京客隆商業集團股份有限公司國有股權管理有關問題的批覆》(京國資產權字[2004]96號) (In relation to the authorisation of the "Management of the state-owned shareholdings of Beijing Jingkelong Company Limited") (Jing Guo Zi Chan Quan Zi [2004] No. 96) and the conversion of Jingkelong Supermarket into a joint stock limited company. The issued share capital of the Company was (based on the net asset value of the Company of RMB246,620,000 referred to above) RMB246,620,000 comprising 246,620,000 shares of RMB1.00 each. Chaoyang Auxillary held 183,969,808 shares, amounting to approximately 74.6% of the total share capital, the shareholding nature of which is state-owned legal person shares. The remaining share capital was held by other legal corporate entities and individuals.

On 21 October 2004, pursuant to 《關於同意北京京客隆超市連鎖集團有限公司變更為北京京客隆商業集團股份有限公司的函》(Letter concerning the approval of the conversion of Beijing Jingkelong Supermarket Chain Group Company Limited to Beijing Jingkelong Company Limited) 京發改[2004]2241號) (Jing Fa Gai [2004] No. 2241) issued by BDRC, Jingkelong Supermarket was converted into a joint stock limited company. In accordance with the above approval, the value of the total net assets of Jingkelong Supermarket amounting to RMB246.62 million, was converted into 246,620,000 Shares, comprising the total issued Shares thereof.

On 1 November 2004, BAIC authorised Jingkelong Supermarket to convert to 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited).

### LISTING ON GEM

On 18 February 2005, a shareholders' meeting of the Company was held, at which, among other things, the listing of the H Shares on GEM was approved.

On 23 March 2006, the CSRC issued 《關於同意北京京客隆商業集團股份有限公司發行境外上市外資股的批覆》(an approval document approving the issue of the H Shares by the Company) to approve the issue and listing of the H Shares on GEM.

The Company was approved listing on GEM by the Stock Exchange and the H Shares have been listed and traded on GEM since 25 September 2006 (stock code: 8245). As at the Latest Practicable Date, based on the closing price of the H Shares on GEM of HK\$7.04 per H Share, the Company had a market capitalisation of approximately HK\$1,068.7 million.

### ACQUIRING INTEREST IN SHOU LIAN

On 10 February 2007, the Company and Shou Lian entered into a capital increase agreement in relation to the issue by Shou Lian of RMB50 million of its new equity capital (representing approximately 11.04% of the enlarged equity of Shou Lian) to the Company at consideration of RMB50 million representing the initial cost of registered capital. The condition set out in the capital increase agreement of the completion of the capital verification in respect of Xi You's RMB50 million capital contribution to Shou Lian (which amount has been received by Shou Lian), and the completion of the administrative procedures with the Beijing Administration of Industry and Commerce in respect of Shou Lian's increase of registered capital from RMB353 million to RMB403 million have been fulfilled.

On the same date, in conjunction with the capital increase agreement, the Company also entered into a co-operation agreement with Xi You and Shou Lian, pursuant to which, amongst others, (1) the Company will operate Shou Lian's retail network under the Group's franchise arrangements, and (2) the Company was granted a purchase right and a right of first refusal in respect of Xi You's interest in the equity of Shou Lian. The Company entered into a franchise agreement, trademark licence agreement, computer system maintenance agreement and training service agreement with Shou Lian on the same date as and in conjunction with the co-operation agreement, pursuant to which Shou Lian's retail network will be operated under the Group's franchise arrangement.

The Directors believe that upon completion of integration of the retail network of Shou Lian under franchise arrangements, the public recognition of the Group's "京客隆" brandname will be further enhanced. The Group can further expand its retail distribution network to cover other parts of the Greater Beijing Region and increase its revenue through the distribution of its products to Shou Lian. The cost benefit of the Group's distribution systems can be more effectively realized with the incorporation of Shou Lian's retail network into that of the Group. Moreover, the economies of scale of the Group can be further upgraded in terms of, for example, sourcing ability and bargaining power.

### HISTORY AND DEVELOPMENT

The Company is a joint stock company incorporated in the PRC with limited liability on 1 November 2004, formerly known as Guandongdian Shang Sha and then as Jingkelong Shang Sha, Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from 1 November 2004.

In 1994, the Group established its first Distribution Centre in the Chaoyang District of Beijing. The products distributed through this Distribution Centre include foods, edible oil, drinks, flavorings, alcohol and general merchandise.

In 1995, the Group opened its first supermarket. In February 1997, the Group commenced operations of its first Logistics Centre. The Logistics Centre distributes dry products including food products such as alcoholic and non-alcoholic beverages, packaged food, seasonings and processed food products, as well as non-food products such as household items.

In May 1998, the Group obtained its business licence for its first hypermarket. By April 1999, the Group was operating seven Retail Outlets, comprising a hypermarket and six supermarkets.

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## HISTORY AND DEVELOPMENT AND REORGANISATION

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The Group recognised that efficient logistics management was vital to the development of its retail distribution business. In September 1999, the Group entered into an agreement with 北京北大青鳥商用信息系統有限公司 (Beijing Beida Jade Bird Business Information Systems Company Limited) to develop information management systems to manage the Group's inventories and deliveries, in order to provide effective inventory control and facilitating product distribution and ensuring a smooth coordination of the Group's retail operations.

In 2000, the Group obtained its business licence for its second hypermarket in Hebei Province, PRC. Shortly thereafter, the Group obtained its business licence for its third hypermarket and entered into a franchise arrangement for its first supermarket. Additionally, Jingkelong Langfang and Chaopi Huaqing were incorporated as limited liability companies in the PRC, principally engaged in the retail of general merchandise, and the wholesale distribution of drinks and food, respectively.

In January 2001, the Group opened its second supermarket under franchise arrangement. In April 2001, the Group entered into an agreement with 茂進系統股份有限公司 (Maojin System Company Limited) to further enhance its information management systems in its Logistics Centre to handle various aspects of the distribution of the daily consumer products, including management of storage and replenishment. Also, in April 2001, Chaopi Flavourings was incorporated as limited liability company in the PRC, principally engaged in the wholesale of flavourings, food and edible oil.

As the number of Retail Outlets increased, the Group sought to improve its information management systems. In February 2002, the Group entered into an agreement with 北京億高索爾科技有限公司 (Beijing Yigao Suoer Technology Company Limited) to set up an e-commerce platform for communication with the Group's suppliers. This allowed the Logistic Centre to conveniently replenish low inventory levels.

Pursuant to the Reorganisation, in April 2002, Chaoyang Auxillary, injected certain assets into the Company, which included the business of wholesale distribution of daily consumer goods, hence setting up the Group's wholesale distribution arm. The assets include Chaopi Trading and Xinyang Tongli, principally engaged in the wholesale distribution of general merchandise such as food, non-staple food, edible oil, beverages, grain and groceries and the production of plastic packing material and installation and production maintenance of commercial equipment, respectively. For details, please refer to the sub-paragraphs (I)(b), (III), (IV), (V) and (VI) in the section headed "(1F) Chaoyang Auxillary State Owned Assets Restructuring" in Appendix V to this document.

In June 2002, the Group obtained its business license for its first convenience store. In July 2002, Chaopi Tianxing was incorporated as a limited liability company, principally engaged in the retail of fruit and vegetables. In August 2002, the Group entered into franchise agreements to operate two convenience stores. Also, Chaopi Shuanglong was incorporated as a limited liability company, principally engaged in the wholesale of alcoholic beverages. Additional franchise arrangements for five and three franchised convenience stores were entered into in September 2002 and November 2002 respectively.

In December 2002, the Group obtained its business licence for its fourth hypermarket, the 望京店 (Wangjing Hypermarket). The number of hypermarkets directly operated by the Group was thus increased to four. As at 31 December 2002, the Group directly operated four hypermarkets, 24 supermarkets and 29 convenience stores, and had two supermarkets and 13 convenience stores under franchise arrangements.



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## HISTORY AND DEVELOPMENT AND REORGANISATION

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In the same year, the trademarks of the Group's three in-house brands, namely Miwu (蜜屋), Manmiao (曼妙) and Huilian (惠廉) were registered.

In 2003, Chaopi Ziguang was incorporated as a limited liability company, principally engaged in the wholesale of alcoholic beverages. In May 2005, Chaopi Jinglong was incorporated as a limited liability company, principally engaged in the sale of edible oil. In September 2005, Chaopi Qingdao and Chaopi Shijiazhuang were incorporated as limited companies in the PRC, principally engaged in wholesale of alcoholic beverages in the Shandong Province and Hebei Province respectively.

Since 25 September 2006, the H Shares have been listed on GEM (stock code: 8245).

In July 2006, the Group obtained its business licence for its fifth hypermarket, the 舊宮店 (Jiugong Hypermarket), which increased the number of hypermarkets directly operated by the Group to five. As at 31 December 2006, the Group directly operated five hypermarkets, 38 supermarkets and 39 convenience stores, and had one supermarket and 88 convenience stores under franchise arrangements.

In February 2007, Chaopi Zhongde and Chaopi Huilong were incorporated as limited liability companies in the PRC, both principally engaged in wholesale distribution business in Beijing, to strengthen its wholesale distribution operations.

On 10 February 2007, the Company and Shou Lian entered into a capital increase agreement in relation to the issue by Shou Lian of RMB50 million of its new equity capital (representing approximately 11.04% of the equity of Shou Lian) to the Company. On the same date, in conjunction with the capital increase agreement, the Company also entered into a co-operation agreement with Xi You and Shou Lian. The Company entered into a franchise agreement, trademark licence agreement, computer system maintenance agreement and training service agreement with Shou Lian on the same date as and in conjunction with the co-operation agreement, pursuant to which Shou Lian's retail network will be operated under the Group's franchise arrangement.

The major terms of the co-operation agreement are that (i) Shou Lian's retail network of hypermarkets, supermarkets and convenience stores will be operated, on terms of the Group's franchise arrangements, under the Group's "京客隆" brandname; (ii) the Group is granted a right of first refusal for the purchase of the Delegated Equity exercisable upon Xi You's sale of the Delegated Equity; (iii) the Group is granted a purchase right exercisable on completion of each full year during the Delegation Period to purchase the Delegated Equity provided that prior to the exercise of the purchase right the Group shall notify Xi You in writing regarding its option whether exercise the purchase right or not; (iv) the Group shall exercise the voting rights attached to the Delegated Equity in accordance with Xi You's direction; (v) Xi You enjoys the right of profit sharing and bears any loss resulting from the operations of Shou Lian according to its percentage shareholding in Shou Lian; and (vi) the Company will make a loan in the sum of RMB50 million with interest to Shou Lian through a bank in the PRC.

Through these years, the Group has received awards and recognition in the PRC. For details, please refer to "Awards and achievements" in the "Business" section of this document.

### OVERVIEW

The Group is one of the leading distributors of daily consumer products in the Greater Beijing Region, with a turnover of more than RMB4.5 billion for the year ended 31 December 2006. The Group operates its distribution business under the well-known brands of “京客隆” and “朝批”. According to China Chain Store & Franchise Association, the Group was ranked 27th among the top 100 fast moving consumer goods retail chain in China and 38th among the top 100 chain enterprises in China in 2006.

The distribution network of the Group spans across retail and wholesale distribution channels. As at 30 April 2007, the retail distribution network of the Group comprised 170 Retail Outlets, of which 84 were directly-operated and 86 were under franchise arrangements; and the Group’s directly-operated Retail Outlets comprised five hypermarkets, 40 supermarkets and 39 convenience stores, while the Group’s franchised Retail Outlets comprised one supermarket and 85 convenience stores. The Group also operates a wholesale distribution business through Chaopi Trading and its subsidiaries and associated companies under the well known “朝批” brandname for the wholesale supply of daily consumer products to customers including the Retail Outlets and other retail operators and trading companies. Operating in these retail and wholesale distribution formats, the Group has positioned itself to cater for the needs of a diverse range of customers, ranging from retail operators to end consumers.

Since its inception, the Group has been principally operating in the Greater Beijing Region, with a particularly strong network in the Chaoyang District, which is one of the most affluent inner city regions of Beijing. With the hosting of the Beijing Olympic Games in 2008 and the principal event auditoriums being located in the Chaoyang District, the Directors believe that any increase in tourism and the construction of various infrastructure and residential projects will further stimulate economic and population growth in and increase urbanization of the Greater Beijing Region, particularly the Chaoyang District, hence providing Chaoyang-based retail chain operators such as the Group with growth opportunities.

With such positioning, the Group has established strengths in the daily consumer product distribution industry. The Group aims to deliver high service quality to its customers while maintaining cost efficiency, hence maintaining a leading position in the daily consumer product distribution industry and enhancing its competitiveness. The Group believes in “customers come first” and “honesty”, which are the foundations of the Group’s consumer-oriented marketing strategy.

The infrastructure of extensive wholesale and retail distribution channels enables the Group to maintain a stable supply of daily consumer products to its Retail Outlets, even for certain popular seasonal products during peak seasons. At the same time, it also facilitates the timely collection of first-hand feedback on market trends and end consumer preferences, which enables the Group to implement market-driven merchandising and stocking at the wholesale level. The Directors believe that these advantages are not available to those distribution operators who do not possess complementary capabilities on both retail and wholesale capabilities.

## BUSINESS

The following table shows the number and net operating areas of the different retail and wholesale distribution formats of the Group as at 30 April 2007.

	Retail distribution operations			Wholesaling distribution operations
	Hypermarkets	Supermarkets	Convenience stores	Distribution Centres
Number of Distribution Outlets				
– directly-operated	5	40	39	2
– franchise-operated	–	1	85	–
	<u>5</u>	<u>41</u>	<u>124</u>	<u>2</u>
Net operating area (sq.m.)				
– directly-operated	44,938	92,317	8,841	90,182
– franchise-operated	–	880	16,340	–
	<u>44,938</u>	<u>93,197</u>	<u>25,181</u>	<u>90,182</u>

In order to excel within the daily consumer product distribution industry in the Greater Beijing Region, the Group plans to continue to increase the number of its Retail Outlets and franchise stores, which will in turn enhance economies of scale and the consumers' awareness of its “京客隆” brandname, and thereby further capitalising on the Group's established “京客隆” brandname and extensive retail distribution network. In addition, the Group will also explore opportunities for the expansion of the Group's wholesale distribution network, both by increasing the number of Distribution Centres and extending the reach of the Group's wholesale distribution network.

### COMPETITIVE STRENGTHS

#### Well-recognised brands

The Group has more than 10 years of experience in the daily consumer product distribution industry, operating under the “京客隆” and “朝批” brandnames. In this respect, both brandnames have since been established as leading brands in the retail and wholesale daily consumer product distribution industry.

As at 30 April 2007, the Company had a retail distribution network comprising 170 Retail Outlets with more than 163,000 sq.m. of operating area. In 2006, the Group generated approximately RMB4.5 billion in sales. The Group was ranked 27th among the top 100 fast moving consumer goods retail chain in China in 2006. The easy accessibility of the Group's daily consumer products in many convenient Retail Outlets serves to build brand loyalty and enhances the Group's relationship with its consumers.

The Group's wholesale distribution operations are supported by two Distribution Centres and operated by Chaopi Trading and its subsidiaries and associated companies which supply wholesale daily consumer products to customers including the Retail Outlets and other retail operators and trading companies.

### **Locality of operations – the Greater Beijing Region (in particular the Chaoyang District)**

Since its inception, the Group has been principally operating in the Greater Beijing Region, with a particularly strong network in the Chaoyang District, which is one of the most affluent inner city regions of Beijing. According to the Beijing Municipal Bureau of Statistics, in 2005, the working population of the Chaoyang District was approximately 840,000, ranking it the second most populous district (out of 18 districts) of Beijing with an average per capita annual income of approximately RMB42,000. Additionally, with the main hosting of the Olympic Games in Beijing in 2008 and the principal event auditoriums being located in the Chaoyang District, it is anticipated that the increasing tourism and the commencement of various infrastructural projects in relation to the Olympic Games will stimulate economic growth in the Greater Beijing Region, particularly the Chaoyang District, hence providing the Group with tremendous growth opportunities.

### **Integrated retail and wholesale distribution operations**

Unlike traditional retail chain operators, the Group is also engaged in the wholesale distribution of daily consumer products, integrating this with its retail distribution operations to form a distribution network spanning wholesale and retail distribution channels and customers. The Directors believe that an integrated retail and wholesale distribution model provides the Group with a competitive edge in:

- facilitating the implementation of its uniform policies throughout its retail and wholesale distribution networks, resulting in stability in both the sourcing of products (via the wholesale operations) and the distribution of the same (via the retail channel);
- having the ability to buy in bulk, which allows the Group to enjoy considerable bargaining power, leading to better concessions from suppliers and lower costs for the Group's customers;
- facilitating the timely collection of first-hand feedback on market trends and end-consumer preferences at the retail level, which enables the Group to implement market-driven merchandising and stocking at the wholesale level.

### **Centralised Logistics Centres and Distribution Centres**

In order to maximise the efficiency of its retail and wholesale distribution network, the Group maintains two centralised and modern Logistics Centres, comprising the dry product Logistics Centre and the live and fresh produce Logistics Centre, and two Distribution Centres, in order to cater to various demands of its Retail Outlets and its wholesale customers. The Logistics Centres and all directly-operated Retail Outlets are linked via an information management system, hence providing effective inventory control and facilitating product distribution and ensuring a smooth coordination of the Group's retail operations. In addition, by centralising the inventory and distribution facilities, the Group is able to minimise its inventory and distribution costs, hence allowing the Group to increase its profit margins.

The operation of the Logistics Centres and the Distribution Centres significantly complements the Group's retail operations by ensuring efficient and reliable replenishment to the Retail Outlets. It also reduces the stocking and ensures quality of merchandise in Retail Outlet. Besides, the Logistics Centres and the Distribution Centres support and supplement each other in terms of order fulfilment and replenishment needs of the Group's retail and wholesale distribution networks.

Details of the locations of the Group's Logistics Centres and Distribution Centres are set out in Appendix III to this document.

### **Efficient information management systems**

The Group's retail and wholesale distribution operations are supported by two separate and independent information management systems. The Directors believe that an efficient information management remarkably and significantly improves product procurement, delivery schedules, inventory management and merchandising, helps to maintain lower but effective levels of inventories and allows for better overall sales performance. The information management system also provides useful and timely sales information enabling the Group to make timely decisions regarding distribution, merchandising and other strategic decisions.

### **Multi-tiered retail distribution network**

The Group adopts a multi-tiered retail model – hypermarkets, supermarkets and convenience stores – which caters to the preferences of a broad range of consumers with different shopping habits and needs.

The Group's hypermarkets target consumers who require a comprehensive “one-stop” shopping experience. They provide a broad range of quality products and services at competitive prices.

Compared with hypermarkets, the target consumers of the Group's supermarkets are those who are located in residential areas with the need for daily necessities. Convenience stores target consumers with the need for fast, efficient and convenient shopping services, and are usually located near residential neighborhoods.

Looking forward, without changing its core business format, the Group will develop community shopping centre which will comprise a hypermarket, theme department stores and other entertainment and ancillary facilities including restaurants and hotel accommodation.

### **Experienced and stable management**

The Group has an experienced and stable management team with diverse backgrounds and substantial expertise in the distribution of daily consumer products in the PRC. Most of the Group's senior management staff has many years of experience in the PRC retail and wholesale distribution industry. The Directors believe that with stability at the senior management level, the Group has been able to formulate a clear business direction and carry out its business strategies effectively. The Directors believe that the Group's experienced management team, together with its emphasis on staff development, has enabled the Group to efficiently allocate its resources and adjust its development strategies according to market conditions.

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### REVENUE MODEL

Revenue represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts. The table below sets out the Group's principal revenue model during the Track Record Period:

	Year ended 31 December 2004			Year ended 31 December 2005			Year ended 31 December 2006		
	Continuing operations	Discontinued operations*	Total	Continuing operations	Discontinued operations*	Total	Continuing operations	Discontinued operations*	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sale of merchandise and produce									
- Retailing from directly-operated Retail Outlets	2,009,270	-	2,009,270	2,060,573	-	2,060,573	2,297,306	-	2,297,306
- Wholesaling	1,555,895	-	1,555,895	2,057,361	-	2,057,361	2,228,520	-	2,228,520
Trading of automobiles and provision of related repair services	-	97,893	97,893	-	-	-	-	-	-
Others	3,700	-	3,700	3,814	-	3,814	5,149	-	5,149
<b>Total</b>	<b>3,568,865</b>	<b>97,893</b>	<b>3,666,758</b>	<b>4,121,748</b>	<b>-</b>	<b>4,121,748</b>	<b>4,530,975</b>	<b>-</b>	<b>4,530,975</b>

\* *The motor vehicle and repair operations was discontinued in 2004. For details, please refer to section headed "History and Development and Reorganisation" in this document.*

During the Track Record Period, the Group expanded its retail and wholesale operations, both in terms of geographical coverage and product mix, with the aim of strengthening its market presence within the Greater Beijing Region. For its retail distribution business, the Group's revenue increased from approximately RMB2,009.3 million for the year ended 31 December 2004 to approximately RMB2,297.3 million for the year ended 31 December 2006. For its wholesale distribution business, the Group's revenue increased from approximately RMB1,555.9 million for the year ended 31 December 2004 to approximately RMB2,228.5 million for the year ended 31 December 2006.

In order to excel within the daily consumer product distribution industry in the Greater Beijing Region, the Group plans to continue to increase the number of its Retail Outlets, which will in turn enhance economies of scale and the consumers' awareness of its "京客隆" brandname. In addition, the Group will also explore opportunities for the expansion of the Group's wholesale distribution network by expanding its distribution region and channels.

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## BUSINESS

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### PRODUCTS

The daily consumer products distributed by the Group through its retail distribution network range from fresh and frozen meat, seafood, vegetables, cooked and processed food products, tea leaves, confectionary, plants, snacks, bakery, seasoning, household paper products, plastic products, groceries, home appliance, softwares, mobile phones and accessories, footwear and headwear, textiles, books, watches, electrical appliances to general household products.

The daily consumer products distributed by the Group through its wholesale distribution network include processed food products, beverages, wine products and non-staple food. The Group does not distribute fresh or frozen food products at the wholesale level.

The Directors believe that the Group is well positioned to secure further distributorships as a result of the coordination of the wholesale and retail distribution operations of the Group, hence enhancing the competitiveness of the Group and growing its profit margins.

### DISTRIBUTION NETWORKS

As at 30 April 2007, the Group distributed daily consumer products through (i) its retail distribution network comprising 170 Retail Outlets, of which all five hypermarkets, 40 supermarkets and 39 convenience stores and directly-operated by the Group, while one supermarket and 85 convenience stores were operated under franchise arrangements; and (ii) its wholesale distribution network operated by Chaopi Trading and its subsidiaries and associated companies.

The network of the Group's Retail Outlets comprised the following as at 30 April 2007:

	Directly-operated	Franchises	Total
Retail Distribution business:			
Hypermarkets	5	–	5
Supermarkets	40	1	41
Convenience stores	39	85	124
	<u>84</u>	<u>86</u>	<u>170</u>
Total	<u>84</u>	<u>86</u>	<u>170</u>

The Group's wholesale distribution operations are operated through Chaopi Trading and its subsidiaries and associated companies as at 30 April 2007:

	Number
Chaopi Trading	1
Subsidiaries of Chaopi Trading	8
Associated companies of Chaopi Trading	2
	<u>11</u>
Total	<u>11</u>

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## BUSINESS

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The Group's wholesale distribution operations are supported by its Distribution Centres. Details of the location of each of the Group's Distribution Outlets (directly-operated) are set out in Appendix III to this document.

The Directors believe that the complementary infrastructure comprising both wholesale and retail distribution channels has enabled the Group to achieve a high level of cost efficiency. As a result of the Group's established retail and wholesale distribution network, the Group has the ability to buy in bulk and enjoys considerable purchasing power. In this respect, the Group is able to enjoy economies of scale, leading to lower costs as well as being able to capture the profit margins at the retail level.

In addition, the coordination of the wholesale and retail distribution networks ensures the sufficiency and stability of the supply of daily consumer products in various demand conditions. The visibility in the demand for these daily consumer products at the retail level is increased as the Retail Outlets enable the Group to timely collect information on market trends and consumer preferences, hence optimising the efficacy of the merchandising and stocking at the distribution network. Similarly, volatility at the wholesale sourcing level is reduced.

### RETAIL DISTRIBUTION OPERATIONS

#### (i) Retail Outlets

The retail distribution network of the Group comprises hypermarkets, supermarkets and convenience stores, with a geographical focus in the Greater Beijing Region. Leveraging on its established brandname, the Group has expanded its business model into managing and operating supermarket and convenience store franchises. All Retail Outlets, whether directly-operated or under franchise arrangements, are operated under the “京客隆” service mark. The daily consumer products distributed through the retail distribution channels include live and fresh produce, dry products, beverages, processed food and daily necessities. The Retail Outlets are classified accordingly to the classification standards set by the MOC.

The table below shows the Rules of Classification of Retail Formats 2004 issued by the MOC:

	Sales Area	Commodities
Hypermarket	6,000 m <sup>2</sup> or above	Featuring self-branded products and a wide range of daily consumer products
Supermarket	Under 6,000 m <sup>2</sup>	Packaged foods, daily consumer products, live and fresh produce are available for sales
Convenience Store	Approximately 100 m <sup>2</sup>	Featuring around 3,000 types of products with prices higher than the average market prices

The Retail Outlets are generally located at easily accessible and highly visible locations, such as in the vicinity of residential neighborhoods, public transport systems and major roads. This enhances public awareness of the Group's Retail Outlets and allows the Group to build a strong corporate identity by attracting new consumers and encouraging repeat consumers.



In addition, the Chaoyang District of Beijing, where most of the Retail Outlets are located, is easily accessible by four major motorways in Beijing, namely 京張高速公路 (Jingzhang Motorway), 京石高速公路 (Jingshi Motorway), 京津唐高速公路 (Jingjintang Motorway) and 京沈高速公路 (Jingshen Motorway). The Directors believe that the strategic location and accessibility of the Chaoyang District allows the Group to tap into a large pool of consumers.

The Chaoyang District's strategic location also enhances the distribution efficiency of the Group's distribution network by allowing the Logistics Centres to meet the various product demands of the Retail Outlets in a timely manner. Complemented with the Group's information management systems and own delivery trucks, the Directors believe that the Group is able to enhance its distribution capabilities. The Group has over 80 self-owned vehicles of various types and also lease other vehicles from other third parties.

All Retail Outlets, whether directly-operated or under franchise arrangements, are operated under the “京客隆” service mark. These Retail Outlets generally followed a uniform and distinctive design, layout and colour scheme, and their staff are attired in standard uniform. The Directors believe that the use of a common layout, colour scheme and design distinguishes the Group from other chain operators and enhances the public recognition of the “京客隆” brand.

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The table below sets out the locations of the Retail Outlets as at 30 April 2007:

	Hypermarkets		Supermarkets		Convenience stores		Total	
	Number of stores	Net operating area (sq.m.)	Number of stores	Net operating area (sq.m.)	Number of stores	Net operating area (sq.m.)	Number of stores	Net operating area (sq.m.)
<b>Directly operated by the Group</b>								
大興區(Daxing District)	1	6,300	-	-	-	-	1	6,300
延慶縣(Yanqing County)	-	-	1	3,460	-	-	1	3,460
朝陽區(Chaoyang District)	2	19,450	22	54,902	38	8,717	62	83,069
密雲縣(Miyun County)	-	-	1	4,580	-	-	1	4,580
廊坊市(Langfang City)	1	9,381	1	2,620	-	-	2	12,001
昌平區(Changping District)	1	9,807	-	-	-	-	1	9,807
順義區(Shunyi District)	-	-	1	1,390	-	-	1	1,390
通州區(Tongzhou District)	-	-	8	11,690	1	124	9	11,814
東城區(Dongcheng District)	-	-	1	1,800	-	-	1	1,800
西城區(Xicheng District)	-	-	1	2,400	-	-	1	2,400
海淀區(Haidian District)	-	-	3	6,775	-	-	3	6,775
宣武區(Xuanwu District)	-	-	1	2,700	-	-	1	2,700
<b>Sub-total</b>	<b>5</b>	<b>44,938</b>	<b>40</b>	<b>92,317</b>	<b>39</b>	<b>8,841</b>	<b>84</b>	<b>146,096</b>
<b>Operated by franchisees</b>								
朝陽區(Chaoyang District)	-	-	1	880	68	12,742	69	13,622
昌平區(Changping District)	-	-	-	-	3	606	3	606
海淀區(Haidian District)	-	-	-	-	2	597	2	597
豐台區(Fengtai District)	-	-	-	-	5	979	5	979
通州區(Tongzhou District)	-	-	-	-	1	254	1	254
順義區(Shunyi District)	-	-	-	-	2	718	2	718
大興區(Daxing District)	-	-	-	-	2	240	2	240
宣武區(Xuanwu District)	-	-	-	-	1	39	1	39
崇文區(Chongwen District)	-	-	-	-	1	165	1	165
<b>Sub-total</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>880</b>	<b>85</b>	<b>16,340</b>	<b>86</b>	<b>17,220</b>
<b>Total</b>	<b>5</b>	<b>44,938</b>	<b>41</b>	<b>93,197</b>	<b>124</b>	<b>25,181</b>	<b>170</b>	<b>163,316</b>

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The table below sets out the aggregate revenue of the Retail Outlets directly-operated by the Group during the Track Record Period:

	Year ended 31 December					
	2004		2005		2006	
	Aggregate revenue <i>RMB('000)</i>	( <i>%</i> )	Aggregate revenue <i>RMB('000)</i>	( <i>%</i> )	Aggregate revenue <i>RMB('000)</i>	( <i>%</i> )
Hypermarkets	653,687	32.5	694,362	33.7	700,997	30.5
Supermarkets	1,208,077	60.1	1,205,007	58.5	1,419,103	61.8
Convenience stores	147,506	7.4	161,204	7.8	177,206	7.7
	<u>2,009,270</u>	<u>100.0</u>	<u>2,060,573</u>	<u>100.0</u>	<u>2,297,306</u>	<u>100.0</u>

In addition to revenue the Group derives from sales, the Group also derives income from the following activities during the Track Record Period, including but not limited to:

- promotion income of approximately RMB35.6 million, RMB42.8 million and RMB70.7 million respectively derived from suppliers for the promotion of their products and indoor signboard advertising income;
- display space leasing fee of approximately RMB12.9 million, RMB18.3 million and RMB31.0 million respectively derived from suppliers for displaying products at prime area of the Retail Outlets;
- information system service income of approximately RMB1.0 million, RMB1.1 million and RMB1.9 million respectively represented the one-off set-up fees received from the suppliers and the annual maintenance fees from the suppliers allowing them access to the Group's automatic ordering systems;
- merchandise storage and delivery income of approximately RMB6.7 million, RMB11.6 million and RMB13.1 million respectively represented the service fees received from the suppliers for safekeeping of merchandise and delivery to the Retail Outlets on behalf of the suppliers; and
- gross rental income of approximately RMB34.5 million, RMB37.0 million and RMB40.3 million respectively derived from (1) the sub-leases of third party counters and designated area of the Retail Outlets to, among others, ornaments processing shops, shoes and watches repairing shops, restaurants, fast food outlets, photo shops and banks and (2) leases of investment properties of the Group. The rental income received from the sub-leasing of third party counters and designated areas during the Track Record Period were approximately RMB29.0 million, RMB31.5 million and RMB34.8 million respectively. The rentals received from the leasing of investment properties during the Track Record Period were approximately RMB5.5 million, RMB5.5 million and RMB5.5 million respectively.

### Hypermarkets

As at 30 April 2007, the Group owned and operated five hypermarkets, through which it distributes its in-house branded products and other daily consumer products. The hypermarkets target consumers who require a comprehensive “one-stop” shopping experience whereby they can complete their shopping all under one roof. Accordingly, the hypermarkets offer a broad range of quality products at competitive prices and various ancillary services to satisfy the needs of an one-stop shopping experience of the consumers such as laundry, banking, pharmacy, watch repair and photo-finishing services.

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### Details of Hypermarkets

The following table sets out the total number of hypermarkets and the total net operating space of the directly-operated hypermarkets of the Group:

		As at 31 December	
	2004	2005	2006
Directly-operated hypermarkets	4	4	5
Total net operating area ('000 sq.m.)	38.6	38.6	44.9

The table below sets out the approximate average transaction figures for the hypermarkets during the Track Record Period:

		As at 31 December	
	2004	2005	2006
Revenue (RMB million)	654	694	701
Average daily sales (RMB'000)	1,786	1,902	1,921
Average number of daily transactions	38,904	39,289	38,257
Revenue per operating area per day (RMB)	46.2	49.2	49.9
Average value per transaction (RMB)	45.9	48.4	50.2

As at 31 December 2006, three hypermarket sites were leased to the Group by Independent Third Parties, with two other sites being owned by the Group. Such leases are for 15 years and 20 years.

### Supermarkets

As at 30 April 2007, the Group operated 40 supermarkets directly, and operated one supermarket under franchise arrangements, through which it distributed its in-house branded products and other daily consumer products. The supermarkets tend to be located in more densely-populated residential areas and have smaller store sizes as compared to the hypermarkets.

### Details of Supermarkets

The following table sets out the total number of supermarkets and the total net operating space of the directly-operated supermarkets of the Group during the Track Record Period:

		As at 31 December	
	2004	2005	2006
Directly-operated supermarkets	26	26	38
Total net operating area of directly-operated supermarkets ('000 sq.m.)	66.9	65.4	87.1
Supermarkets operated under franchise agreements	4	5	1

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The table below sets out the approximate average transaction figures for the directly-operated supermarkets of the Group during the Track Record Period:

	As at 31 December		
	2004	2005	2006
Revenue ( <i>RMB million</i> )	1,208	1,205	1,419
Average daily sales ( <i>RMB'000</i> )	3,408	3,623	4,160
Average number of daily transactions	136,213	130,286	146,428
Revenue per operating area per day ( <i>RMB</i> )	48.1	46.9	46.7
Average value per transaction ( <i>RMB</i> )	25.0	27.8	28.4

As at 31 December 2006, 22 supermarket sites were leased to the Group by Independent Third Parties, with 15 other sites being leased to the Group by Chaoyang Auxillary, with one other site being owned by the Group. Such leases usually have a term of 20 years.

### Convenience stores

As at 30 April 2007, the Group directly-operated 39 convenience stores, and operated 85 convenience stores under franchise agreements. These convenience stores target consumers with the need for fast, efficient and convenient services. Their sizes generally are much smaller than the other formats of Retail Outlets and they tend to be located near residential neighborhoods. They offer a more selective range of daily consumer products and the prices are generally higher than those sold in the hypermarkets and supermarkets.

### Details of Convenience Stores

The following table sets out the total number of convenience stores and the total net operating space of the directly-operated convenience stores of the Group during the Track Record Period:

	As at 31 December		
	2004	2005	2006
Directly-operated convenience stores	34	35	39
Total net operating area of directly-operated convenience stores ( <i>'000 sq.m.</i> )	8.2	8.1	8.8
Convenience stores operated under franchise agreements	72	88	88

The table below sets out the approximate average transaction figures for the directly-operated convenience stores of the Group during the Track Record Period:

	As at 31 December		
	2004	2005	2006
Revenue ( <i>RMB million</i> )	148	161	177
Average daily sales ( <i>RMB'000</i> )	410	439	492
Average number of daily transactions	44,075	49,071	53,334
Revenue per operating area per day ( <i>RMB</i> )	49.7	55.3	57.5
Average value per transaction ( <i>RMB</i> )	9.3	9.0	9.2

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As at 31 December 2006, 10 convenience stores sites were leased to the Group by Independent Third Parties, with 27 other sites being leased to the Group by Chaoyang Auxillary, with two other site being owned by the Group. Such leases usually have a term of 20 years.

### **Community shopping centres**

Looking forward, without changing its core business format, the Group will develop a community shopping centre business. The Group's planned community shopping centre is situated on a parcel of land with a total site area of approximately 24,000 sq.m. in Jiuxianqiao, Chaoyang District, Beijing ("Jiuxianqiao Community Shopping Centre"). The Jiuxianqiao Community Shopping Centre is currently under construction and is expected to commence operations in the fourth quarter of 2007. Upon completion, the Jiuxianqiao Community Shopping Centre will comprise a hypermarket, theme department stores and other entertainment and ancillary facilities.

The hypermarket will occupy an operating area of approximately 8,200 sq.m., the theme department stores selling boutique fashion, leisure sportswear, trendy accessories, cosmetics, household commodities and outdoor sports commodities will occupy an operating area of approximately 23,000 sq.m., and other entertainment and ancillary facilities will occupy an operating area of approximately 8,600 sq.m.

The Directors expect that the total investment amount of the Jiuxianqiao Community Shopping Centre will be approximately RMB510 million and the source of funding comes from cash generated from the Group's operations, bank borrowings, BITIC Loans and proceeds of the GEM Listing.

As the business model is to a certain extent different from the Group's core business format, the Directors consider that special expertise is involved in the operation of the Jiuxianqiao Community Shopping Centre in particular the operation of the theme department stores. On 23 August 2006, a co-operation agreement in relation to operation of the Jiuxianqiao Community Shopping Centre was signed with a third party authorised by 北京翠微大厦股份有限公司 (Beijing Cui Wei Building Stock Company Limited). According to the co-operation agreement, the Company shall pay a fixed fee of RMB6 million to the said third party as consideration for the services provided. The third party with which the Group entered into the co-operation agreement is 北京航標商業企業經營管理有限責任公司 (Beijing Hangbiao Commercial Enterprises Operations Management Company Limited), which is an Independent Third Party. Beijing Hangbiao Commercial Enterprises Operations Management Company Limited is a management company held by Beijing Cui Wei Building Stock Company Limited. The business scope of Beijing Hangbiao Commercial Enterprises Operations Management Company Limited covers provision of operations management and management consultancy services to commercial enterprises; computer technology development, consultancy, training and services. According to the co-operation agreement, Beijing Hangbiao Commercial Enterprises Operations Management Company Limited is responsible for the liaison of concessionaires, planning and design, provision of guidance to commencement of operations, management consultancy and knowhow in respect of the Jiuxianqiao Community Shopping Centre whilst Beijing Cui Wei Building Stock Limited Company will form project teams among its operational management personnel to ensure overall staffing services of the Jiuxianqiao Community Shopping Centre. It is purely a commercial decision of Beijing Cui Wei Building Stock Company Limited to authorize Beijing Hangbiao Commercial Enterprises Operations Management Company Limited to enter into the co-operation agreement with the Group.

The other entertainment and ancillary facilities such as catering business, cosmetic and beauty treatment, hairdressing, bank in the Jiuxianqiao Community Shopping Centre will be operated by third parties who will enter into lease agreements with the Company. The Group will also enter into system agreements in respect of its hotel and lodging management in the Jiuxianqiao Community Shopping Centre with third parties such as Super 8 and other famous hotel and lodging operators.

Since the construction of the Jiuxianqiao Community Shopping Centre is principally for self-use by the Group, based on the legal opinion of the Company's PRC legal advisers, the Directors confirm that the Group's role in the development of the Jiuxianqiao Community Shopping Centre is not that of a property developer in the PRC. Moreover, the Group has appointed independent third parties to design, construct and decorate the Jiuxianqiao Community Shopping Centre. As the Group is not a property developer, it does not and will not have any property development project.

### **(ii) Logistics Centres**

The Group's retail distribution network is supported by two specially designed Logistics Centres: a live and fresh produce Logistics Centre and a dry product Logistics Centre. Both of these Logistics Centres are situated in the Chaoyang District of Beijing and connected by the Group's information management systems to the directly-operated Retail Outlets, and they facilitate the Group's logistics requirements by consolidating orders for, warehousing and coordinating the delivery of daily consumer products to the Retail Outlets in the Greater Beijing Region.

Both of the two Logistics Centres have automatic replenishment systems by which each directly-operated Retail Outlet can automatically generate and place its orders electronically through the intranet system. This enables the Group to achieve high flexibility in delivering goods within 24 hours of receiving an order. The Group is thus able to satisfy various demands at the Retail Outlets covering the different business models of hypermarkets, supermarkets and convenience stores efficiently, hence minimizing disruptions to the supply of daily consumer products and ensuring the stability of product supply and faster fulfilment of orders.

Most suppliers of the Company are also linked with the Company's automatic replenishment system. The orders for dry products from the directly-operated Retail Outlets are centralized at the sourcing department at the headquarters of the Group. The Group uploads the automatically generated orders on the internet every day such that the suppliers can promptly receive those orders and deliver accordingly. Unlike dry products, the Retail Outlets through the headquarters place orders for meat, fruits and vegetables to the live and fresh produce Logistics Centre using the Group's automatic replenishment system. The sourcing department at the headquarters however does not perform centralized processing of the orders. For other fresh daily merchandise including dairy products, bean products, bakery and cooked food, the Retail Outlets directly place orders to suppliers pre-approved by the Group.

The Group maintains a stringent quality control over all incoming merchandise to the Logistics Centres with a set of standard procedures. By exercising an overall incoming check at the Logistics Centres, the Group ensures a high quality of the supplies to its Retail Outlets.

The operation of the Logistics Centres significantly complements the Group's retail operations mainly in terms of ensuring efficient and reliable replenishment to the Retail Outlets. It also reduces the stocking and ensures the quality of merchandise in Retail Outlets.

With the obtaining of interest in Shou Lian and the expected operation of Shou Lian's retail network under the Group's franchise arrangements in February 2007, the Group intends to connect the Logistics Centres with Shou Lian's network of outlets and further increases the benefits of economy of scale. Upon completion of such integration, the cost effectiveness of the synergistic benefits of the Logistics Centres will be further enhanced.

### *Live and fresh produce Logistics Centre*

The Group operates a live and fresh produce Logistics Centre, located in the Chaoyang District, Beijing, the site of which is leased to the Group by Chaoyang Auxillary with a lease term of 20 years. This Logistics Centre possesses the processing and logistics capabilities of vegetables, fruits and meat and provides live and fresh produce to the Retail Outlets. This Logistics Centre obtained its business licence in November 2004 and commenced operation in January 2005. The Group has invested a total of approximately RMB55.4 million in the live and fresh produce Logistics Centre.

The gross area of this Logistics Centre is approximately 20,000 sq.m. It has a total storage capacity of approximately 1,400 tonnes of products, handling a maximum daily delivery of approximately 119 tonnes of products, and is equipped with sub-zero temperature storage capabilities.

The Directors believe that with rising income levels and changing lifestyle habits of the consumers in the Greater Beijing Region, the increasingly discerning consumers are likely to choose to purchase live and fresh produce at hypermarkets, supermarkets and/or convenience stores over the traditional wet markets. In order to ensure that the quality, cleanliness and freshness of the products are rigorously maintained, through the establishment of a supply base and the centralized processing operations of live and fresh produce the Group is able to swiftly supply live and fresh produce to its Retail Outlets providing consumers with fresh vegetables, fruits and meats, and maintain a relatively low inventory level with average stock turnover days of approximately five days for its sales operations.

The live and fresh produce Logistics Centre obtained ISO9000 quality management system accreditation, ISO14001 environmental management system accreditation and the food safety management system certification respectively in October 2006.

### *Dry product Logistics Centre*

The Group operates a dry product Logistics Centre also in the Chaoyang District of Beijing, the site of which is rented by the Group from an Independent Third Party with a lease term of 20 years. Dry products include food products such as alcoholic and non-alcoholic beverages, dried food and vegetables, seasonings and processed food products, as well as non-food products such as household items.

This Logistics Centre was established in 2001 and upgraded in the first quarter of 2007 by investing approximately RMB1.08 million mainly for implementation of a new merchandise processing and sorting section with an area of 1,400 sq.m.. As at the Latest Practicable Date, it comprises a total area of approximately 26,500 sq.m. with over 19,000 available storage lots. It has a daily and maximum handling capacity of over 97,000 and 235,000 units of products respectively. The Group has invested a total of approximately RMB57.7 million in this Logistics Centre.

As at the Latest Practicable Date, the dry products Logistics Centre provides over 49% of the merchandise of the directly-operated Retail Outlets. The orders for dry products from the directly-operated Retail Outlets are centralized and sorted at the sourcing department of the Group. Upon receiving the orders, the dry products Logistics Centre will pick out the products and deliver to the Retail Outlets.



### WHOLESALE DISTRIBUTION OPERATIONS

The Group's wholesale distribution network is operated through Chaopi Trading and its subsidiaries and associated companies under the “朝批” brandname, and is supported by its Distribution Centres. Chaopi Trading and its subsidiaries and associated companies provide wholesale supply of daily consumer products to the Retail Outlets and its other customers comprising, principally, retail operators and trading companies and is currently providing merchandise of 45 brands such as “金六福”, “塔牌”, “五粮液”, “金龍魚” under sole distributorship in department stores and supermarkets in Beijing and northern China. The Group's wholesale distribution operation recorded a revenue of RMB2,228.5 million for the year ended 31 December 2006. The Group is expanding the customer base of its wholesale business and has established Chaopi Huilong with other investors mainly to engage in wholesale distribution of consumer products to catering business, and exploiting variety of the fast moving consumer products and operates Chaopi Zhongde with another investor mainly to engage in wholesale distribution of consumer sanitary products.

Chaopi Trading and its subsidiaries and associated companies have sales rebates arrangements with most of its merchandise suppliers whereby sales rebates will be enjoyed if certain fixed sales targets are met. To stimulate merchandise sales, Chaopi Trading and its subsidiaries and associated companies may share the sales rebates with its wholesales customers to command a lower retail price.

Moreover, Chaopi Trading and its subsidiaries and associated companies have return or exchange arrangements with most of its merchandise suppliers in respect of expired and damaged goods. For example, subject to specific conditions laid down in the arrangements, some suppliers allow Chaopi Trading and its subsidiaries and associated companies to return damaged goods up to a monetary limit for a fixed period of time.

The Group normally provides credit terms of not more than 60 days to the customers of its wholesale distribution business.

The Directors believe that there are abundant business opportunities for further development of the wholesale supply and distribution of daily consumer products to wholesale trade customers, in addition to the supply and distribution of daily consumer products to the Retail Outlets. In particular, the Group plans to further expands its wholesale distribution network to cover wider part of eastern and northern China including Tianjin Municipality, Hebei Province, Shandong Province and Shanxi Province.

The Directors believe that the Group's wholesale distribution strengths lie with its on-the-ground resources (such as its sales teams and local delivery capabilities) and inventory management which allow daily fulfillment, and an established network of wholesale trade customers.

Looking forward, the Group targets to be the sole distributor of some major brands of products which enhances its market position in wholesale distribution operations.

It is expected that the wholesale business of the Group will be benefited from the operation of Shou Lian's retail network. With the addition of Shou Lian's network according to the co-operation agreement signed with Xi You and Shou Lian in February 2007, the Group will increase its revenue from its wholesale business through an increase in the distribution of its products to Shou Lian. The

cost benefit of the Group's distribution systems can be more effectively realised with the incorporation of Shou Lian's retail network into that of the Group. Moreover, the economies of scale of the Group can be further upgraded in terms of, for example, sourcing capability and bargaining power.

### **Distribution Centres**

The Group's wholesale distribution operations are supported by two Distribution Centres, one in the Chaoyang District of Beijing and the other in Tianjin. The daily consumer products distributed through Chaopi Trading and its subsidiaries and associated companies include processed food products, beverages, wine products, non-staple food and non-food products. Chaopi Trading and its subsidiaries and associated companies do not distribute fresh or frozen food products.

Each of these Distribution Centres uses an independent information management system to manage its inventory and deliveries. This enables the Group to provide up-to-date product availability information to its wholesale customers.

#### *Distribution Centre in Beijing*

The Group's Distribution Centre was established in 1994. It moved to its current location in the Chaoyang District of Beijing in 2004, comprising a total area of approximately 85,382 sq.m, which is rented by the Group from Independent Third Parties with lease terms of five years and 10 years respectively. The Group has invested a total of approximately RMB39.6 million in this Distribution Centre. The products distributed through this Distribution Centre include foods, edible oil, drinks, flavourings, alcohol and general merchandise.

This Distribution Centre, comprising three warehouses, has round-the-clock operations and is insured against theft, fire and bursting of water pipes. This centre can ensure that it is responsive to the demands of wholesale trade customers in an efficient and professional manner.

#### *Distribution Centre in Tianjin*

Since November 2003, another Distribution Centre was established in Tianjin, to serve growing wholesale business there. It comprises a total area of approximately 4,800 sq.m. which is rented by the Group from an Independent Third Party with a lease term of five years. The Group has invested a total of approximately RMB3.2 million in this Distribution Centre. The products distributed through this Distribution Centre include foods, edible oil, drinks, flavourings, alcohol and general merchandise.

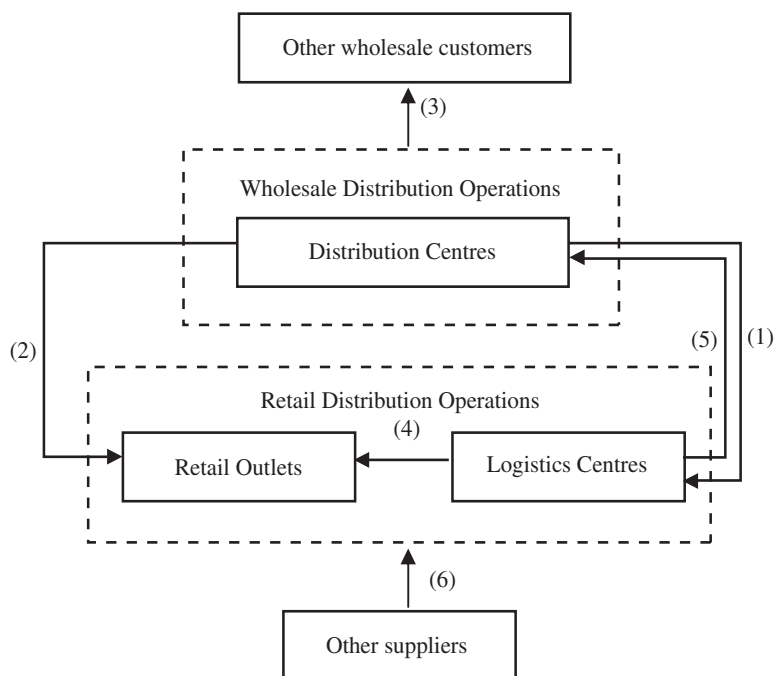
This centre has round-the-clock operations and is insured against theft, fire and bursting of water pipes.

**INTEGRATED RETAIL AND WHOLESALE DISTRIBUTION OPERATIONS**

The Group’s integrated retail and wholesale business model distinguishes it from other traditional retail chain operators in which its wholesale business provides a robust complementary support to its retail business. The Group is able to monitor market demand and fluctuations at the retail level effectively, hence reducing the risk of stock obsolescence and excessive inventory. Besides, the advantageous position of being both a retail and wholesale distributor provides the Group with a competitive edge in its efficiency in launching and promoting new brands and products for the manufacturers.

The dry product Logistics Centre and Distribution Centres are able to support and supplement each other in terms of order fulfilment and the replenishment needs of the Group’s retail and wholesale distribution networks. For example, a Distribution Centre may utilise part of its capacity to assist the dry product Logistics Centre, especially during peak seasons while the dry product Logistics Centre may support the supply capacity of the Distribution Centres in case of a sudden increase in the wholesale business. The Directors believe that such inter-transferability of capacity enables the Group to achieve higher productivity gains, cost efficiencies and attain economies of scale by ensuring that no single Logistics Centre or Distribution Centre is overloaded as well as reducing the risk of stock obsolescence and excessive inventory levels. In addition, the Directors believe that such inter-transferability of capacity between the dry product Logistics Centre and Distribution Centres can enhance distribution efficiency. The following flowchart illustrates the interrelation among the Distribution Centres, the Logistics Centres and the Retail Outlets.

*Flowchart illustrating the interrelation among the Distribution Centres, the Logistics Centres and the Retail Outlets*



Notes:

- (1) and (2) Chaopi Trading and its subsidiaries and associated companies, through its Distribution Centres, supply daily consumer products, including foods, edible oil, drinks, flavourings, alcohol and general merchandise, on a wholesale basis to the Logistics Centres and Retail Outlets, which accounts for 15.6%, 16.6% and 16.7% of the Company’s total purchase during the Track Record Period which ensures stability in the sourcing of products for the Group’s retail distribution network, even during peak seasons.

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- (3) Other wholesale customers of Chaopi Trading and its subsidiaries and associated companies comprise principally retail operators and trading companies.
- (4) The Logistics Centres consolidate orders for, warehouse and provide daily consumer products to, the Retail Outlets.
- (5) The dry product Logistics Centre may support the supply capacity of the Distribution Centres in case of a sudden increase in wholesale business.
- (6) Suppliers may deliver to the Logistics Centres or the Retail Outlets.

## CUSTOMERS

Under the Group's retail distribution business, the majority of the Group's customers are individual residents in the area near the relevant store. Customers typically settle payments in cash for merchandise purchased from the Group. As such, 100% of the revenue from retail distribution business during the Track Record Period were received in cash, representing 56.3%, 50.0% and 50.7% of the Group's revenue from continuing operations respectively.

Under the Group's wholesale distribution business, the majority of the Group's customers are retail store operators, retail chain store operators and wholesale operators. During the Track Record Period, the Group had granted credit terms of not more than 60 days to the customers of wholesale distribution business. Accordingly, during the Track Record Period, 43.7%, 50.0% and 49.3% of the Group's revenue from continuing operations were settled in credit terms respectively.

The aggregate turnover attributable to the Group's five largest customers represented less than 16% of the audited turnover of the Group for each of the three years ended 31 December 2006.

During the Track Record Period, sales to the Group's twenty largest customers represented approximately 20.8%, 30.5% and 31.2% of the Group's turnover respectively. To the best knowledge of the Directors, sales to State owned enterprises represented approximately 14.7%, 12.2% and 8.7% of the sales to the Group's twenty largest customers for each of the three years ended 31 December 2006.

## FRANCHISE OPERATIONS

Due to the success of the branding of the Group's hypermarkets, supermarkets and convenience stores, the Group has received invitations from interested parties to franchise "京客隆" retail outlets. As at 30 April 2007, there were one supermarket and 85 convenience stores operating under the Group's franchise arrangements. As at 30 June 2006, there were 101 Retail Outlets (comprising five supermarkets and 96 convenience stores) operated under the Group's franchise arrangements. The decrease in number of franchised Retail Outlets was mainly due to the following: (1) the franchise agreements of three supermarket were terminated upon expiry; (2) one franchised supermarket was converted into a directly-operated supermarket; (3) the franchise agreements of 28 convenience stores were rescinded, while franchise agreements of 17 convenience stores were newly entered into during the period from 1 July 2006 to 30 April 2007. All such supermarkets and convenience stores are also operated under the logo of "京客隆".

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The Directors are of the opinion that franchising the “京客隆” brand is an effective way to expand the reach of the Group’s distribution network geographically without utilising a substantial amount of the Group’s resources. In addition, the Directors believe that, through franchise arrangements, the Group can further enhance public recognition of its “京客隆” brand.

The Group received franchise fee of approximately RMB1.3 million, RMB1.7 million and RMB1.8 million respectively, during the Track Record Period. The maximum amount of franchise fees for each convenience store and supermarket is approximately RMB20,000 and RMB90,000 respectively and are on a fixed one-off basis. In addition, the Group received monthly fees based on a percentage of the store’s revenue, or at a fixed amount up to a maximum of RMB4,800. The franchisees are responsible for the fixed assets and operating expenses of the franchise stores.

The franchise Retail Outlets purchase products from the Company or other suppliers approved by the Company. The sales to franchise Retail Outlets from the Company was approximately RMB52.1 million, RMB55.5 million and RMB43.1 million, respectively, during the Track Record Period. Revenue on goods sold to franchisees is recognised when the significant risks and rewards of ownership of goods have passed to franchisees and the amount of revenue can be measured reliably. As such, such goods sold are owned by franchisees.

For the goods supplied to a franchisee, it is contractually stipulated that the risk of damage, loss or non-conformance passes to the franchisee when the goods are accepted on delivery. All convenience store franchisees pay on a cash-on-delivery basis.

There are several criteria the Group will focus on when selecting franchisees:

1. Whether the franchisee is entitled or possesses the legal capacity to conduct the proposed franchised business;
2. Whether the franchisee is able to conduct the proposed franchised business independently with sufficient human resources;
3. Whether the franchisee occupies an outlet which is suitable for the operation of the proposed franchised business; and
4. Whether the franchisee agrees with the operation rationale of the Group and is willing to be bound by the Group’s operational policies.

The term of a franchise is usually five years, which can be extended with the mutual consent of both parties before the expiry of the franchise agreement. The franchisee is responsible for the daily operations and management of its store, and to ensure that the franchise store projects a unified branding image in line with the Group’s brand policy. In addition, the franchisee has an obligation to order exclusively from the Company. The Group would charge a franchise fee to each of the franchisee which would be recorded as “franchise fee” under the other income and gains in the income statement. The basis of the franchise fee depends on the size of the franchise store. There is no unsold goods return policy.

The main difference between a supermarket and convenience store franchise is payment credit terms. For a supermarket franchisee, it is given credit payment terms of approximately a week, while there are no credit terms for a convenience store franchisee.

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The Group will provide certain support to the franchisees such as training programs to educate them on the Group's information management systems, store decoration, financial planning, operational guidance and staff training. The costs to provide information management systems, store decoration, financial planning and staff training to the franchisees amounted approximately RMB0.4 million, RMB0.3 million and RMB0.2 million, respectively, during the Track Record Period. The Group has received fees in advance from its franchisees for providing such activities and any related costs incurred will be debited to the receipt in advance account.

### *Franchise operations of Shou Lian's retail network*

On 10 February 2007, the Company and Shou Lian entered into a capital increase agreement in relation to the issue by Shou Lian of RMB50 million of its new equity capital (representing approximately 11.04% of the enlarged equity of Shou Lian) to the Company. On the same date, in conjunction with the capital increase agreement, the Company also entered into a co-operation agreement with Xi You and Shou Lian. The Company entered into a franchise agreement, trademark license agreement, computer system maintenance agreement and training service agreement with Shou Lian on the same date as and in conjunction with the co-operation agreement, pursuant to which Shou Lian's retail network will be operated under the Group's franchise arrangement.

Shou Lian is a daily consumer products retail chain operator. At the time of signing the co-operation agreement, Shou Lian's retail network included hypermarkets, supermarkets, discount shop and convenience stores in Beijing. Except for the discount shop, Shou Lian's retail outlets are operated under the brandnames of “小白羊”, “億客隆” and “星座興石”. Shou Lian only engaged in retail but not wholesale distribution business and has been operating retail outlets in Beijing since 2002.

Set out below are the major terms of the capital increase agreement:

Date	:	10 February 2007
Parties	:	(1) Shou Lian (as issuer) (2) The Company (as subscriber)
Equity to be issued	:	RMB50 million (equivalent to approximately HK\$49.85 million) of new equity capital to be issued by Shou Lian (representing approximately 11.04% of its Enlarged Total Equity)
Conditions	:	Completion is conditional upon the satisfaction of certain conditions, of which only the following is yet to be fulfilled, namely, the completion of the capital verification in respect of Xi You's RMB50 million capital contribution to Shou Lian (which amount has been received by Shou Lian), and the completion of the administrative procedures with the Beijing Administration of Industry and Commerce in respect of Shou Lian's increase of registered capital from RMB353 million to RMB403 million.

The completion of the capital verification in respect of Xi You's RMB50 million capital contribution to Shou Lian (which amount has been received by Shou Lian), and the completion of the administrative procedures with the Beijing Administration of Industry and Commerce in respect of Shou Lian's increase of registered capital from RMB353 million to RMB403 million have been fulfilled.

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Set out below are the major terms of the co-operation agreement:





- Date : 10 February 2007
- Parties : (1) Xi You  
(2) Shou Lian  
(3) The Company
- Other terms : (i) During the period from 28 February 2007 to 28 February 2010 (both days inclusive) (“Delegation Period”), Shou Lian’s retail network will be operated, on terms of the Group’s franchise arrangement, under the Group’s “京客隆” brandname. The sourcing and logistics requirements of Shou Lian’s retail network will be supported by the Logistics Centres.
- (ii) Xi You enjoys the right of profit sharing and bears any loss resulting from the operations of Shou Lian according to its percentage shareholding in Shou Lian.
- (iii) The Company is granted a right of first refusal (“Right of First Refusal”), exercisable during the Delegation Period, for the purchase of 45.30% of the enlarged total equity of Shou Lian held by Xi You (“Xi You Delegated Equity”) at a price, which shall not be more than its par value, to be agreed between the Company and Xi You.
- (iv) The Company is granted a purchase right (the “Purchase Right”), exercisable during the Delegation Period, to purchase, at the Company’s option, the Xi You Delegated Equity at a price, which shall not be more than its par value, to be agreed between the Company and Xi You. The Purchase Right will be exercisable on 28 February of 2008, 2009 and 2010.
- (v) During the Delegation Period, the Company shall exercise the voting rights attached to the Xi You Delegated Equity in accordance with Xi You’s direction.
- (vi) Apart from the RMB50 million capital contribution to Shou Lian, the Company will make an additional cash deposit in the sum of RMB50 million with a bank in the PRC, and the same bank will make a loan (the “Designated Loan”) to Shou Lian for the purpose of financing the working capital of Shou Lian. Shou Lian will pay interest and handling charge to the bank such that the Company will receive interest from its cash deposit at a rate equal to its average cost of borrowings at the time of the Designated Loan.

The Group will account for its interest in Shou Lian as long-term investment after its capital contribution of RMB50 million to Shou Lian, representing an approximately 11.04% of the enlarged equity capital of Shou Lian.



According to the co-operation agreement, Shou Lian's retail network is to be operated, on terms of the Group's franchise arrangements, under the Group's "京客隆" brandname. The Company has entered into franchise agreement with Shou Lian to integrate Shou Lian's retail network into its centralized information management system (through the Group's intranet system) by way of system switching. The Group will integrate the sourcing and logistics of Shou Lian with its centralized sourcing and logistics systems and connect the Shou Lian's retail outlets to the Group's two Logistics Centres. Those Shou Lian's retail outlets which have completed system switching will operate as the Group's franchise Retail Outlets under the Group's "京客隆" brandname.

### DEVELOPMENT OF IN-HOUSE BRANDNAMES

The Group has developed four in-house brandnames – “曼妙 (“Manmiao”)”, “惠廉 (“Huilian”)”, “蜜屋 (“Miwu”)” and “京客隆 (“Jingkelong”)” for which the Group would outsource to manufacturing suppliers, which are all Independent Third Parties, to produce the daily consumer products for sale only through the Retail Outlets. The Directors believe that the in-house brandnames allow the Group to improve its profitability through the expansion of the earnings base and the generation of additional quality revenue streams.

As at 31 December 2006, there are 16 suppliers to which the Group outsources for the production of approximately 216 daily consumer products, ranging from food products to home-use products. The typical outsourcing terms provide that the products will be competitively priced in relation to the current market prices, and the Group will receive an annual rebate as a fraction of the size of the orders in the relevant year. According to the agreements between the Company and the suppliers, the suppliers have agreed to offer the Company the lowest production prices within the Beijing region. The total purchases during Track Record Period were approximately RMB10.5 million, RMB21.1 million and RMB28.0 million respectively.

The Directors intend to position the in-house brandnames as quality brandnames offering value for money products to consumers, and also as alternatives to other popular brandnames offering similar daily consumer products. The recommended retail prices for the in-house branded products are directly controlled by the Group, which are set by taking into account the costs, the competitors' selling prices and the Group's marketing strategies for each specific in-house branded product. The Directors intend to continue to introduce other own branded products in the future.

During the Track Record Period, sales of the in-house branded products in the Retail Outlets amounted to approximately RMB25.0 million, RMB29.0 million and RMB24.3 million, respectively, which represented approximately 0.7%, 0.7% and 0.6%, respectively of the total revenue from continuing operations of the Group for the respective relevant year.

### INFORMATION MANAGEMENT SYSTEMS

The Group has two separate and independent information management systems for its retail and wholesale distribution networks. The Directors believe that an efficient information management system significantly improves product procurement, delivery schedules, inventory management and merchandising, helps to maintain lower but effective levels of inventories and allows for better overall sales performance. In this respect, the Group has invested over RMB21 million during the Track Record Period in various information system hardware and software and related services.



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For the retail distribution network, the Group's information management system includes a POS system, automatic replenishment system, logistics management system and accounting and finance system. For the wholesale distribution network, the Group utilises a information management system which includes a warehouse management system and accounting and finance system.

The Group also utilises a bar code system to identify different merchandise. By scanning through a barcode scanner, item information can be displayed on-screen immediately and this enhances Retail Outlet checking-out efficiency. In addition, checking-out information is book to the database immediately such that figures can be seen real-time, and this enhances the efficiency of clearing and data collection.

Incoming merchandise to the dry product Logistics Centres are assigned with the Group's own codings in addition to the barcodes originally printed thereon. Orders placed with the Logistics Centres must match with both the barcodes and the self-codings assigned for retrieval of the required commodities.

The POS system of its retail distribution network enables the Group to achieve real-time gathering and processing of sales information from all Retail Outlets upon completion of each transaction. The sales information is processed to produce various financial and business operations reports with regard to the business operations of the Group and of each Retail Outlet on a regular basis to facilitate the Group's management decisions on matters such as pricing and inventory.

The Group adopts prudent data protection and system security policies. The Group backs up its data onto storage devices daily. Data back-up of the Logistics Centres and the directly-operated Retail Outlets is centralised at the Group's headquarters to allow timely recovery of their databases in the event of accidental loss. For certain core information, a double back-up policy is practised. Spare backup of the core information is stored on devices physically located away from the headquarters to avoid total loss upon disastrous events. To ensure safety of its information management systems, the Group segmentises its systems into areas of different security levels and rights of access. The Group also connects its Retail Outlets to its headquarters and the Logistics Centres through VPN which ensures that the system security of its headquarters and the Logistics Centres from interruptions in individual Retail Outlets.

The Group has also conducted feasibility study on the development of internet purchase system to enable customers to make purchases on the Internet and the enterprise data resources excavation system to make better use of its information resources.

The investment in the information management systems during the Track Record Period was recorded in fixed assets, intangible assets and expenses in the Accountants' Report set out as Appendix I of this document.

### **INTERNAL CONTROL – CASH AND INVENTORY**

The Group has set out a detailed policy on stock taking. In carrying quarterly and year end stock take to monitor the inventory levels of all the merchandise, the responsible staff will be penalized if a loss of a certain percentage of the total stock value is reached. For expired and damaged product, it would be delivered back to the Logistics Centers and replaced by the suppliers and/or manufacturers as majority of the inventories in questions were refundable or exchangeable with suppliers. The Directors confirmed that there have been no significant returns or exchanges or subsequent to the end of the Track Record Period.

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The average inventory turnovers of the Group during the Track Record Period were approximately 41 days, 37 days and 41 days respectively. A general provision of 0.5% on inventory is usually maintained by the Group. As at 31 December 2004, 2005 and 2006, the Group has a provision of approximately RMB3.3 million, RMB2.5 million and RMB2.5 million respectively against obsolete and slow-moving inventories.

The information management systems of the Group are designed to record and report the expiry dates of inventories. The Group also performs regular inventory counts to identify obsolete inventories.

Given the cash-based nature of the retail industry, stringent cash control measures are therefore very important to the Group's operation. The Group has adopted strict internal control procedures for cash handling at all Retail Outlets, including recording of all sales data in the Group's information management system, daily reconciliation of sales receipts to the computer record by the Group's finance department, accountability of cashiers in case of discrepancies found in the daily reconciliation, and daily deposits of surplus cash generated at most of the Retail Outlets. In addition, the Group is in the process of installing surveillance cameras in hypermarkets and supermarkets to monitor the activities around the cashiers' counters. As at 31 December 2006, surveillance cameras have been installed in five hypermarkets and 13 supermarkets.

### COMPLIANCE AND APPROVALS

Each Retail Outlet and third party counter in Retail Outlets offering ancillary services, Logistics Centres and Distribution Centres are required to obtain certain licences and/or permits from the relevant PRC governmental authorities including but not limited to (i) hygiene permit, (ii) permit for tobacco monopoly retail business, (iii) permit for circulation of publications, and (iv) animal quarantine permits, in order to sell certain categories of daily consumer products. It is an offence to sell certain products without the relevant licences and permits.

As at the Latest Practicable Date, one supermarket, the branch of a subsidiary and one associated company of the Group are in the progress of obtaining or renewing certain licences and/or permits for their respective operations. The Directors have undertaken to speed up the process of obtaining and renewing the relevant licences and/or permits. According to the legal opinion of the Group's PRC legal advisers, save as the aforesaid, the Group has obtained all licences and/or permits necessary for their actual operations. The said associated company of the Group recorded a loss and turnover of approximately RMB0.56 million and RMB2.1 million, RMB74,000 and RMB4.7 million, and RMB0.22 million and RMB2.4 million, respectively during the Track Record Period. The said branch of the Group's subsidiary recorded a loss and turnover of approximately RMB0.9 million and RMB42.8 million, and RMB0.8 million and RMB95.5 million for each of the two years ended 31 December 2005 and a profit and turnover of approximately RMB1.7 million and RMB80.5 million for the year ended 31 December 2006. The said supermarket of the Group has not yet commenced operations and no profit and turnover has been recorded.

As confirmed by the PRC legal advisers to the Company, save as disclosed above, throughout the Track Record Period, the Group has obtained all required licences and permits for its Retail Outlets, Logistics Centres, and the operations of its subsidiaries and associated companies and has not been subject to any penalties nor any compensation orders.

### MERCHANDISING

The Directors believe that the quality of suppliers plays an important role in the distribution chain. Therefore, the Group has adopted a strict policy concerning supplier selection. Product quality, price competitiveness and supply capability are the three criteria the Group will focus on when selecting suppliers.

As a result of the Group's established retail and wholesale distribution network, the Group has the ability to buy in bulk and enjoys considerable purchasing power. Hence, negotiations with suppliers are jointly conducted by Chaopi Trading and the Company. The Directors believe that the resultant increased bargaining power will enable the Group to enjoy economies of scale, leading to lower costs as well as being able to capture the profit margins at the retail level. In this respect, the Directors believe that, by maintaining a positive and stable relationship with suppliers, the costs of merchandising could be further reduced.

In addition, Chaopi Trading and its subsidiaries and associated companies supply daily consumer products on a wholesale basis to the Company, which accounts for 15.6%, 16.6% and 16.7% of the Company's total purchase during the Track Record Period, hence ensuring stability in the sourcing of products for the Group's retail distribution network, even during peak seasons.

During the Track Record Period, approximately 77%, 81% and 73% of the Group's merchandise respectively is purchased directly from the manufacturers while the remaining 23%, 19% and 27% of the merchandise respectively is purchased from wholesalers. By purchasing directly from the manufacturers, the Group can further take advantage of bulk purchase rates and ensure that the quality, quantity and cost of the products are able to meet the pricing and merchandising strategies of the Group.

### QUALITY CONTROL AND ASSURANCE

The Directors recognise the importance of quality control to maintain the success of the Group's distribution network. The Group places strong emphasis on the quality of products that it receives from the suppliers and manufacturers.

In addition, the Group has adopted the following quality control policy, which sets out the steps that will be taken prior to placing an order for any product:

- a. The merchandise management department will conduct research on a particular product that the Group plans to source including obtaining samples and approval documents;
- b. The merchandise management department will verify the information provided in accordance with relevant legal requirements and corporate quality management policy;
- c. The merchandise management department also pays close attention to suppliers that have attracted governmental or public concern about their quality standards. Site inspections will be carried out at the suppliers' premises, if deemed necessary. The merchandise management department will also complete a 《供應商渠道評估表》 (supplier assessment form) in its evaluation of the suppliers' quality standards;

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- d. All Logistics Centres, Distribution Centres and Retail Outlets perform a series of checks upon the receipt of the merchandise. The checks include the delivery method, appearance, smell, packaging, date of production, expiry date, net weight and brand logo. Insofar as fresh produce, dairy products and meats are concerned, approval documents and certificates have to be available for verification before they can be officially received.

### AWARDS AND ACHIEVEMENTS

The Group has received many awards and recognition in the PRC for the development of its business. The Directors confirm that the awards and recognition received were not based on any reports commissioned by the Group. The following table sets out some of the major awards and industry rankings of the Group:

<b>Awards and certificates</b>	<b>Year of Award</b>	<b>Issuing organization</b>
中國百強連鎖企業第38名 (Ranked 38th amongst the top 100 PRC chain enterprises)	2006	中國連鎖經營協會 (China Chain Store and Franchise Association)
中國百家快速消費品連鎖零售企業第27名 (Ranked 27th amongst the top 100 fast moving consumer goods retail chain)	2006	中國連鎖經營協會 (China Chain Store and Franchise Association)
北京十大商業品牌 (Beijing top 10 commercial brand)	2006	北京日報報業集團/ 北京市商業聯合會 (Beijing Daily Group/ Beijing Chamber of Commerce)
北京市百強企業第35名 (Ranked 35th amongst the top 100 enterprises in Beijing, PRC)	2006	北京企業聯合會/ 北京市企業家協會 (Beijing Enterprises Confederation/ Beijing Enterprise Directors Association)
中國名優數據庫優秀企業 (PRC outstanding enterprise for advanced database)	2006	中國企業聯合會 (China Enterprise Confederation)

In addition, the quality assurance infrastructure and the quality control procedures adopted by the Group have demonstrated its commitment to internationally recognised quality management system standard. Hence, the Company, the 56 directly-operated Retail Outlets and the dry product Logistics Centre were awarded the ISO9001:2000 certification in August 2005. Moreover, the live and fresh produce Logistics Centre obtained ISO9000 quality management system accreditation, ISO14001 environmental management system accreditation and the food safety management system certification in October 2006.

### MARKETING AND PROMOTION

The Directors believe in the importance of building a good corporate image and maintaining public recognition of the Group's logos of “京客隆” and “朝批” as well as the Group's in-house branded products. Therefore, the Group's marketing strategies focus on offering high quality and competitively priced products as well as excellent customer services, so as to foster a loyal customer base.

As part of the Group's marketing strategy to promote consumer loyalty to its Retail Outlets, the Jingkelong card was launched in December 2003 and the membership reward card was launched in September 2004. As at 31 December 2006, the membership reward card scheme had over 656,000 members and the total amount of value stored in the Jingkelong Cards was approximately RMB130 million. In relation the Jingkelong cards and the membership reward cards launched by the Group, the Jingkelong card is a stored value card which allows a consumer to use as a substitute to cash and offers the benefits of a convenient and hassle-free way of shopping. No deposit is required for Jingkelong Card. The membership reward card allows a consumer to accumulate points in exchange for certain rewards upon reaching a certain threshold of points. The points accumulated in the membership reward cards are subject to a 1-year expiry period. The rewards year runs from 1 April to 31 March. The points accumulated and eligible to be rewarded during the relevant period are accrued and reported as expenses for that period. They are neither debit nor credit cards. Upon selling a Jingkelong Card to customer, the “receipt-in-advance” account will be credited with corresponding value. When customers utilise such card for consumption at Jingkelong's directly-operated Retail Outlets, the Group will record sales revenue for the trading amount and the corresponding cost of sales. At the same time, the credit stored in the Jingkelong Card will be deducted by the sales value, while the “receipt-in-advance” account will be debited by similar value.






To further enhance its customer service, the Group has established an internet website for communication with customers and provides assistance to its customers through customer postbox.

To show its commitment to the society and strengthen the customer relationships, the Group also provides free delivery services to the elderly and disabled customers according to their requests for nearby Retail Outlets.

Through careful implementation of various marketing and promotion activities, the Directors believe that Retail Outlets will be able to maintain a competitive position in the retail chain business. The Group's total marketing and advertising expenditure on public media and advertising campaigns during the Track Record Period was approximately RMB11.1 million, RMB14.3 million and RMB16.9 million, respectively, accounting for approximately 0.3%, 0.3% and 0.4%, respectively, of the revenue from continuing operations.

### INTELLECTUAL PROPERTY RIGHTS

The Directors believe that trademarks are important to the business of the Group as these trademarks will enable the customers to differentiate the Group  北京京客隆 from the Group's competitors.

All Retail Outlets, whether directly owned or franchise operated, are managed and operated under the logo of “ 京客隆”. In addition, the Group has developed four in-house brandnames – “ 曼妙 (“Manmiao”)”, “ 惠廉 (“Huilian”)”, “ 蜜屋 (“Miwu”)” and “ 北京京客隆 京客隆 (“Jingkelong”)”. Details of the registered trademarks and registering trademarks of the Group are set out in the section headed “Statutory and general information – intellectual property rights of the Group” in Appendix V to this document.

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### RELATIONSHIPS WITH MAJOR SUPPLIERS OF THE GROUP (OTHER THAN INTRA-GROUP)

The five largest suppliers to the Group accounted for approximately 18.1%, 16.9% and 17.3%, respectively, of the total purchases of the Group during the Track Record Period. All of the five largest suppliers have had relationships of over five years with the Group. The largest supplier to the Group accounted for approximately 5.0%, 3.7% and 3.9%, respectively, of the total purchases of the Group during the Track Record Period.

The following table sets out the top five suppliers during the Track Record Period:

#### Percentage of total purchases (%)

Supplier	Products supplied	Year ended 31 December		
		2004	2005	2006
四川省宜賓五糧液集團 進出口有限公司 (Sichuan Wuliangye Group Company Limited)	alcoholic beverage	N/A*	N/A*	3.8
上海雀巢產品服務有限公司 北京分公司 (Shanghai Nestle Company)	food and beverage	5.0	3.7	3.3
北京金六福酒有限公司 (Beijing Jinliufu Wine Company)	alcoholic beverage	3.9	N/A*	3.9
北京紅星股份有限公司 (Beijing Red Star Company)	alcoholic beverage	3.5	3.6	3.1
北京蒙牛宏達乳製品 有限責任公司 (Beijing Mengniu Dairy Products Company)	milk products, ice-cream and other dairy products	3.0	N/A*	N/A*
天津嘉里糧油工業有限公司 (Tianjin Kerry Edible Oil Industrial Company)	edible oil	N/A*	3.1	N/A*
萊陽魯花濃香花生油有限公司 北京分公司 (Laiyang Luhwa Peanut Oil Company)	edible oil	N/A*	3.7	3.2
北京市朝陽煙草公司 (Beijing Chaoyang Tobacco Company)	tobacco	2.7	2.8	N/A*

\* *not among the top five suppliers*

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Although the Group obtains a significant portion of the merchandise from the above suppliers, the Directors are of the view that the Group is not dependent on any one major supplier as the Directors believe that the Group would be able to obtain the merchandise from alternative suppliers should any of the above suppliers cease to be the Group's supplier.

During the Track Record Period, purchases from the Group's twenty largest suppliers represented approximately 36.8%, 40.0% and 40.6% of the Group's purchases respectively. To the best knowledge of the Directors, purchases from State owned enterprises represented approximately 28.3%, 31.1% and 41.1% of the purchases from the Group's twenty largest suppliers during the Track Record Period.

### COMPETITION

The Group operates in a highly competitive industry and the Group expects to face intense competition from existing competitors as well as new market entrants in the future. In April 2004, the MOC, promulgated a new law entitled "The Regulations on Management of Foreign Investment in the Commercial Sector". It lowered most of the entry barriers faced by foreign investors in accessing the PRC domestic retail and wholesale market, such as significantly reducing the registered capital requirement and expanding the allowable business scope. As China must further open its domestic retail and wholesale segments to international competition, the Directors believe that the competition of the retail and wholesale distribution businesses will intensify as foreign players enter to compete in this market.

Top international retail companies such as Carrefour and Wal-mart, have begun to enter into China's market. Some of these companies have already set up more than 20 stores in some big cities in China. With their excellent financial and management resources, distribution and logistics management and technical expertise, their market share is increasing continuously. In this respect, the entrance of foreign retail chain stores will pose great pressure to their counterparts in China. Furthermore, the Group also faces intense competition from domestic retail chain operators, local retail operators and wholesale operators.

According to the PRC Chain Store Almanac 2005, in 2004, there were 103 retail chain store operators in the PRC, of which 13 of them had sales exceeding RMB1 billion, representing 12.6% of the PRC retail chain industry. The top domestic retail chain operators in Beijing are Beijing Hualian and Wumart Group.

The table below set out the top supermarket chain operators in Beijing in terms of sales in 2006.

#### Top Supermarket Chain Operators in Beijing in 2006

	Types of Retail Outlets	Number	(Sales of Retail Outlets in RMB million)
物美集團 (Wumart Group) (including 北京美廉美 (Beijing Mei Lian Mei))	Hypermarkets/Supermarkets/ Convenience Stores	751	25,520
北京京客隆 (Beijing Jingkelong)	Hypermarkets/Supermarkets/ Convenience Stores	171	6,134 <sup>(1)</sup>
北京超市發 (Beijing Chao Shi Fa)	Supermarkets	51	1,681
北京順天府 (Beijing Shun Tian Fu)	Supermarkets	20	992

Source: China Chain Store & Franchise Association



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*Note:*

- (1) The figure reported by the China Chain Store & Franchise Association represents the aggregated sales of members of the Group before any elimination of intra-group transactions, audit adjustments and GAAP adjustments. Therefore the figure is not the same as the consolidated revenue amount appears in Appendix I to this document.

The Directors believe that the principal competitive factors that will distinguish the Group from other chain store operators, international players as well as local retail operators and wholesale operators are:

1. **Price and product range:** The Directors believe that the competitive pricing of its products and its ability to offer “value-for-money” products and services give the Group an advantage over its competitors. Additionally, the Group further distinguishes itself by offering an extensive selection of products, including in-house brand products, hence providing the convenience of one-stop shopping solution for consumers. Product knowledge of its sales staff as well as its local knowledge of its customers’ shopping preferences are all critical factors which have contributed to its success in competing with its rivals.
2. **Store locations:** The Directors believe that having prime store locations for its Retail Outlets is the key to maximising sales of the Retail Outlets and thus the profitability of the Group. Through its tenancy agreements with Chaoyang Auxillary, the Directors believe that the Group has been able to obtain strategically located properties on favorable terms that would otherwise be unavailable to it.
3. **Brand recognition:** The Group has undertaken various promotional and marketing activities, including the launching of the Jingkelong card and the membership reward card, aimed at strengthening brand awareness among consumers. Additionally, through its franchisee stores, the Directors believe that the Group has been able to build up its brandname principally in the Greater Beijing Region.
4. **Efficient employment of advanced technologies:** The Directors believe that the Group’s investment in improving its information management systems has allowed the Group to improve product procurement, delivery schedules, inventory and inventory management and turnover days, thus minimising the cost of maintaining levels of inventories and allowing for better space allocations and overall sales performance.
5. **Complementary wholesale and retail distribution networks:** The infrastructure of extensive wholesale and retail distribution channels enables the Group to maintain a stable supply of daily consumer products to its Retail Outlets, even for certain popular seasonal products during peak seasons. At the same time, it also facilitates the timely collection of first-hand feedback on market trends and end consumer preferences, which enables the Group to implement market-driven merchandising and stocking at the wholesale level. The Directors believe that these advantages are not available to those distribution operators who do not possess complementary capabilities on both retail and wholesale capabilities.

The Group’s competitiveness can be proven by its increase in turnover and profit, and expanding retail and wholesale network, as well as the introduction of products bearing its in-house brandnames. The Group’s principal competitive strengths and the business strategies based on which these strengths are divided are set out in the paragraphs headed “Business – competitive strengths” and “Future Plans and Prospects – strategies” of this document.



### PRICING POLICY

The Directors believe that it is important for the Group's continued success to maintain a steady supply of quality daily consumer products at competitive prices.

At the retail level, the pricing policy for each retail format varies according to each retail format's business model and its emphasis on products and services offered. The emphasis of the pricing policy for the hypermarket business is on the overall strategy of providing a "one-stop" shopping experience. The emphasis of the pricing policy for the supermarket business is on the provision of a balanced product mix and the ability to offer "quick-sell" promotions. The idea of promoting the convenience store business as one's "local corner store" has meant that the emphasis of the pricing policy for this aspect of the Group's retail business is on the provision of a friendly, fast and convenient shopping service.

With the above in mind, the Group's merchandising division implements such policy by:

- jointly conducting some negotiations with the Company and Chaopi Trading, taking full advantage of the Group's economies of scale to secure favourable terms and prices from the Group's suppliers and manufacturers;
- maintaining a good communication channel with the Group's suppliers and manufacturers in order to capture first mover advantage on new products and to discuss ways of promoting sales;
- conducting evaluation of competitors' performance and market research into customer trends with a view to formulating the Group's merchandising strategies.

### INSURANCE

The Group maintains insurance policies which cover the Group's fixed assets and inventories at the Retail Outlets, Logistics Centres and Distribution Centres against damages or loss caused by theft, fire and bursting of water pipes. The Directors consider that the Group's insurance coverage is adequate and the Directors confirmed that the Group had no insurance claim under such policies in the past.

The Group makes social insurance contributions (including industrial accidents and retirement benefits) in accordance with the applicable PRC laws and regulations. The applicable PRC laws and regulations are (i) Decision regarding Perfection of Enterprise Employees Basic Retirement Insurance System (《關於完善企業職工基本養老保險制度的決定》) and Basic Retirement Insurance Regulation of Beijing (《北京市基本養老保險規定》) in relation to provision of basic retirement insurance, (ii) Industrial Accident Insurance Law (《工傷保險條例》) and Implementation Rules of Industrial Accident Insurance Law of Beijing (《北京市實施《工傷保險條例》辦法》) in relation to provision of industrial accident insurance, (iii) Unemployment Insurance Law (《失業保險條例》) and Regulation of Unemployment Insurance Law of Beijing (《北京市失業保險規定》) in relation to provision of unemployment insurance, (iv) Decision regarding Establishment of Basic Medical Insurance System for Employees in Cities and Towns (《國務院關於建立城鎮職工基本醫療保險制度的決定》) and Regulation of Basic Medical Insurance of Beijing (《北京市基本醫療保險規定》) in relation to provision of basic medical insurance, and (v) Rules relating to Birth Insurance for Enterprise Employees (《企業職工生育保險辦法》) and Regulation of Birth Insurance for Enterprise Employees of Beijing (《北京市企業職工生育保險規定》) in relation to provision of birth insurance, respectively. The amount of such contributions made by the Group during the three years ended 31 December 2006 were approximately RMB25.8 million, RMB25.4 million and RMB28.7 million, respectively.

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## BUSINESS

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According to the Company's PRC legal advisers, the Group has fully complied with all applicable laws and regulations in relation to social insurance contributions and, apart from that, there are no other applicable laws and regulations relevant to the issue of social responsibility. Based on the PRC legal advice, the Directors confirm that the Group's operations are in compliance with the currently applicable labour and safety regulations in all respects. Since the Group has duly made all necessary social insurance contributions, any claims of its employees in respect of social insurance will be paid by the relevant social security authorities instead of the Group.

### COMPLIANCE WITH REGULATORY REQUIREMENTS

The Group have set up and will continue the following measures for the ongoing compliance of the regulatory requirements in the PRC and Hong Kong:

- Li Chunyan has been appointed as the compliance officer of the Group.
- Regular meetings and seminars within the Group to provide updates on the latest business development of the Group and regulatory requirements in relation to the retail and wholesale distribution industries.
- Regular meetings and seminars within the Group on regulatory requirements applicable to companies listed on the Stock Exchange and update on any amendments thereto from time to time.
- Regular conversations with the compliance adviser for the update of regulatory requirements.
- Consult the compliance adviser for any proposed transactions or events that may be subject to the disclosure and approval requirements under the Main Board Listing Rules.
- All management and staff are required to report to the Directors and the compliance officer(s) promptly any events that may be subject to the various regulatory requirements in the PRC and Hong Kong.

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## CONNECTED TRANSACTIONS

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Prior to the GEM Listing, the Group had business relations with certain entities, which, under the GEM Listing Rules, were considered to be connected persons of the Company immediately upon the GEM Listing. Such entities will continue to be connected persons of the Company after the Main Board Listing, and they are: (i) Chaoyang Auxillary, (ii) 北京加增食品有限公司 (Beijing Jiazeng Foodstuff Company Limited) (“Jiazeng Foodstuff”), (iii) 北京武夷峰茶葉銷售有限公司 (Beijing Wuyifeng Tea Leaves Sales Company Limited) (“Beijing Wuyifeng”), (iv) 北京應廣達食品有限公司 (Beijing Yingguangda Foodstuff Company Limited) (“Beijing Yingguangda”), (v) Tianjin Jinganhua, (vi) 北京中聯建裝飾工程有限公司 (Beijing Zhonglianjian Construction Company Limited) (“Beijing Zhonglianjian”), (vii) Chaopi Jinglong and (viii) Chaopi Flavourings. Chaopi Jinglong and Chaopi Flavourings are non-wholly owned subsidiaries of the Company, and, for the reasons set out below, are deemed connected persons of the Company. The transactions set out below between the Group and the above entities will become continuing connected transactions of the Company, within the meaning of the Main Board Listing Rules, upon the Main Board Listing.

### I. CONTINUING CONNECTED TRANSACTIONS OF THE COMPANY

#### 1. Lease of properties by Chaoyang Auxillary to the Company

Pursuant to a lease agreement dated 30 April 2004, a supplemental lease agreement dated 12 March 2005 and a supplemental lease agreement (no. 2) dated 25 July 2005, another three lease agreements dated 25 July 2005, 24 March 2006 and 4 April 2006 respectively and a confirmation letter dated 19 March 2007 (together the “JKL Lease Agreements”) entered into between the Company and Chaoyang Auxillary (being the holding company of the Company), Chaoyang Auxillary has agreed to lease to the Company certain properties situated in the Chaoyang District, Beijing, including buildings, related public amenities and facilities, carparking spaces, areas for the loading and unloading of machines, sign board spaces and the land on which the abovementioned properties are situated (together, the “JKL Properties”, being the properties numbered 15-21, 23-25, 28-30, 32-34, 62-64, 66, 68-73, 75-76, 78-80, 82, 86-98, 101-102 and 105 referred to in the section headed “Summary of valuation – Group III – Property interests rented and occupied by the Group in the PRC” in the letter from Vigers Appraisal & Consulting Limited in Appendix III to this document) for terms of between 10 years to 20 years commencing 1 January 2004, 1 July 2005 and 1 July 2006 (as the case may be) with fixed annual rentals (inclusive of the relevant business and property taxes) for four to six year periods (as the case may be). For the year ended 31 December 2004, the aggregate rental paid to Chaoyang Auxillary was RMB7,845,359. The initial aggregate annual rental was RMB7,845,359 for the period from 1 July 2005 to 30 June 2006. As the Company ceased to rent four properties, one from 1 April 2005, one from 1 January 2006 and two from 16 November 2006, the aggregate rental was reduced such that the aggregate rental for the period from 1 January 2005 to 31 March 2005 was RMB1,961,340, the aggregate rental for the period from 1 April 2005 to 31 December 2005 was RMB5,502,150, and the aggregate rental for the year ended 31 December 2006 was RMB7,062,000; whereas the aggregate annual rental from 1 January 2007 to 31 December 2008 will be RMB6,713,205. Such annual rentals, exclusive of relevant property tax, shall be increased after each aforesaid fixed rental period at a rate of 5% or 20% (as the case may be). Accordingly, the rental shall be RMB6,985,610 per annum for the period from 1 January 2009 to 30 June 2010, RMB7,022,110 per annum for the period from 1 July 2010 to 31 December 2013, RMB7,308,135 per annum for the period from 1 January 2014

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## CONNECTED TRANSACTIONS

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to 30 June 2016, RMB7,089,135 per annum for the period from 1 July 2016 to 31 December 2018, and RMB7,389,460 per annum for the period from 1 January 2019 to 31 December 2023. Accordingly, these amounts are set as the respective annual caps for this continuing connected transaction.

For the purpose of enabling the Company to comply with the requirement of Rule 20.35(1) of the GEM Listing Rules (and, after the Main Board Listing, Rule 14A.35(1) of the Main Board Listing Rules) that the term of the agreement shall not be more than three years should the JKL Lease Agreements (or any part thereof) not be approved by the independent Shareholders by 31 December 2008 (or when an approval for any subsequent period is sought) in compliance with the requirements of the GEM Listing Rules (and, after the Main Board Listing, Rule 14A.35(1) of the Main Board Listing Rules), whilst allowing the Group to enjoy security of tenure in respect of the JKL Properties, the Company has been granted a right to terminate the lease of any particular property under the JKL Lease Agreements without paying any compensation by giving no less than six months' prior written notice to Chaoyang Auxillary. Both the Company and the Sponsor confirm such arrangements are beneficial to the Group and in the interests of the shareholders of the Company and the Company as a whole, as the Group has more flexibility in its leasing arrangements and is able to secure the use of these premises at a low rate favourable to the prevailing market rent as at the commencement dates of the relevant JKL Lease Agreements. The Sponsor has confirmed that it is a normal business practice for lease agreements of this kind to have a duration of more than three years.

The JKL Properties, which are located in the Chaoyang District, Beijing are principally used by Group to operate its 15 supermarkets, 27 convenience stores and the live and fresh produce Logistics Centre. The gross area of the JKL Properties is approximately 86,766 sq.m.

Under the JKL Lease Agreements, the Company was granted a first right to purchase any of the JKL Properties on the same terms and conditions as those offered by an Independent Third Party should Chaoyang Auxillary decide to sell any such JKL Properties. In addition, under the JKL Lease Agreements, the Company has an option to renew the lease upon its expiry on terms no less favourable than those under the JKL Lease Agreements and by reference to the then prevailing market conditions.

At the time of the GEM Listing, Vigers Appraisal & Consulting Limited, the independent property valuer appointed by the Company, had reviewed the terms of the JKL Lease Agreements, and confirmed that on the basis as mentioned above, the aggregate monthly rentals above (being exclusive of property tax, business tax and additives, property management fees and other outgoings) under the JKL Lease Agreements were at a low rate favourable to the prevailing market rent as at the commencement dates of the relevant JKL Lease Agreements, which is considered by the Directors to be in the interests of the Company and the shareholders of the Company as a whole.

### 2. Supply of cooked food by Jiazeng Foodstuff to the Company

Pursuant to a supply agreement dated 6 April 2006 entered into between the Company and 北京朝陽新龍福利食品加工廠 (Beijing Chaoyang Xinlong Fuli Foodstuff Processing Company (“Chaoyang Xinlong”), Chaoyang Xinlong has agreed to supply, on a non-exclusive basis, to the Group various types of cooked food (such as ham and bacon) for sale to its customers. The legal representative of Chaoyang Xinlong is Mr. Ma Jiazeng (“Mr. Ma”). Mr. Ma holds an equity interest of 59.7% in Beijing Jiazeng which is a Promoter holding approximately 0.82% of the issued shares of the Company as at the date of this document. Chaoyang Xinlong first supplied cooked food to the Company in 1994. Chaoyang Xinlong was then principally engaged in the wholesale distribution of cooked food. Subsequent to the supply agreement, the Company understands that Mr. Ma rationalised his business and transferred the business under Chaoyang Xinlong to Jiazeng Foodstuff where he holds an equity interest of 90%. On 8 August 2006, the Company, Chaoyang Xinlong and Jiazeng Foodstuff entered into a supplemental agreement where the rights and obligations of Chaoyang Xinlong under the supply agreement was transferred to Jiazeng Foodstuff.

During the Track Record Period, Beijing Jiazeng (a Promoter) and 北京市朝陽紫金肉食加工廠 (Beijing Chaoyang Zijin Meat Processing Company (“Chaoyang Zijin”), of which Mr. Ma is also its legal representative) also supplied cooked food to the Group. Beijing Jiazeng and Chaoyang Zijin began to supply cooked food to the Group in 2002. Since Chaoyang Xinlong, Jiazeng Foodstuff, Beijing Jiazeng and Chaoyang Zijin were all under the management of Mr. Ma, the Company agreed with them that in order to streamline the Group’s procurement requirement, the Group would only source cooked food from Jiazeng Foodstuff going forward. Accordingly, as from 1 January and 21 July 2005, the Group ceased sourcing cooked food from Beijing Jiazeng and Chaoyang Zijin, respectively, and the Group shifted such procurement requirements to Chaoyang Xinlong and subsequently to Jiazeng Foodstuff. During the Track Record Period, the Group did not source cooked food exclusively from Chaoyang Xinlong, Beijing Jiazeng, Chaoyang Zijin and Jiazeng Foodstuff, but from up to 54 suppliers in total. As at the Latest Practicable Date, the Group sourced cooked food from 28 suppliers.

The term of the supply agreement (as supplemented as aforesaid) will expire on 31 December 2008. Upon its expiry, the Company has the right to renew the supply agreement on terms no less favourable than those under the current agreement. In addition, under the supply agreement, Jiazeng Foodstuff has agreed that the consideration payable by the relevant member of the Group for the supply of the same cooked food will not be higher, on the same per unit price basis, than the consideration paid to it by any other third party and will not be higher than the then prevailing market prices.

For the three financial years ended 31 December 2006, Chaoyang Xinlong, Beijing Jiazeng, Chaoyang Zijin and Jiazeng Foodstuff supplied the Group with cooked food based on the then prevailing market prices, aggregating approximately RMB18,030,000 and RMB20,535,000 and RMB16,090,000 for the respective years and representing approximately 0.57%, 0.57% and 0.41% of the Group’s costs of sales (for continuing operations) for each of the three financial years ended 31 December 2006, respectively. The cooked food supplied by Chaoyang Xinlong, Beijing Jiazeng, Chaoyang Zijin and Jiazeng Foodstuff to the Group representing approximately 16.7%, 17.3% and 11.9% of the Group’s total costs of purchase of cooked food from its suppliers for each of the three financial years ended 31 December 2006, respectively. Due to their internal restructuring in 2004, the Group reduced the amount of cooked food (in RMB terms) sourced from Chaoyang Xinlong, Beijing Jiazeng and Chaoyang Zijin by approximately 12.19% in

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## CONNECTED TRANSACTIONS

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2004 (compared to 2003), but, in 2005, the amount of such sourcing increased to the level before the restructuring in 2004. In 2006, due to fierce competition in the cooked food market, the Group increased the amount of cooked food (in RMB terms) sourced from other suppliers and reduced the amount of cooked food (in RMB terms) sourced from Chaoyang Xinlong and Jiazeng Foodstuff by approximately 21.65% in 2006 (compared to 2005).

It is estimated that the total consideration payable by the Group to Jiazeng Foodstuff in relation to the purchase of cooked food for each of the two financial years ending 31 December 2008 will not exceed RMB29,200,000 and RMB33,530,000 respectively. Accordingly, at the time of the GEM Listing, these amounts were set as the caps for these continuing connected transactions.

The above caps have been estimated primarily based on (i) the quantity of the cooked food ordered and the consideration for the supply of such cooked food paid by the Group to Jiazeng Foodstuff (together with Chaoyang Xinlong, Beijing Jiazeng and Chaoyang Zijin) during the Track Record Period, which was temporarily affected by the said restructuring of the said three enterprises, (ii) the Group's expansion plan to open (1) two and two hypermarkets, (2) eight and eight supermarkets, and (3) eight and eight convenience stores in each of the two years ending 31 December 2008, respectively ("Expansion Plan"), which the Directors believe will lead to higher sale volume of cooked food and hence the Group's demand of such products from Jiazeng Foodstuff; (iii) the estimated growth rate of the sale of such products by the Group of approximately 81.48% and 15% per annum for each of the two financial years ending 31 December 2008, respectively, subsequent to the restructuring of Chaoyang Xinglong, Beijing Jiazeng and Chaoyang Zijin as referred above; and (iv) the integration of the retail network of Shou Lian under the co-operation agreement with Xi You and Shou Lian, pursuant to which, amongst others, the Company will operate Shou Lian's retail network under the Group's franchise arrangements.

### **3. Supply of tea leaves by Beijing Wuyifeng**

Pursuant to a supply agreement dated 5 April 2006 entered into between the Company and Beijing Wuyifeng, a PRC company owned by Mr. Xia Wensheng ("Mr. Xia") as to 80% of its capital, Beijing Wuyifeng has agreed to supply, on a non-exclusive basis, to the Group various types of tea leaves for sale to the Group's customers. Mr. Xia is a Promoter and as at the date of this document held an equity interest of approximately 0.54% in the Company. Beijing Wuyifeng has been supplying tea leaves to the Group since 1999. Beijing Wuyifeng is principally engaged in the wholesale distribution of tea leaves. During the Track Record Period, the Group did not source tea leaves exclusively from Beijing Wuyifeng, but from up to 17 suppliers in total. As at the Latest Practicable Date, the Group sourced tea leaves from seven suppliers.

The term of the agreement will expire on 31 December, 2008. Upon its expiry, the Company has the right to renew the supply agreement on terms no less favourable than those under the current agreement. In addition, under the agreement, Beijing Wuyifeng has agreed that the consideration payable by the Company for the supply of the same tea leaves will not be higher, on the same per unit price basis, than the consideration paid to it by any other third party and will not be higher than the then prevailing market prices.



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## CONNECTED TRANSACTIONS

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For the three financial years ended 31 December 2006, Beijing Wuyifeng supplied the Group with tea leaves based on the then prevailing market prices, aggregating approximately RMB3,798,900, RMB5,654,000 and RMB4,644,000 for the respective years and representing approximately 0.12%, 0.16% and 0.12% of the Group's costs of sales (for continuing operations); and approximately 53.3%, 82.1% and 55.5% of the Group's total costs of purchase of tea leaves from its suppliers for each of the three financial years ended 31 December 2006, respectively.

It is estimated that the total consideration payable by the Group to Beijing Wuyifeng in relation to the purchase of tea leaves for each of the two financial years ending 31 December 2008 will not exceed RMB7,500,000 and RMB8,700,000 respectively. Accordingly, at the time of the GEM Listing, these amounts were set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the quantity of the tea leaves ordered and the consideration for supply of such tea leaves paid by the Group to Beijing Wuyifeng during the Track Record Period, (ii) the Group started to sell the tea leaves it sources from Beijing Wuyifeng in one additional hypermarket and one additional supermarket in the second half of 2005, which accounted for the increase of approximately 48.9% in 2005, (iii) the Group's Expansion Plan (referred to in paragraph 2 above) of adding more Retail Outlets to its network, and (iv) the estimated growth rate of the sale of such products by the Group of approximately 61.50% and 16% per annum for each of the two financial years ending 31 December 2008, respectively.

#### **4. Supply of raw meat by Beijing Yingguangda**

Pursuant to a supply agreement dated 3 April 2006 entered into between the Company and Beijing Yingguangda, a PRC company owned by Mr. Gao Jiaqiang ("Mr. Gao") as to 66.67% of its capital, Beijing Yingguangda has agreed to supply, on a non-exclusive basis, to the Group various types of raw meat for sales to the Company's customers. Mr. Gao is a Promoter and as at the date of this document held an equity interest of approximately 0.54% in the Company. Beijing Yingguangda has been supplying raw meat to the Group since 2000. Beijing Yingguangda is principally engaged in the wholesale distribution of raw meat. During the Track Record Period, the Group did not source raw meat exclusively from Beijing Yingguangda, but from up to nine suppliers in total. As at the Latest Practicable Date, the Group sourced raw meat from three suppliers.

The term of the agreement will expire on 31 December 2008. Upon its expiry, the Company has the right to renew the supply agreement on terms no less favourable than those under the current agreement. In addition, under the agreement, Beijing Yingguangda has agreed that the consideration payable by the Group for the supply of the same raw meat will not be higher, on the same per unit price basis, than the consideration paid to it by any other third party and will not be higher than the then prevailing market prices.

For the three financial years ended 31 December 2006, Beijing Yingguangda supplied the Group with raw meat based on the then prevailing market prices, aggregating approximately RMB34,472,000, RMB36,766,000 and RMB7,438,000 for the respective years and representing approximately 1.09%, 1.02% and 0.19% of the Group's costs of sales (for continuing operations); and approximately 57.6%, 57.7% and 12.6% of the Group's total costs of purchase of raw meat from its suppliers for each of the three financial years ended 31 December 2006, respectively.

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## CONNECTED TRANSACTIONS

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It is estimated that the total consideration payable by the Group to Beijing Yingguangda in relation to the purchase of raw meat for each of the two financial years ending 31 December 2008 will not exceed RMB16,600,000 and RMB16,600,000 respectively. Accordingly, at the time of the GEM Listing, these amounts were set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the quantity of the raw meat ordered and the consideration for supply of such raw meat paid by the Group to Beijing Yingguangda during the Track Record Period, (ii) the Group's Expansion Plan (referred to in paragraph 2 above) of adding more Retail Outlets to its network. (iii) the Company's anticipation that the purchases from Yingguangda for 2007 and 2008 is expected to be approximately 123.2% higher than 2006, as the Group's live and fresh produce Logistics Centre opened in the first half of 2005 in Chaoyang District, Beijing, was fully operational in 2006 and which, with its live pig stock processing capability, will enable the Group to change the stock mix of its purchasing needs and (iv) the anticipation of the purchase from Beijing Yingguangda will increase in 2007 and to remain unchanged in 2008 (as compared to 2007) in view of the integration of the retail network of Shou Lian under the co-operation agreement with Xi You and Shou Lian, pursuant to which, amongst others, the Company will operate Shou Lian's retail network under the Group's franchise arrangements.

### **5. Provision of interior decoration services by Tianjin Jinganghua**

Tianjin Jinganghua has been providing interior decoration (including signboard installation) services to the Group since 1998. Tianjin Jinganghua is a Promoter and as at the date of this document held an equity interest of approximately 1.35% in the Company. Although the Company is satisfied with the quality of and delivery of the services by Tianjin Jinganghua over the years, with a view to encouraging competition amongst the Group's contractors for the provision of interior decoration services in the future, the Company and Tianjin Jinganghua entered into a services agreement dated 3 April 2006, which agreement is valid until 31 December 2008, under which the Company has agreed, but at the Company's sole discretion and without obligation on its part, to invite Tianjin Jinganghua, on a non-exclusive basis, to submit quotations for the provision of interior decoration (including signboard installation) services to the Group. In the event that the quotation submitted by Tianjin Jinganghua is comparable to or lower than those given by the other contractors solicited by the Group, the Group would consider engaging Tianjin Jinganghua to undertake such services. Tianjin Jinganghua is principally engaged in the provision of interior decoration services. During the Track Record Period and as at the Latest Practicable Date, the Group only engaged Tianjin Jinganghua for the provision of interior decoration (including signboard installation) services.

In addition, under the agreement, Tianjin Jinganghua has agreed that the quotation for services that it may submit to the Group for the provision of interior decoration services will be comparable to or lower than that it provides to any other party and will not be higher than the then prevailing market prices.

For the three financial years ended 31 December 2006, Tianjin Jinganghua provided interior decoration services to the Group based on the then prevailing market prices, aggregating approximately RMB1,313,000, RMB2,659,000 and RMB5,246,000 for the respective years and representing approximately 0.04%, 0.07% and 0.13% of the Group's costs of sales (for continuing operations); and 100%, 100% and 100% of the Group's total consideration paid by the Group on interior decoration services for each of the three financial years ended 31 December 2006, respectively.



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## CONNECTED TRANSACTIONS

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It is estimated that the total consideration payable by the Group to Tianjin Jinganghua in relation to the provision of interior decoration services for each of the two financial years ending 31 December 2008 will not exceed RMB6,300,000 and RMB7,350,000 respectively. Accordingly, at the time of the GEM Listing, these amounts were set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the costs of the services provided and the consideration paid by the Group to Tianjin Jinganghua during the Track Record Period, and (ii) the estimation by the Group of the rate of upgrading of its premises and the opening of additional Retail Outlets in accordance with the Expansion Plan (as referred to in paragraph 2 above).

### **6. Provision of construction, repair and renovation services by Beijing Zhonglianjian**

Beijing Zhonglianjian has been providing construction, repair and renovation services to the Group since 2000. Beijing Zhonglianjian is a PRC company owned by Mr. Li Shun Xiang as to 55% of its registered capital. Mr. Li Shun Xiang is a Promoter and as at the date of this document held an equity interest of approximately 1.35% in the Company. Although the Company is satisfied with the quality of and delivery of the services by Beijing Zhonglianjian over the years, with a view to encouraging competition amongst the Group's contractors for the provision of construction, repair and renovation services in the future, the Company and Beijing Zhonglianjian entered into a services agreement dated 3 April 2006, which is valid until 31 December 2008, under which the Company has agreed, but at the Company's sole discretion and without obligation on its part, to invite Beijing Zhonglianjian, on a non-exclusive basis, to submit quotations for the provision of construction, repair and renovation services to the Group. In the event that the quotation submitted by Beijing Zhonglianjian is comparable to or lower than those given by the other contractors solicited by the Group, the Group would consider engaging Beijing Zhonglianjian to undertake such services. Beijing Zhonglianjian is principally engaged in the provision of construction, repair and renovation services. During the Track Record Period, the Group did not only engage Beijing Zhonglianjian for the provision of construction, repair and renovation services, but engaged nine contractors in total for the provision of such services. As at the Latest Practicable Date, the Group engaged eight contractors for the provision of construction, repair and renovation services.

In addition, under the agreement, Beijing Zhonglianjian has agreed that the quotation for services that it may submit to the Group for the provision of construction, repair and renovation services will be comparable to or lower than that it provides to any third party and will not be higher than the then prevailing market prices.

For the three financial years ended 31 December 2006, Beijing Zhonglianjian provided the Group with construction, repair and renovation services based on the then prevailing market prices, aggregating approximately RMB10,469,000, RMB2,572,000 and RMB2,575,000 for the respective years and representing approximately 0.33%, 0.07% and 0.06% of the Group's costs of sales (for continuing operations); and approximately 17.9%, 1.3% and 2.7% of the Group's total consideration paid by the Group on construction, repair and renovation services for each of the three financial years ended 31 December 2006, respectively.

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## CONNECTED TRANSACTIONS

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It is estimated that the total consideration payable by the Group to Beijing Zhonglianjian in relation to the provision of construction, repair and renovation services for each of the two financial years ending 31 December 2008 will not exceed RMB3,780,000 and RMB4,540,000 respectively. Accordingly, at the time of the GEM Listing, these amounts were set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the costs of the services provided and the consideration paid by the Group to Beijing Zhonglianjian during the Track Record Period, (ii) the decrease in the transaction value with Beijing Zhonglianjian of approximately 75.4% in 2005 was due to the fact that the Group continued to engage more contractors for the provisions of construction, repair and renovation services in 2005, (iii) the Group's desire to encourage competition amongst the Group's contractors for the provision of construction, repair and renovation services and hence to cap the value of the transactions with Beijing Zhonglianjian, despite the fact that the Group expects to open more hypermarkets, supermarkets and convenience stores from 2007 to 2008 pursuant to the Expansion Plan (referred to in paragraph 2 above), and (iv) the amount of work that the Group has invited and may invite Beijing Zhonglianjian to submit quotations (based on the Company's policy to encourage competition amongst the Group's contractors for the provision of construction, repair and renovation services).

**7. Supply of flavourings, grain, flour, edible oil products (other than certain edible oil products of which Chaopi Jinglong has been appointed a distributor by the relevant manufacturers) and other food stuff (the "Chaopi Flavourings Products") by Chaopi Flavourings**

Pursuant to a supply agreement dated 3 April 2006 entered into between the Company and Chaopi Flavourings, Chaopi Flavourings has agreed to supply, on a non-exclusive basis, to the Group various types of the Chaopi Flavourings Products for sale to its customers. Mr. Li Jun Wei is a director of each of Chaopi Flavourings and Chaopi Jinglong and holds approximately 30.84%, 31.78% and 0.73% of the equity in Chaopi Flavourings, Chaopi Jinglong and Chaopi Trading, respectively. Accordingly, Chaopi Flavourings is a connected person of the Company. Chaopi Flavourings has been supplying the Chaopi Flavourings Products to the Group since 2001. Chaopi Flavourings is principally engaged in the wholesale distribution of the Chaopi Flavourings Products.

The term of the agreement will expire on 31 December 2008. Upon its expiry, the Company has the right to renew the supply agreement on terms no less favourable than those under the current agreement. In addition, under the agreement, Chaopi Flavourings has agreed that the consideration payable by the Group for the supply of the same Chaopi Flavourings Products will not be higher, on the same per unit price basis, than the consideration paid to it by any other third party and will not be higher than the then prevailing market prices.

For the three financial years ended 31 December 2006, Chaopi Flavourings supplied the Group with the Chaopi Flavourings Products based on the then prevailing market prices, aggregating approximately RMB53,303,000, RMB42,759,000 and RMB45,144,000 (which amounts have excluded the estimated sales of the Jiali Products (as referred to in paragraph 8 below), as Chaopi Jinglong was established in May 2005 to take over the business of the wholesale distribution of such products, and, accordingly, for the purpose of the preparation of the relevant caps in this paragraph 7, such estimated sales of the Jiali Products have been excluded as aforesaid in order to provide an appropriate comparison) and representing

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## CONNECTED TRANSACTIONS

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approximately 1.68%, 1.18% and 1.14% of the Group's costs of sales (for continuing operations); and approximately 8.5%, 6.6% and 5.1% of the Group's total costs of purchase of similar type of Chaopi Flavourings Products from its suppliers for each of the three financial years ended 31 December 2006, respectively.

It is estimated that the total consideration payable by the Group to Chaopi Flavourings in relation to the purchase of the Chaopi Flavourings Products for each of the two financial years ending 31 December 2008 will not exceed RMB73,300,000 and RMB84,300,000 respectively. Accordingly, at the time of the GEM Listing, these amounts were set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the quantity of the Chaopi Flavourings Products and the consideration for the supply of the Chaopi Flavourings Products paid by the Group to Chaopi Flavourings during the Track Record Period, (ii) the decrease in sourcing in 2005 (in RMB terms) of approximately 19.8%, which was mainly due to the increase in purchases from other suppliers to accommodate the market demand for more variety of edible oil products, (iii) after the new division (in the form of Chaopi Jinglong) was set up in May 2005 to trade in Jiali Products (as defined in paragraph 8 below), Chaopi Flavourings, with more operating capacity (as resources being freed up after it ceased to carry the Jiali Products), has carried, and it will continue to carry, more products in the future, and (iv) the Group's Expansion Plan (referred to in paragraph 2 above) of adding more Retails Outlets to its network, and the integration of the retail network of Shou Lian under the co-operation agreement with Xi You and Shou Lian, pursuant to which, amongst others, the Company will operate Shou Lian's retail network under the Group's franchise arrangements which the Directors believe will lead to an increase in sales of the Chaopi Flavourings Products and hence the Group's demand for such products will also increase.

**8. Supply of edible oil and other food stuff (“Jiali Products”) sourced from 嘉里糧油商務拓展(深圳)有限公司 (Jiali Liang You Commerce Development (Shenzhen) Limited Company) (“Jiali”) and/or its related entities (together the “Jiali Group”) by Chaopi Jinglong**

Pursuant to a supply agreement dated 3 April 2006 entered into between the Company and Chaopi Jinglong, Chaopi Jinglong has agreed to supply, on a non-exclusive basis, to the Group the Jiali Products for sale to its customers. Mr. Li Jun Wei is a director of each of Chaopi Flavourings and Chaopi Jinglong and holds approximately 30.84%, 31.78% and 0.73% of the equity in Chaopi Flavourings, Chaopi Jinglong and Chaopi Trading, respectively. Accordingly, Chaopi Jinglong is a connected person of the Company.

The term of the agreement will expire on 31 December 2008. Upon its expiry, the Company has the right to renew the supply agreement on terms no less favourable than those under the current agreement. In addition, under the agreement, Chaopi Jinglong has agreed that the consideration payable by the Group for the supply of the same Jiali Products will not be higher, on the same per unit price basis, than the consideration paid to it by any other party and will not be higher than the then prevailing market prices. Chaopi Jinglong is principally engaged in the wholesale distribution of the Jiali Products.

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## CONNECTED TRANSACTIONS

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Prior to the establishment of Chaopi Jinglong in May 2005, Chaopi Flavourings had been supplying the Jiali Products to the Group. To further rationalise the business of the sale of flavourings products and cope with the expansion of edible oil products, in May 2005, Chaopi Jinglong was established to focus on the business of trading of the products manufactured and/or sourced by the Jiali Group and they are currently, principally, edible oil products under 金龍魚品牌 (Jin Long Yu brand) and 元寶品牌 (Yuan Bao brand). For the three financial years ended 31 December 2006, Chaopi Flavourings and Chaopi Jinglong (since its establishment in May 2005) supplied the Group with edible oil products of the said brands based on the then prevailing market prices, aggregating (based on the Company's estimation) approximately RMB18,714,000, RMB14,983,000 and RMB14,551,000 and representing approximately 0.59%, 0.41% and 0.37% of the Group's costs of sales (for continuing operations); and approximately 4%, 3% and 2.9% of the Group's total costs of purchase of similar type of Jiali Products from its suppliers for each of the three financial years ended 31 December 2006, respectively. Since the establishment of Chaopi Jinglong, Chaopi Jinglong has replaced Chaopi Flavourings as the supplier of the Jiali Products to the Group, and in that connection, Chaopi Jinglong has been appointed by Jiali as one of the two distributors of the Jiali Products in Beijing.

It is estimated that the total consideration payable by the Group to Chaopi Jinglong in relation to the purchase of the Jiali Products for each of the two financial years ending 31 December 2008 will not exceed RMB43,400,000 and RMB56,400,000 respectively. Accordingly, at the time of the GEM Listing, these amounts were set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the volume of the Jiali Products and the consideration for the supply of the Jiali Products paid by the Group to Chaopi Flavourings and Chaopi Jinglong (since its establishment in May 2005) during the Track Record Period (ii) the decrease in purchases (in RMB terms) of approximately 19.9% in 2005, was mainly attributable to less products were sourced by the Group during the set up stage of Chaopi Jinglong (iii) since the Group has designated Chaopi Jinglong to trade only in the Jiali Products, the Group expects that the Jiali Group will supply more variety of products (for example, oil products of different packaging formats targeting at different customers and that it may carry other branded foodstuff such as 胡姬花品牌 (Hujihua brand) and 香滿園品牌 (Xiangmanyuan brand) products that may be introduced in the future) to Chaopi Jinglong, and (iv) the Group's Expansion Plan (referred to in paragraph 2 above) of adding more Retail Outlets to its network, and the integration of the retail network of Shou Lian under the co-operation agreement with Xi You and Shou Lian, pursuant to which, amongst others, the Company will operate Shou Lian's retail network under the Group's franchise arrangements which the Directors believe will lead to an increase in the market presence and the sale of the Jiali Products by the Group, which will in turn increase the Group's demand for such products.

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## CONNECTED TRANSACTIONS

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### II. CONTINUING CONNECTED TRANSACTIONS OF THE SUBSIDIARIES OF THE COMPANY

#### 9. Provision of delivery and logistics services by Chaopi Trading to Chaopi Flavourings

Pursuant to a services agreement dated 3 April 2006 entered into between Chaopi Trading and Chaopi Flavourings, Chaopi Trading has agreed to provide, or procure a member of the Group to provide, delivery and logistics services to Chaopi Flavourings for the delivery of Chaopi Flavourings's products to its customers (including both the Group and other third party customers). Prior to July 2004, Chaopi Flavourings used to deliver its products to customers. As from July 2004, Chaopi Trading centralised the delivery and logistics functions of its subsidiaries and has been providing such services to Chaopi Flavourings since then.

The term of the agreement will expire on 31 December 2008. Upon its expiry, Chaopi Trading has the right to renew the supply agreement on terms no less favourable than those under the current agreement. In addition, under the agreement, the consideration payable by Chaopi Flavourings to the Group for the provision of such delivery and logistics services will not be less than (i) the prevailing market fees, and (ii) the consideration charged by the Group for the provision of similar services to any other party.

During the period from July 2004 to 31 December 2004, the two financial years ended 31 December 2006, Chaopi Trading provided delivery and logistics services to Chaopi Flavourings based on its estimated costs in the provision of such services, being 1.5% (from July 2004 to June 2006) and revised to 2.1% (represented an estimated cost at the rate of 1.9% plus an approximately 10% premium) from July 2006 of Chaopi Flavourings's sales plus an annual RMB100,000 long distance surcharge, aggregating approximately RMB2,202,000, RMB6,130,000 and RMB7,443,000 respectively and representing approximately 0.69%, 1.66% and 1.78%, respectively of the Group's distribution costs (for continuing operations) for each of the three financial years ended 31 December 2006. As indicated above, Chaopi Trading only began to centralise the delivery and logistics functions of its subsidiaries in July 2004, therefore Chaopi Trading did not undertake any such service or charge Chaopi Flavouring any fee before July 2004. As indicated above, Chaopi Jinglong was established in May 2005 to focus on the business of trading of the Jiali Products, which products were previously carried by Chaopi Flavourings. Accordingly, the above-mentioned consideration paid by Chaopi Flavourings to Chaopi Trading did not include any estimated fee for the delivery and logistics services provided in respect of the Jiali Products, which as from May 2005, have been carried by Chaopi Jinglong.

It is estimated that the total consideration payable by Chaopi Flavourings to the Group in relation to the provision of the aforesaid delivery and logistics services for each of the two financial years ending 31 December 2008 will not exceed RMB10,391,000 and RMB11,934,000 respectively. Accordingly, at the time of the GEM Listing, these amounts were set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the delivery and logistics services for the Chaopi Flavourings Products required by Chaopi Flavourings from Chaopi Trading and the consideration paid during the Track Record Period, (ii) for the two financial years ending 31 December 2008, Chaopi Trading will continue to charge 2.1% of Chaopi Flavouring's sales

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## CONNECTED TRANSACTIONS

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plus an annual RMB100,000 long distance surcharge, and (iii) as Chaopi Trading only began to centralise the delivery and logistics functions of its subsidiaries (both internally between its subsidiaries, and externally with all such subsidiaries' respective customers in July 2004), the aggregate service charge of RMB2,202,000 for 2004 was not representative of a normal year, because it was only the aggregate charge for half a year, and hence the relatively higher charges in 2005 and 2006.

### **10. Provision of delivery and logistics services by the Chaopi Trading to Chaopi Jinglong**

Pursuant to a services agreement dated 3 April 2006 entered into between Chaopi Trading and Chaopi Jinglong, Chaopi Trading has agreed to provide, or procure a member of the Group to provide, delivery and logistics services to Chaopi Jinglong for the delivery of Chaopi Jinglong's products to its customers (including both the Group and other third party customers). Chaopi Trading has been providing such services to Chaopi Jinglong since the latter's establishment in May 2005.

The term of the agreement will expire on 31 December 2008. Upon its expiry, Chaopi Trading has the right to renew the supply agreement on terms no less favourable than those under the current agreement. In addition, under the agreement, the consideration payable by Chaopi Jinglong to the Group for the provision of such delivery services will not be less than (i) the prevailing market fees, and (ii) the consideration charged by the Group for the provision of similar services to any other third party.

As indicated above, Chaopi Jinglong was established in May 2005 to focus on the business of trading of the Jiali Products, which products were previously carried by Chaopi Flavourings. Accordingly, the consideration mentioned below was paid by Chaopi Flavourings and Chaopi Jinglong since its establishment in May 2005 in connection with the Jiali Products to Chaopi Trading. During the period from July 2004 to 31 December 2004, the two financial years ended 31 December 2005 and 2006, Chaopi Trading provided delivery and logistics services in respect of the Jiali Products based on its estimated costs in the provision of such services, being 1.5% (from July 2004 to June 2006) and revised to 2.1% (represented an estimated cost at the rate of 1.9% plus an approximately 10% premium) from July 2006 of the sales of the Jiali Products plus an annual RMB100,000 long distance surcharge, aggregating approximately RMB1,101,000, RMB2,270,000 and RMB2,679,000 respectively and representing approximately 0.35%, 0.61% and 0.64%, respectively of the Group's distribution costs (for continuing operations) for each of the three financial years ended 31 December 2006. As indicated above, Chaopi Trading only began to centralise the delivery and logistics functions of its subsidiaries in July 2004, therefore Chaopi Trading did not undertake any such service or charge any fee before July 2004.

It is estimated that the total consideration payable by Chaopi Jinglong to the Group in relation to the provision of the aforesaid delivery and logistics services for each of the two financial years ending 31 December 2008 will not exceed RMB4,162,000 and RMB4,771,000 respectively. Accordingly, at the time of the GEM Listing, these amounts were set as the caps for these continuing connected transactions.



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## CONNECTED TRANSACTIONS

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The above caps were estimated primarily based on (i) the delivery and logistics services of the Jiali Products required by Chaopi Flavourings and Chaopi Jinglong from Chaopi Trading and the consideration paid during the Track Record Period, (ii) for the two financial years ending 31 December 2008, Chaopi Trading will continue to charge 2.1% of Chaopi Jinglong's sales plus an annual RMB100,000 long distance surcharge, (iii) as Chaopi Trading only began to centralise the delivery and logistics functions of its subsidiaries (both internally between its subsidiaries, and externally with all such subsidiaries' respective customers in July 2004), the aggregate service charge of RMB1,101,000 for 2004 was not representative of a normal year, because it was only the aggregate charge for half a year, and hence the relatively higher charges in 2005 and 2006, and (iv) the Group's Expansion Plan (referred to in paragraph 2 above) of adding more Retail Outlets to its network, and the integration of the retail network of Shou Lian under the co-operation agreement with Xi You and Shou Lian, pursuant to which, amongst others, the Company will operate Shou Lian's retail network under the Group's franchise arrangements.

### **11. Lease of properties by Chaoyang Auxillary to Chaopi Trading**

Pursuant to a lease agreement dated 30 April 2004 and a supplemental lease agreement dated 25 July 2005 (together the "Chaopi Lease Agreements") entered into between Chaoyang Auxillary and Chaopi Trading, Chaoyang Auxillary has agreed to lease to Chaopi Trading certain properties situated in Chaoyang district, Beijing, the PRC, including buildings, related public amenities and facilities, carparking spaces, areas for the loading and unloading of machines, sign board spaces and the land (together, the "Chaopi Properties", being the properties numbered 106-110 referred to in the section headed "Summary of valuation – Group III – Property interests rented and occupied by the Group in the PRC" in the letter from Vigers Appraisal & Consulting Limited in Appendix III to this document) for a term of 20 years commencing 1 January 2004 with a fixed annual rental (inclusive of the relevant business and property taxes) for each five year period. The initial aggregate annual rental was RMB2,054,654 for the period from 1 January 2004 to 31 December 2008. As Chaopi Trading ceased to rent one property as from 1 July 2005, the aggregate rental was reduced such that the aggregate rental for the period from 1 January 2005 to 30 June 2005 was RMB1,027,327, and the aggregate rental for the period from 1 July 2005 to 31 December 2005 was RMB549,313; whereas the aggregate annual rental for each of the financial years from 2006 to 2008 is RMB1,098,626. Such annual rentals, exclusive of relevant property tax, shall be increased, once every five years, at a rate of 5%. Accordingly, the rental shall be RMB1,144,411 per annum for the period from 1 January 2009 to 31 December 2013, RMB1,192,485 per annum for the period from 1 January 2014 to 31 December 2018 and RMB1,242,963 per annum for the period from 1 January 2019 to 31 December 2023. Accordingly, at the time of the GEM Listing, these amounts were set as the respective annual caps for this continuing connected transaction.

For the purpose of enabling Chaopi Trading to comply with the requirement of Rule 20.35(1) of the GEM Listing Rules (and, after the Main Board Listing, Rule 14A.35(1) of the Main Board Listing Rules) that the term of the agreement shall not be more than three years should the lease agreement (or any part thereof) not be approved by the independent Shareholders by 31 December 2008 (or when approval for any subsequent period is sought) in compliance with the requirements of the GEM Listing Rules (and, after the Main Board Listing, Rule 14A.35(1) of the Main Board Listing Rules), whilst allowing the Group to enjoy security of tenure in respect of the Chaopi Properties, Chaopi Trading has been granted a right to terminate the lease of any particular property under the Chaopi Lease Agreements without paying compensation by giving no less than six months' prior written notice to Chaoyang

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## CONNECTED TRANSACTIONS

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Auxillary. Both the Company and the Sponsor believe such arrangements are beneficial to the Group and in the interests of the shareholders of the Company and the Company as a whole, as the Group has more flexibility in its leasing arrangements and is able to secure the use of these premises at a low rate favourable to the prevailing market rent as at the commencement date of the tenancy. The Sponsor has confirmed that it is a normal business practice for lease agreements of this kind to have a duration of more than three years.

The Chaopi Properties, which are located in the Chaoyang district, Beijing, the PRC are for office and warehouse uses, and they have a total gross floor area of approximately 20,823 sq.m.

Under the Chaopi Lease Agreements, Chaopi Trading was granted a first right to purchase any of the Chaoyang Properties on same terms and conditions as those offered by any Independent Third Party should Chaoyang Auxillary decide to sell or mortgage any such Chaopi Properties. In addition, under the Chaopi Lease Agreements, Chaopi Trading has an option to renew the lease upon its expiry on terms no less favourable than those under the Chaopi Lease Agreements and by reference to the then prevailing market conditions.

At the time of the GEM Listing, Vigers Appraisal & Consulting Limited, being the independent property valuer appointed by the Company, had reviewed the terms of the Chaopi Lease Agreements, and confirmed that on the basis as mentioned above, the aggregate monthly rentals above (being exclusive of property tax, business tax and additives, property management fees and other outgoings) under the Chaopi Lease Agreements were at a low rate favourable to the prevailing market rent as at the commencement date of the tenancy, which is considered by the Directors to be in the interests of the Company and the shareholders of the Company as a whole.

### **12. Lease of property by Chaoyang Auxillary to Xinyang Tongli**

Pursuant to a lease agreement dated 1 July 2004 and a supplemental lease agreement dated 25 July 2005 (together the “Xinyang Lease Agreements”) entered into between Chaoyang Auxillary and Xinyang Tongli, Chaoyang Auxillary has agreed to lease to Xinyang Tongli certain property situated in Chaoyang district, Beijing, the PRC (the “Xinyang Property”, being the property numbered 115 referred to in the section headed “Summary of valuation – Group III – Property interests rented and occupied by the Group in the PRC” in the letter from Vigers Appraisal & Consulting Limited in Appendix III to this document) for a term of 20 years commencing 1 January 2004 for an initial annual rental (inclusive of the relevant business and property taxes) of RMB16,257. Such annual rental, exclusive of relevant property tax, shall be increased, once every five years, at a rate of 5%, and therefore the rental shall be RMB16,257 per annum for the period from 1 January 2004 to 31 December 2008, RMB16,931 per annum for the period from 1 January 2009 to 31 December 2013, RMB17,639 per annum for the period from 1 January 2014 to 31 December 2018 and RMB18,383 per annum for the period from 1 January 2019 to 31 December 2023. Accordingly, at the time of the GEM Listing, these amounts were set as the respective annual caps for this continuing connected transaction.



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## CONNECTED TRANSACTIONS

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For the purpose of enabling Xinyang Tongli to comply with the requirement of Rule 20.35(1) of the GEM Listing Rules (and, after the Main Board Listing, Rules 14A.35(1) of the Main Board Listing Rules) that the term of the agreement shall not be more than three years should the lease agreement (or any part thereof) not be approved by the independent Shareholders by 31 December 2008 or when approval for any subsequent period is sought in compliance with the requirements of the GEM Listing Rules (and, after the Main Board Listing, Rules 14A.35(1) of the Main Board Listing Rules), whilst allowing the Group to enjoy security of tenure in respect of the Xinyang Property, Xinyang Tongli has been granted a right to terminate the lease of any particular Xinyang Property under the lease agreement without paying compensation by giving no less than six months' prior written notice to Chaoyang Auxillary. Both the Company and the Sponsor believe such arrangements are beneficial to the Group and in the interests of the shareholders of the Company and the Company as a whole, as the Group has more flexibility in its leasing arrangements and is able to secure the use of these premises at a low rate favourable to the prevailing market rent as at the commencement date of the tenancy. The Sponsor has confirmed that it is normal business practice for lease agreements of this kind to have a duration of more than three years.

The Xinyang Property, which is located in the Chaoyang district, Beijing, the PRC, is for commercial, office, warehouse and industrial uses, and it has a gross floor area of approximately 1,362 sq.m.

Under the Xinyang Lease Agreements, Xinyang Tongli was granted a first right to purchase any of the Xinyang Property on same terms and conditions as those offered by an Independent Third Party should Chaoyang Auxillary decide to sell or mortgage any such Xinyang Property. In addition, under the Xinyang Lease Agreements, Xinyang Tongli has an option to renew the lease upon its expiry on terms no less favourable than those under the Xinyang Lease Agreements and by reference to the then prevailing market conditions.

At the time of the GEM Listing, Vigers Appraisal & Consulting Limited, being the independent property valuer appointed by the Company, had reviewed the terms of the Xinyang Lease Agreements, and confirmed that on the basis as mentioned above, the aggregate monthly rentals above (being exclusive of property tax, business tax and additives, property management fees and other outgoings) under the Xinyang Lease Agreements were at a low rate favourable to the prevailing market rent as at the commencement date of the tenancy, which is considered by the Directors to be in the interests of the Company and the shareholders of the Company as a whole.

### III. CONTINUING CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND ITS SUBSIDIARIES

#### 13. Provision of loan financing by the Company to Chaopi Flavourings

During the Track Record Period, Chaopi Trading used to provide a loan facility to Chaopi Flavourings to finance its working capital requirements with respect to its business of the wholesale distribution of the Chaopi Flavourings Products (as referred to in paragraph 7 above) and Chaopi Flavourings paid interest to Chaopi Trading based on Chaopi Trading's borrowing cost.

For the two financial years ended 31 December 2005, the estimated highest loan amounts outstanding from Chaopi Flavourings (with respect to its business of the wholesale distribution of the Chaopi Flavourings Products) to Chaopi Trading were approximately RMB33,333,000 and RMB26,667,000, respectively. Chaopi Flavourings paid interest in the sum of approximately RMB1,233,000 and RMB1,207,000 for the two financial years ended 31 December 2005, respectively, which were calculated based on Chaopi Trading's average borrowing cost of approximately 5.8% per annum for each of these years. For the year ended 31 December 2006, the highest loan amount outstanding from Chaopi Flavourings to the Company with respect to the Designated Loan Arrangement as mentioned below was RMB20,000,000 and Chaopi Flavourings paid interest of approximately RMB1,088,000 based on an annual interest rate of 5.58%.

As indicated above, Chaopi Jinglong was established in May 2005 to focus on the business of trading of the Jiali Products, which products were previously carried by Chaopi Flavourings. Accordingly, the above-mentioned loan amounts and interest paid by Chaopi Flavourings to Chaopi Trading did not include any loan or interest which was estimated by the Company to be attributable to Chaopi Flavourings's business of wholesale distribution of the Jiali Products during the relevant periods, which products as from May 2005 have been carried by Chaopi Jinglong.

By the end of 2005, the Group consolidated such lending through the Company, and such lending has been made through Bank of Beijing such that (i) the Company will deposit a cash amount with the relevant bank, and (ii) Chaopi Flavourings will receive a loan from the said bank in the same amount as the deposit of the Company and Chaopi Flavourings will pay an annual handling charge (usually at the rate of approximately 0.1% to 0.3% of the principal of the loan) to the bank (the "Designated Loan Arrangement"). Designated Loan Arrangement is a common form of lending between companies in the PRC. It is estimated that the maximum of the loan amount outstanding from Chaopi Flavourings under such Designated Loan Arrangement to the Company during each of the two financial years ending 31 December 2008 will not exceed RMB40,000,000. At the time of the GEM Listing, the aforesaid amount was set as the cap for this continuing connected transaction. On 8 December 2005, Bank of Beijing, the Company and Chaopi Flavourings entered into an agreement to give effect to the above arrangement.

The above cap in relation to the maximum amount that may be outstanding from Chaopi Flavorings under the Designated Loan Arrangement was estimated primarily based on (i) the maximum amount outstanding from Chaopi Flavourings during the Track Record Period (excluding the maximum amount estimated to be attributable to the financing for the wholesale distribution of the Jiali Products) and (ii) the Company's conservative estimate that the maximum outstanding under the Designated Loan Arrangement will attain RMB40,000,000 for each of the two financial years ending 31 December 2008, respectively.

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## CONNECTED TRANSACTIONS

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The loan provided by the Company to Chaopi Flavourings is continuing in nature and initially lasted for a year until the end of 2006 and was renewed by the Company until the end of 2007 with annual interest rate increased from 5.58% to 6.12%. The repayment of the loan shall be made by Chaopi Flavourings in a year with the revised annual interest rate of 6.12% and handling charges of 0.1% of the loan. The Directors confirm that it is in normal commercial terms as at the date of entering into the agreement. Chaopi Flavourings is solely responsible for the loan and the bank will not be responsible to repay the Company in the event that Chaopi Flavourings is unable to repay the loan. The loan arrangement complies with the relevant PRC laws and regulations. Based on the amount and risks involved in the loan, and the fact that Chaopi Flavourings is a subsidiary of the Company, the Directors are of the view that they do not have any material impact on the financial status of the Group. For the outstanding designated loans where provision has not been made, the Directors consider such amount will be recoverable given the fact that the designated loans are rendered to one of the Group's subsidiaries.

Prior to the Designated Loan Arrangement, the loan facility was provided by the Company to Chaopi Flavourings through Chaopi Trading. Chaopi Flavourings is a subsidiary of Chaopi Trading and also the Company, its business is in line with the business of the Group and its results is consolidated in the financial statements of the Group. The loan arrangement is in the interest of the Company and the shareholders of the Company as a whole as they enable Chaopi Flavourings to have adequate fund to carry on their business operation and expansion.

#### **14. Provision of loan financing by the Company to Chaopi Jinglong**

During the Track Record Period, Chaopi Trading used to provide a loan facility to Chaopi Flavourings to finance its working capital requirements with respect to its business of the wholesale distribution of the Jiali Products (as referred to in paragraph 8 above), and Chaopi Flavourings paid interest to Chaopi Trading based on Chaopi Trading's borrowing cost.

For the two financial years ended 31 December 2005, the estimated highest loan amounts outstanding from Chaopi Flavourings to Chaopi Trading (with respect to its business of the wholesale distribution of the Jiali Products) were approximately RMB16,667,000 and RMB13,333,000 respectively. Chaopi Flavourings paid interest in the sum of approximately RMB617,000 and RMB604,000 for the two financial years ended 31 December 2005, respectively, which were calculated based on Chaopi Trading's average borrowing cost of approximately 5.8% per annum for each of these years. For the year ended 31 December 2006, the highest loan amount outstanding from Chaopi Jinglong to the Company with respect to the Designated Loan Arrangement (as referred to below) was RMB20,000,000 and Chaopi Jinglong paid interest of approximately RMB1,088,000 based on an annual interest rate of 5.58%.

As indicated above, Chaopi Jinglong was established in May 2005 to focus on the business of trading of the Jiali Products, which products were previously carried by Chaopi Flavourings. Accordingly, the above-mentioned loan amounts and interest were estimated by the Company to be attributable to the business of wholesale distribution of the Jiali Products by Chaopi Flavourings, which as from May 2005 have been carried by Chaopi Jinglong.

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## CONNECTED TRANSACTIONS

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By the end of 2005, the Group consolidated such lending through the Company, and such lending has been made in the same manner as the Designated Loan Arrangement referred to in paragraph 13 above. It is estimated that the maximum of the loan amount outstanding from Chaopi Jinglong under the Designated Loan Arrangement to the Company during each of the two financial years ending 31 December 2008 will not exceed RMB20,000,000. At the time of the GEM Listing, the aforesaid amount was set as the cap for this continuing connected transactions. On 8 December 2005, Bank of Beijing, the Company and Chaopi Jinglong entered into an agreement to give effect to the above arrangement.

The above cap in relation to the maximum loan amount that may be outstanding from Chaopi Jinglong under the Designated Loan Arrangement was estimated primarily based on (i) the maximum amount outstanding from Chaopi Jinglong and Chaopi Flavourings (with respect to its business of the wholesale distribution of the Jiali Products) during the Track Record Period, and (ii) the Company's conservative estimate that the maximum outstanding under the Designated Loan Arrangement will attain RMB20,000,000 for each of the two financial years ending 31 December 2008, respectively.

The loan provided by the Company to Chaopi Jinglong is continuing in nature and initially lasted for a year until the end of 2006 and was renewed by the Company until the end of 2007 with annual interest rate increased from 5.58% to 6.12%. The repayment of the loan shall be made by Chaopi Jinglong in a year with the revised annual interest rate of 6.12% and handling charges of 0.1% of the loan. The Directors confirm that it is in normal commercial terms as at the date of entering into the agreement. Chaopi Jinglong is solely responsible for the loan and the bank will not be responsible to repay the Company in the event that Chaopi Jinglong is unable to repay the loan. The loan arrangement complies with the relevant PRC laws and regulations. Based on the amount and risks involved in the loan, and the fact that Chaopi Jinglong is a subsidiary of the Company, the Directors are of the view that they do not have any material impact on the financial status of the Group. For the outstanding designated loans where provision has not been made, the Directors consider such amount will be recoverable given the fact that the designated loans are rendered to one of the Group's subsidiaries.

Prior to the Designated Loan Arrangement, the loan facility was provided by the Company to Chaopi Flavourings (with respect to the wholesale distribution of the Jiali Products) through Chaopi Trading. Chaopi Jinglong, established in May 2005 to focus on the business of trading of the Jiali Products, is a subsidiary of Chaopi Trading and also the Company, its business is in line with the business of the Group and its results are consolidated in the financial statements of the Group. The loan arrangement is in the interest of the Company and the shareholders of the Company as a whole as they enable Chaopi Jinglong to have adequate fund to carry on their business operation and expansion.

## CONNECTED TRANSACTIONS

### IV. WAIVER

At the time of the GEM Listing, the Company had applied for, and the Stock Exchange had granted to the Company, a waiver with respect to (i) the continuing connected transactions as referred to in paragraphs 1, 3, 5, 6 and 10 to 12 above) from the announcement requirement under Rule 20.47 of the GEM Listing Rules, (ii) the continuing connected transactions (as referred to in paragraphs 2, 4, 7, 8, 9 and 13 to 14 above) from both the announcement requirement under Rule 20.47 of the GEM Listing Rules and the independent shareholders' approval requirements under Rule 20.48 of the GEM Listing Rules, provided that the said continuing connected transactions are conducted in compliance with the conditions (including the respective applicable caps) imposed by the Stock Exchange.

The table below summarises the continuing connected transactions referred to in paragraphs 1 to 14 above and their respective caps (if applicable).

<b>Continuing connected transaction</b>	<b>Cap (RMB'000)</b>	
	<b>Year ending 31 December</b>	
	<b>2007</b>	<b>2008</b>
1. Lease of properties by Chaoyang Auxillary to the Company	7,134	7,134
2. Supply of cooked food by Jiazeng Foodstuff to the Company	29,200	33,530
3. Supply of tea leaves by Beijing Wuyifeng	7,500	8,700
4. Supply of raw meat by Beijing Yingguangda	16,600	16,600
5. Provision of interior decoration services by Tianjin Jinganghua	6,300	7,350
6. Provision of construction, repair and renovation services by Beijing Zhonglianjian	3,780	4,540
7. Supply of Chaopi Flavourings Products by Chaopi Flavourings	73,300	84,300
8. Supply of Jiali Products by Chaopi Jinglong	43,400	56,400
9. Provision of delivery and logistics services by Chaopi Trading to Chaopi Flavourings	10,391	11,934
10. Provision of delivery and logistics services by Chaopi Trading to Chaopi Jinglong	4,162	4,771
11. Lease of properties by Chaoyang Auxillary to Chaopi Trading	1,099	1,099
12. Lease of properties by Chaoyang Auxillary to Xinyang Tongli	17	17

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## CONNECTED TRANSACTIONS

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13.	Provision of loan financing by the Company to Chaopi Flavourings	40,000	40,000
14.	Provision of loan financing by the Company to Chaopi Jinglong	20,000	20,000

As the continuing connected transactions above will continue after the H Shares are listed on the Main Board on a recurring basis, the Directors consider that strict compliance with the announcement and/or independent shareholders' approval requirement under the Listing Rules would be unduly burdensome and impracticable. As such, the Company has received from the Stock Exchange a waiver from strict compliance with the announcement and/or independent shareholders' approval requirement set out in Chapter 14A of the Listing Rules.

In the event that any of the above continuing connected transactions exceeds its related cap, provided that the aggregate annual amount thereof does not exceed HK\$10,000,000 (based on the applicable exchange rate as at the end of the relevant period) and the relevant percentage ratios (other than the profits ratio) as referred to in Rule 14A.34 of the Main Board Listing Rules as at the end of the relevant period is less than 25%, the Company would be required to comply with the reporting and announcement (which announcement would need to be published at, or as soon as practicable after, the end of the relevant annual period) requirements set out in Rules 14A.45 to 14A.47 of the Main Board Listing Rules, but would not be subject to the independent shareholders' approval requirement of Chapter 14A of the Main Board Listing Rules.

In the opinion of the Directors (including the independent non-executive Directors) and the Sponsor, the continuing connected transactions referred to above have been entered into in the ordinary course of business of the Group on normal commercial terms or, if applicable, on terms no less favourable to the Group than those available from any Independent Third Parties, which are fair and reasonable to the Group and in the interests of the Company and the shareholders of the Company as a whole. The Directors (including the independent non-executive Directors) and the Sponsor are of the opinion that the caps for the continuing connected transactions are arrived at after due and careful consideration, and are fair and reasonable.

In relation to the continuing connected transactions entered into by the Group, in addition to other relevant provisions of the Main Board Listing Rules and any conditions which may be imposed by the Stock Exchange in granting a waiver to the Company in connection therewith, the Company is required to comply with Rules 14A.35 to 14A.40 of the Main Board Listing Rules.

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## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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The following is a summary of comparison of the Group's actual business progress with its business objectives as set out in the Prospectus for the period from 5 September 2006, being the latest practicable date as stated in the Prospectus, to 31 December 2006 and from 1 January 2007 to 30 April 2007 or, if applicable, the changes in such business objectives for the corresponding periods.

	<b>From 5 September 2006 to 31 December 2006</b>	<b>From 1 January 2007 to 30 April 2007*</b>
<b>Expansion of retail distribution network in the PRC</b>		
<b>Hypermarkets</b>		
<i>Business objectives as stated in the Prospectus</i>	Open not less than 1 hypermarket in the Greater Beijing Region	Open not less than 2 hypermarkets in the Greater Beijing Region in 2007
<i>Actual business progress</i>	Opened 1 hypermarket in Daxing District with a net operating area of approximately 6,300 sq.m.	Preparation works are being done for 2 hypermarkets which are expected to open during the last quarter of 2007
<b>Supermarkets</b>		
<i>Business objectives as stated in the Prospectus</i>	Open not less than 3 supermarkets in the Greater Beijing Region	Open not less than 8 supermarkets in the Greater Beijing Region in 2007
<i>Actual business progress</i>	Opened a total of 3 supermarkets with each in Chaoyang District, Tongzhou District and Haidian District, respectively with a total net operating area of approximately 3,900 sq.m.	<ul style="list-style-type: none"> <li>• Opened a total of 2 supermarkets with each in Xuanwu District and Haidian District, respectively with a total net operating area of approximately 5,200 sq.m.</li> <li>• Preparation works are being done for 1 supermarket which is expected to open in Chaoyang District in the second half of 2007.</li> <li>• A lease agreement has been signed for 1 supermarket which is expected to open in Chongwen District in the second half of 2007.</li> <li>• A lease agreement with a period of 6 months has been signed for the temporary operation of a supermarket nearby to the hypermarket preparing for renovation and upgrading.</li> </ul>

\* Compares with business objectives stated in the Prospectus for the six months ending 30 June 2007.

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## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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**From 5 September 2006 to 31  
December 2006**

**From 1 January 2007 to 30  
April 2007\***

Convenience stores

*Business objectives as stated in  
the Prospectus*

- |   |  |  |
|---|--|--|
| <ul style="list-style-type: none"> <li>• Open not less than 3 convenience stores in the Greater Beijing Region</li> <li>• Open not less than 5 convenience stores in the Greater Beijing Region through franchise arrangements</li> </ul> | <ul style="list-style-type: none"> <li>• Open not less than 8 convenience stores in the Greater Beijing Region in 2007</li> <li>• Open not less than 15 convenience stores in the Greater Beijing Region through franchise arrangements in 2007</li> </ul> |  |
|---|--|--|

*Actual business progress*

- |  |  |  |
|--|--|--|
| <ul style="list-style-type: none"> <li>• Opened a total of 3 directly-operated convenience stores in Chaoyang District with a total net operating area of approximately 650 sq.m.</li> <li>• Opened a total of 9 convenience stores through franchise arrangements, of which 5 were located in Chaoyang District, 2 in Fengtai District and 2 in Chongwen District with a total net operating area of approximately 2,200 sq.m.</li> </ul> | <ul style="list-style-type: none"> <li>• No directly-operated convenience stores were opened during that period.</li> <li>• Opened a total of 4 convenience stores through franchise arrangements, with three in Chaoyang District and one in Haidian District with a total net operating area of approximately 640 sq.m.</li> </ul> |  |
|--|--|--|

\* Compares with business objectives stated in the Prospectus for the six months ending 30 June 2007.



## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

**From 5 September 2006 to 31  
December 2006**

**From 1 January 2007 to 30  
April 2007\***

### **Increase operating efficiency**

#### Logistics Centre

*Business objectives as stated in  
the Prospectus*

Continue to upgrade Logistics  
Centres

Further consolidate the logistics  
capacity for retail distribution

*Actual business progress*

Live and fresh produce Logistics  
Centre

Dry product Logistics Centre

- Acquired and installed equipment and fixed assets for the upgrade;

- Re-designed the operational procedures of centralized handling pass-through products of Retail Outlets and piecemeal distribution arrangements of convenience stores for preparing the implementation of the semi-automatic logistics classifying and picking equipment.

- Expanded the scope of its centralized distribution and replenishment function to all directly-operated Retail Outlets for pork, beef, mutton, vegetables and fruits;

Live and fresh produce Logistics  
Centre

- Obtained ISO9000 quality management system accreditation; and

- Continued in enhancing the establishment of live and fresh produce supply bases at their places of origin. Direct supply bases have been established in 54 counties and districts within 16 provinces and cities in the PRC.

- Obtained food safety management system certification and ISO14001 environmental management system accreditation.

#### Information management systems

*Business objectives as stated in  
the Prospectus*

Develop internet purchase  
system

Develop enterprise data resources  
excavation system

*Actual business progress*

Conducted feasibility study on  
the development of the internet  
purchase system.

- Conducted feasibility study on the enterprise data resources excavation system

- Completed the safety reformation of membership card system, upgraded the efficiency of network system, enhancing the safety of information management system.

\* Compares with business objectives stated in the Prospectus for the six months ending 30 June 2007.

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## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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	<b>From 5 September 2006 to 31 December 2006</b>	<b>From 1 January 2007 to 30 April 2007*</b>
<b>Operating System</b>		
<i>Business objectives as stated in the Prospectus</i>	Continue to promote and improve a uniform operating format	Continue to promote and improve a uniform operating format and services standard
<i>Actual business progress</i>	<ul style="list-style-type: none"> <li>• Adjusted the layout of the Retail Outlets and commodity display.</li> <li>• Organised commodity of vegetable and fruits and pork display competitions.</li> <li>• Enhanced monitoring and checking of service quality and hygiene of and the quality of the products and fresh produce displayed at Retail Outlets.</li> </ul>	<ul style="list-style-type: none"> <li>• Laid out scheme for streamlining the organization and structure of the Retail Outlets.</li> <li>• Organised promotional activities during various festivals.</li> <li>• Conducted competition activities of display, service, hygiene, etc. among the Retail Outlets during the Spring Festival to inspire the Retail Outlets in making great efforts to achieve better operating results.</li> </ul>
<b>Staff training</b>		
<i>Business objectives as stated in the Prospectus</i>	Offer training courses to store managers and staff at new Retail Outlets	Offer training courses to store managers and staff at new Retail Outlets
<i>Actual business progress</i>	<ul style="list-style-type: none"> <li>• Conducted 4 training seminars for about 200 staff in preparations for new store opening.</li> <li>• Conducted 8 training seminars for about 700 store managers, assistants to store managers and regional managers.</li> </ul>	Conducted specialised training seminars such as pre-job training, staff back-up support, etc. for about 1000 staff.

\* Compares with business objectives stated in the Prospectus for the six months ending 30 June 2007.

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## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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**From 5 September 2006 to 31  
December 2006**

**From 1 January 2007 to 30  
April 2007\***

### **Further brand-building**

Existing Retail Outlets

*Business objectives as stated in  
the Prospectus*

Renovating and upgrading the  
existing Retail Outlets

Renovating and upgrading the  
existing Retail Outlets

*Actual business progress*

Renovated and upgraded 4  
supermarkets.

Preparation works are being done  
for renovation and upgrading of  
1 hypermarket which is expected  
to re-open in the second half of  
2007.

Enhancing customer services  
quality

*Business objectives as stated in  
the Prospectus*

Establish e-platform for  
sharing of information among  
customers

Perform survey on customer  
satisfaction

*Actual business progress*

- Established internet website  
for communication with  
customers and provided  
assistance to customers  
through customer postbox.
- Established internet website  
for enquiry of membership  
card scheme details.
- Established reconciliation of  
transaction balances with,  
and notification of services  
to, suppliers through the  
internet.

- Arranged customers as  
voluntary inspectors to visit  
the supply bases for live and  
fresh produce.
- Conducted customer satisfaction  
survey in March 2007.
- Conducted conferences with  
suppliers to understand their  
opinions and suggestions.
- Realised the reconciliation  
of transaction balances with  
all suppliers through the  
internet.

\* Compares with business objectives stated in the Prospectus for the six months ending 30 June 2007.

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## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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	<b>From 5 September 2006 to 31 December 2006</b>	<b>From 1 January 2007 to 30 April 2007*</b>
<i>Business objectives as stated in the Prospectus</i>	Provide delivery services to elderly and disabled customers	Provide delivery services to elderly and disabled customers
<i>Actual business progress</i>	Provided free delivery services to elderly and disabled customers according to their requests for nearby Retail Outlets.	Continued to provide delivery services to elderly and disabled customers, according to their requests for nearby Retail Outlets.
Introducing own branded products		
<i>Business objectives as stated in the Prospectus</i>	Introduce other own branded products	Introduce other own branded products
<i>Actual business progress</i>	Introduced 31 types of own branded products making a total of 216 types.	Further introduced 20 types of own branded products making a total of 236 types.

\* Compares with business objectives stated in the Prospectus for the six months ending 30 June 2007

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## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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### USE OF PROCEEDS FROM THE PLACING AND PUBLIC OFFER IN SEPTEMBER 2006

The Company raised approximately HK\$584.6 million of net proceeds through the Placing and Public Offer in September 2006. Set out below is the intended use of proceeds since the GEM Listing up to 31 December 2008 according to the same percentages as stated in the Prospectus:

- approximately HK\$356.6 million for the expansion of the Group's retail distribution network in the PRC to open not less than five hypermarkets, 19 supermarkets and 19 convenience stores in the Greater Beijing Region;
- approximately HK\$175.4 million for the increase of the Group's operating efficiency in respect of its Logistics Centres and information management system; and
- approximately HK\$52.6 million for general working capital purposes, including but not limited to continued brand building.

During the period from GEM Listing to 31 December 2006, the Group conducted its business in accordance with the business plan and business objectives as stated in the Prospectus. The Group expects to achieve the business objectives as set out in the Prospectus for 2007 as scheduled.

The Group's actual use of proceeds for the period since the GEM Listing and up to 30 April 2007 was approximately HK\$265.1 million in the following manners:

- approximately HK\$187.9 million for expansion of retail distribution network in the PRC;
- approximately HK\$29.3 million for increasing operating efficiency in respect of its Logistics Centres and information management system;
- approximately HK\$47.9 million for general working capital, including further brand-building.

The Group will use the remaining unutilised net proceeds of approximately HK\$319.5 million in accordance with its plans as set out in the Prospectus. The Group will from time to time review its business plans in the best interests of the Shareholders.

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## FUTURE PLANS AND PROSPECTS

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### **BUSINESS OBJECTIVES AND STRATEGIES**

The Group's mission is to strengthen its foothold in the Greater Beijing Region and to expand into other parts of eastern and northern China. The Group aims to become one of the leading retail and wholesale distribution network operators in the PRC through leveraging on and enhancing its competitive strengths.

### **STRATEGIES**

To achieve its business objectives, the Group adopts the following strategies.

#### **Expanding distribution network**

The Group will leverage on its strong market position in the Greater Beijing Region to continue to expand to nearby regions, including eastern and northern China. The focus of the expansion for the Group's retail distribution network will be along the four major highways radiating from Beijing.

In order to increase the number of Retail Outlets, the Group will continue to grow organically through establishing new directly operated hypermarkets, supermarkets and convenience stores, as well as entering into franchise arrangements with third parties to operate new supermarkets and convenience stores. The Group also aims to develop community shopping centres in highly accessible, visible and populous locations. The Directors believe that community shopping centres will be able to attract and cater to a more diverse pool of consumers.

In addition, the Logistics Centres will undergo capacity expansion, and upgrading. The Group will also further consolidate the logistic capacity of its retail and wholesale distribution networks, which the Directors believe will increase the economies of scale and the reach of the Group's wholesale distribution network.

As at the Latest Practicable Date, the Group does not have any company which it intends to acquire for the purpose of enhancing the pace of the expansion of its distribution network. However, should the opportunity arise, the Group would also consider expanding its business through synergistic acquisitions.

#### **Increasing operating efficiency**

The Group intends to enhance the management of its retail and wholesale distribution networks to achieve greater efficiency and responsiveness by:

- Upgrading the warehouse management systems in the Distribution Centres and the Logistics Centres, in order to increase the efficiency and flexibility of the retail and wholesale distribution networks, hence reducing the costs of distribution;
- Upgrading the information management systems. By establishing electronic communication links with its suppliers and customers, the flow of stock, market competitiveness and customer loyalty could be maintained and improved;
- Enhancing the distribution capabilities of the live and fresh produce Logistics Centre, as the Directors believe that live and fresh produce enjoy very high consumer demand and make up a considerable portion of the Group's sales;

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## FUTURE PLANS AND PROSPECTS

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- Strengthening the relationship between suppliers, customers and retailers in order to increase the efficiency of the retail and wholesale distribution networks through the streamlining of ordering and distribution procedures, hence reducing costs and leading to stability in both the sourcing of products (via the wholesale channel) and the distribution of the same (via the retail channel); and
- Investing in staff training in order to achieve excellence in delivering efficient and knowledgeable customer service.

### **Further brand-building**

In order to further strengthen and raise the profile of the “京客隆” and “朝批” brandnames in the retail and wholesale distribution industry, the Group plans to continue to (i) enhance its customer service; (ii) improve the variety and quality of its daily consumer products; (iii) renovate and upgrade its Retail Outlets; and (iv) increase the reach of its wholesale distribution network to the peripheral areas of Beijing. The Directors believe that one of the Group’s most valuable assets is its brands. Accordingly, the Group is committed to continue to invest and improve its brands’ awareness in the Greater Beijing Region so as to further enhance its competitive edge as a leading retail and wholesale distributor of daily consumer products in the Greater Beijing Region.

### **Joint venture collaborations and acquisitions**

The Directors consider that strategic business collaborations and acquisitions will help strengthen and accelerate the future growth of the Group. In line with the expansion of its distribution network, the Group intends to achieve its expansion plan by entering into appropriate joint ventures co-operations with or looking for opportunities for suitable mergers and acquisitions of other distributors. With the support of its existing advanced logistics systems and information management systems, the Group will pro-actively seek opportunities of mergers and acquisitions in the retail chain industry in the Greater Beijing Region and will utilise its existing wholesale distribution network within and outside the Greater Beijing Region to continue expansion of the regional coverage of its wholesale business. The Directors believe that this strategy will enable the Group to expand its distribution network and explore distribution markets with a relatively low cost of investment which will in turn enlarge its market share and sustain its continuous growth. The Group will seek to finance the required funding by its own generated resources and banking facilities. As at the Latest Practicable Date, there was no specific target or detailed plan for strategic business collaborations and acquisitions.

### **Funding for expansion**

It is anticipated that additional funds may be required in the future to finance the expansion of the business and operations of the Group. The Group may raise the additional funds through the issuance of new equity or equity-linked securities of the Company.

At the annual general meeting of the Company held on 18 May 2007, a special resolution was passed to grant the Board a general mandate to issue Domestic Shares and/or H Shares of the Company. Full particulars of the general mandate are set out under the section headed “Share capital – Issuing mandate” in this document.



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## FUTURE PLANS AND PROSPECTS

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The Board may, during the Relevant Period (as defined in the section headed “Share capital – Issuing Mandate” in this document), at its sole discretion exercise the power of the Company pursuant to the general mandate to issue further H Shares (which, if issued, may comprise the Domestic Shares held by Chaoyang Auxillary that may then be allocated by SASAC to the NSSF Council and converted into H Shares), which exercise may be before and/or after the Main Board Listing. If the general mandate is exercised, the existing shareholding interest of the Shareholders will be diluted.

If the Board exercises the general mandate, the net proceeds raised will be applied to finance the expansion of the business and operations as set out in this document. The Group will from time to time review its business plans in the best interests of the Shareholders.

The Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the restrictions on further issues of securities within six months of listing on the Main Board as required by Rule 10.08 of the Main Board Listing Rules. Any issue of securities by the Company within six months of listing on the Main Board must be either for cash to fund a specific acquisition or as part or full consideration for an acquisition; and the acquisition must be for assets or business(es) that will contribute to the growth of the operation of the Group.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

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### GENERAL

The Board consists of nine Directors, three of which are independent non-executive Directors. The Directors were elected at a meeting of the shareholders of the Company for a term of three years, renewable upon re-election and re-appointment.

The executive Directors have each entered into a service contract with the Company dated 29 July 2005 and under which they have agreed to act as executive director of the Company until 31 October 2007. Since the Company's financial year end is on 31 December, therefore the Company's annual general meeting cannot be held immediately prior to the expiry date of the Directors' and the Supervisors' engagement. Accordingly, in the Company's circular to its shareholders dated 29 March 2007, the Board proposed to re-elect all the then Directors and Supervisors (other than Ms. Chen Jie and Ms. Qu Xinhua) but with effect as from 1 November 2007 such that the Group could enjoy the uninterrupted service of the Directors and the relevant Supervisors for a three year term commencing 1 November 2007. The aforesaid re-elections were approved at the 2006 AGM. At the meeting of the staff representatives of the Company held on 18 May 2007, Ms. Yao Jie and Ms. Wang Shuying (both being staff appointed Supervisor) has each been appointed for a term of three years commencing 1 November 2007.

In accordance with the Company Law, the Company has established a committee of supervisors that is responsible for monitoring the financial matters of the Group, and for supervising the actions of the Board and the management personnel. The supervisory committee consists of six members, with one member acting as the chairman. Two members of the supervisory committee is a representative elected by the Group's employees, and the remaining members are elected by the shareholders in a general meeting. Members of the supervisory committee may not serve as Director, president, vice president or financial controller of the Company.

### EXECUTIVE DIRECTORS

**Mr. Wei Tingzhan**, aged 53, is the Chairman of the Company and an executive Director. Mr. Wei obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2001 and a Doctor of Business Administration from Pacific States University in 2004. He was elected as a representative of the 12th Beijing People's Congress. From 1991 to 1994 and 1999 to 2004, he was the general manager of Beijing Chaoyang Auxillary Food Company ("Chaoyang Auxillary"). From 1994 to 2002, he was the general manager of Beijing Jingkelong Shang Sha ("Jingkelong Shang Sha"), the predecessor of Beijing Jingkelong Supermarket Chain Group Company Limited ("Jingkelong Supermarket"). He was the managing director of Jingkelong Supermarket from 2002 to 2004. Since November 2004, he has been the Chairman of the Board. In September 2006, he was recognized as one of the prominent figures of the chain-store industry in 2005-2006 by the China General Chamber of Commerce and China Business Herald News Weekly.

**Mr. Li Jianwen**, aged 46, is the general manager of the Company and an executive Director. Mr. Li obtained his graduation in legal studies from College of the Central Party in 2001. He also worked in Jingkelong Shang Sha as the deputy general manager from 1998 to 2002. From 2002 to 2004, he was a director and the deputy general manager of Jingkelong Supermarket. He has been the Managing Director of the Company since November 2004.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

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**Ms. Li Chunyan**, aged 34, is an executive Director. Ms. Li obtained a bachelor's degree from China University of Politics & Law in 1994. Subsequently, she obtained a master's degree in Private International Law from China University of Politics & Law in 1997. She was the Officer of the Bureau of Law of Jingkelong Shang Sha from 2001 to 2002. In addition, she was the Officer of the Bureau of Law and the Secretary to the board of directors of Jingkelong Supermarket from 2002 to 2004. Since November 2004, she has been one of the executive Directors and the Secretary to the Board.

**Mr. Liu Yuejin**, aged 47, is an executive Director. Mr. Liu obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2004. From 2000 to 2004, he was the general manager of Beijing Jingkelong (Langfang) Company Limited. Between 2002 and 2004, he was one of the directors of Jingkelong Supermarket. Since November 2004, he has been an executive Director. During part of 2005 and 2006, he was the manager of the First Division, Operations of the Company. Since September 2006, he has been the head of the Jiuxianqiao Community Shopping Centre coordination team.

### NON-EXECUTIVE DIRECTORS

**Mr. Gu Hanlin**, aged 54, is a non-executive Director. Mr. Gu obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2001 and a Doctor of Business Administration from Pacific States University in 2004. Since May 2004, Mr. Gu has been the Manager of Chaoyang Auxillary. From 2002 to 2004, he was a chairman of the Board of Jingkelong Supermarket. The Directors confirm that Mr. Gu was a secretary of Jingkelong Supermarket's committee of the PRC Communist Party while he was serving as the chairman of the board of Jingkelong Supermarket. During the Track Record Period, he was not involved in the daily management and operations of the Group. He was also not responsible for the formation of the overall corporate strategies of the Group. Therefore, the Directors confirm that his resignation as the chairman did not have any significant impact on the management continuity of the Group. Mr. Gu is currently the manager of Chaoyang Auxillary and is not involved in the daily management and operations of the Group.

**Mr. Li Shunxiang**, aged 54, is a non-executive Director. Mr. Li obtained his graduation certificate in Administration from College of the Party, Beijing Branch in 2001. From 2000 to present, he is the General Manager of Beijing Zhonglianjian Construction Company Limited. From 2002 to 2004, he was a non-executive Director of Jingkelong Supermarket. Since November 2004, he has been a non-executive Director.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Fan Faming**, aged 53, is an independent non-executive Director. Mr. Fan obtained a master's degree in Business Administration from Monash University, Australia in 1995 and a doctorate degree from Central South University of Technology in 1988. He is currently a professor at the Institute of Finance and Commerce Management Beijing and a visiting professor at Asia International Open University (Macau). He is also a senior member of Hong Kong Quality Management Association. Since January 2005, he has been an independent non-executive Director.

**Mr. Huang Jiangming**, aged 43, is an independent non-executive Director. Mr. Huang obtained a master's degree in Economics from Renmin University of China and a PhD in Commercial Science from Kobe University in 1989 and 2002, respectively. He is currently an assistant professor at the School of Business, Renmin University of China. Since January 2005, he has been an independent non-executive Director.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

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**Mr. Chung Chi Kong**, aged 36, is an independent non-executive Director. Mr. Chung is also the chairman of the Company's audit committee. He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He has over nine years audit experience in international accounting firms and two years accounting experience in Datasys Technology Holdings Limited, a Hong Kong listed company. He is currently a director of Ascension Financial Services Group Limited and Ascension (Beijing) Financial Advisory Company Limited. Since July 2005, he has been an independent non-executive Director.

### SUPERVISORS

**Ms. Chen Jie**, aged 56, graduated from Taiyuan University of Industry and College of the Party, Beijing Branch in 1984 and 1998, respectively. Ms. Chen was a member, industry section assistant section chief and Assistant Officer, respectively of Beijing Chaoyang Municipal Commission of Reform from 1990 to 1997. From 1997 to 2001, she worked in Chaoyang Commission for Restructuring Economy as an Assistant Officer and then Officer. From 2001 to 2002, she was the Officer of Beijing Chaoyang Committee and Policy, Research Bureau Peoples' Government of Chaoyang. From 2002 to 2004, she was the Officer of Beijing Chaoyang Municipal Commission of Development and Planning. Since June 2004, she has been the Officer of Beijing Chaoyang Municipal Commission of Development and Reform. Since November 2004, she has been the chairman of the Company's committee of Supervisors.

**Mr. Yang Baoqun**, aged 54, is a supervisor of the Company. Mr. Yang obtained a diploma in Business Management from Beijing Nong Gong Shang Lian He Zong Gong Si Zhi Gong University in 1994. He was a supervisor of Jingkelong Supermarket from 2002 to 2004. Since November 2004, he has been a supervisor of the Company.

**Mr. Chen Zhong**, aged 43, is a supervisor of the Company. Mr. Chen obtained his master's degree and doctorate from Peking University in 1986 and 1989, respectively. He is a professor in the School of Software and Microelectronics at the Peking University. He has been the Dean of the School of Software of the University since June 2002. Since January 2005, he has been a supervisor of the Company.

**Ms. Cheng Xianghong**, aged 35, is a supervisor of the Company. Ms. Cheng obtained her bachelor's degree from Renmin University of China in 1994. She is a qualified accountant, certified public valuer and registered tax agent. She has previously worked in Beijing Ding Xin Li accounting firm. She has been the deputy general manager and financial controller of Beijing Zhongguancun City Construction Company since December 2003. Since January 2005, she has been a supervisor of the Company.

**Ms. Qu Xinhua**, aged 53, is a Supervisor. Ms. Qu obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2001. From 2002 to 2004, she was the deputy general manager of Jingkelong Supermarket. Since November 2004, she has been a supervisor of the Company.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

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**Ms. Wang Shuying**, aged 51, is a Supervisor. Ms. Wang obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2002. From 2003 to 2004, she was a manager of the Third Division, Operations of Jingkelong Supermarket. She was a supervisor of the Jingkelong Supermarket from 2003 to October 2004. During part of 2005 and 2006, she was the manager of the Third Division, Operations of the Company. From September 2006 to February 2007, she was the manager of the First Division, Operations of the Company. Since February 2007, she has been the general manager of Shou Lian. Since February 2006, she has been a supervisor of the Company.

### SENIOR MANAGEMENT

**Ms. Chen Limin**, aged 58, is the Chief Financial Officer of the Company since November 2004. Ms. Chen obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2001. She was the Deputy General Manager of Jingkelong Shang Sha from 1994 to 2002. She worked as a director of Jingkelong Supermarket from May 2002 to November 2004.

**Mr. Gao Jingsheng**, aged 52, obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2001. From 2002 to 2004, Mr. Gao was the Assistant General Manager of Jingkelong Supermarket. From 1999 to 2002, he was the Assistant General Manager of Chaoyang Auxillary. From 1998 to 1999, he was the Assistant General Manager of Jingkelong Shang Sha. He has been the Assistant General Manager of the Company since November 2004.

**Mr. Zhao Weili**, aged 54, obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2001. From 2002 to 2004, Mr. Gao was the Assistant General Manager of Jingkelong Supermarket. From 1990 to 2002, he was the Assistant General Manager of Chaoyang Auxillary. From 1998 to 1999, he was the Assistant General Manager of Jingkelong Shang Sha. He has been the Assistant General Manager of the Company since November 2004.

**Mr. Keung Siu Fai**, aged 48, is the Financial Controller, the Qualified Accountant and one of the joint company secretaries of the Company. Prior to joining the Company in February 2005, Mr. Keung was the company secretary of Kong Sun Holdings Limited, a Hong Kong listed company. He has over 13 years of working experience with international accountant firms in accounting, auditing and financial services. He obtained his master's degree in Commerce from the University of New South Wales and a bachelor's degree in Science from the University of London. He is a member of the Hong Kong Institute of Certified Public Accountants and a member of Certified Practising Accountants Australia.

### JOINT COMPANY SECRETARIES AND QUALIFIED ACCOUNTANT

**Keung Siu Fai**, one of the joint company secretaries, is the qualified accountant employed by the Company on a full time basis and an authorised representative of the Company. Mr. Keung's personal particulars are set out in the paragraph headed "Senior management".

**Li Chunyan**, one of the joint company secretaries, is a Director and an authorised representative of the Company. Ms. Li's personal particulars are set out in the paragraph headed "Executive Directors".

### Rules 8.17 and 19A.16 Requirements

As Ms. Li Chunyan does not possess the qualifications required under Rules 8.17 and 19A.16 of the Main Board Listing Rules, she does not meet all the requirements under Rules 8.17 and 19A.16.

The Directors understand that the company secretary plays an important role in the corporate governance of the Company after the Main Board Listing, particularly in assisting the Company as well as the Directors in complying with the Main Board Listing Rules and the applicable company law. In view of this, the Company has put in place the following arrangements:

- (a) Mr. Keung Siu Fai, the Financial Controller and qualified accountant of the Group, who meets the requirements under Rule 8.17 of the Main Board Listing Rules, has been engaged as a joint company secretary to assist Ms. Li Chunyan so as to enable her to acquire the relevant experience (required under Rule 8.17(3) of the Main Board Listing Rules) to discharge the duties as company secretary of the Company; and
- (b) Mr. Keung Siu Fai has been engaged as the joint company secretary of the Company for an initial period of three years from 25 September 2006 (the "engagement period"). Upon expiry of the engagement period, the qualifications and experience of Ms. Li Chunyan as company secretary and the need for on-going assistance will be further evaluated by the Stock Exchange and the Stock Exchange will then determine whether the appointment of Ms. Li Chunyan as sole company secretary will satisfy the requirements as stipulated in the Main Board Listing Rules.

The Company has applied to the Stock Exchange for, and has been granted, a waiver from strict compliance with the requirements of Rules 8.17 and 19A.16 of the Main Board Listing Rules. Upon the expiry of the engagement period, the Stock Exchange will re-evaluate the qualifications of Ms. Li Chunyan to determine whether the requirements of the Main Board Listing Rules can be satisfied. The Company has already obtained a waiver from the Stock Exchange in respect of qualifications of company secretary under the requirements of the GEM Listing Rules upon the GEM Listing.

### PRC LAW ON CORPORATE GOVERNANCE

The "Further Standardizing Operations and Intensifying Reform of Companies Listed outside China Opinion" jointly issued by SETC and the CSRC sets out that no more than two senior management members (including the chairman, vice-chairman and executive directors) of the controlling shareholder can be senior management members of the company at the same time. The Company's PRC legal advisers have confirmed that the appointment of the directors and the senior management of the Company comply with the requirement as mentioned above.

### **AUDIT COMMITTEE**

The Board has established the Audit Committee with written terms of reference in compliance with provisions as set out in Rules C.3.1 to C.3.3 of the “Code on Corporate Governance Practices” set out in Appendix 14 of the Main Board Listing Rules. The primary duties of the Audit Committee are to review the Company’s annual reports and accounts and interim reports and to provide advice and comments thereon to the Board. The audit committee will also be responsible for reviewing the financial reporting system, internal controls and risk management processes of the Company.

The Audit Committee presently has three members who are the three independent non-executive Directors, Fan Faming, Huang Jiangming and Chung Chi Kong. Chung Chi Kong is the chairman of the Audit Committee.

### **REMUNERATION COMMITTEE**

The Group has also established the Remuneration Committee pursuant to Appendix 14 of the Main Board Listing Rules, comprising three Directors, namely Wei Tingzhan, Fan Faming and Huang Jiangming. Wei Tingzhan is the chairman of the Remuneration Committee. The Remuneration Committee will review and determine the policy for the remuneration of Directors.

### **NOMINATION COMMITTEE**

The Group has also established the Nomination Committee pursuant to Appendix 14 of the Main Board Listing Rules, comprising three Directors, namely Wei Tingzhan, Fan Faming and Huang Jiangming. The Nomination Committee is chaired by Wei Tingzhan. The other members of the Nomination Committee are Huang Jiangming and Fan Faming. The Nomination Committee is responsible for nominating potential candidates for directorships, reviewing the nomination of directors and making recommendations to the Board on such appointments.

### **REMUNERATION OF DIRECTORS AND SUPERVISORS**

During the Track Record Period, the total remuneration (comprising basic salaries, housing allowances, other allowances, pension and benefits in kind) paid to the Directors and Supervisors was approximately RMB2.3 million, RMB1.9 million and RMB3.1 million respectively.

### **COMPLIANCE ADVISER**

The Company will appoint DBS Asia as its compliance adviser pursuant to Rule 3A.19 of the Main Board Listing Rules. Pursuant to the compliance adviser agreement that will be entered between the Company and DBS Asia upon the Listing Committee granting approval for the listing of H Shares on the Main Board, DBS Asia will advise the Company on various matters as required under the Main Board Listing Rules and other applicable laws, rules and regulatory provisions in Hong Kong. DBS Asia, as the compliance adviser, undertakes to the Stock Exchange that it will comply with the Main Board Listing Rules applicable to compliance advisers and cooperate in any investigation conducted by the Stock Exchange. The term of the appointment shall commence on the Main Board Listing Date and ends on the date on which the Company complies with Rule 13.46 of the Main Board Listing Rules in respect of its financial results for the first full financial year after the Main Board Listing Date (i.e. the date of despatch of the annual report of the Company in respect of its results for the financial year ending 31 December 2008), subject to early termination.



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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

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### EMPLOYEES

As at 31 December 2006, the Group had a total of 4,601 full-time employees. The following table shows the number of employees of the Group as at 31 December 2006.

	Headquarters	Hypermarkets	Supermarkets	Convenience stores	Chaopi Trading	Logistics centres	Xinyang Tongli	Total
Management, administration and finance	144	9	54	3	152	6	2	370
Sales and marketing	215	653	1,884	431	456	222	9	3,870
Others	61	50	66	10	107	31	36	361
Total	<u>420</u>	<u>712</u>	<u>2,004</u>	<u>444</u>	<u>715</u>	<u>259</u>	<u>47</u>	<u>4,601</u>

### RELATIONSHIP WITH STAFF

The Group has not experienced any disruption of its operations due to labour disputes in the past.

### EMPLOYEE BENEFITS

The staff costs of the Group of continuing operations (including Directors' and Supervisors' emoluments) during the Track Record Period were approximately RMB166.4 million, RMB178.8 million and RMB206.9 million respectively.

The Group makes social insurance contributions (including industrial accidents and retirement benefits) in accordance with the applicable PRC regulations. The amount of such contributions made by the Group during the three years ended 31 December 2006 were approximately RMB25.8 million, RMB25.4 million and RMB28.7 million, respectively.

According to the PRC legal advice, the Group has fully complied with all applicable laws and regulations in relation to social insurance contributions and, apart from that, there are no other applicable laws and regulations relevant to the issue of social responsibility. Based on the PRC legal advice, the Directors confirm that the Group's operations are in compliance with the currently applicable labour and safety regulations in all respects.

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## **SUBSTANTIAL AND CONTROLLING SHAREHOLDERS**

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### **RELATIONSHIP WITH CHAOYANG AUXILLARY**

Chaoyang Auxillary is the controlling shareholder of the Company, holding approximately 44.24% of the Company's issued shares as at the Latest Practicable Date.

Chaoyang Auxillary is a state-owned enterprise founded in 1992 with a registered capital of RMB319,895,000. The principal business of Chaoyang Auxillary is investment holding and property management. Chaoyang Auxillary is also engaged in the business of property leasing. Its subsidiary, Tengyuan, is engaged in the trading of motor vehicles and the provision of related repair services.

In terms of business operation, financial operation, management and human resources, the Group is independent of Chaoyang Auxillary. At present, the Group does not compete with Chaoyang Auxillary and its associates other than the Group. As at the Latest Practicable Date, there is one non-executive Director who was also acting as general manager of Chaoyang Auxillary, namely Mr. Gu Hanlin.

Since Chaoyang Auxillary and the Company only have one common senior management member, the Directors are of the view that the Company can operate independently of Chaoyang Auxillary as the majority of the directors of the two companies do not overlap. Furthermore, apart from the non-executive Director mentioned above, none of the senior management members of the Group is an officer of, or holds a management position in, Chaoyang Auxillary.

Pursuant to an agreement entered into between the Company and Chaoyang Auxillary dated 25 July, 2005, Chaoyang Auxillary has undertaken that, for so long as Chaoyang Auxillary holds 10% (or more) of the Company's total issued shares, it:

- (i) will not, and will procure that its subsidiaries (except the Company and its subsidiaries) will not, inter alia, engage or hold shares in any business which may compete directly or indirectly with the business of the Group; and
- (ii) if Chaoyang Auxillary (or its group members) is offered any opportunities to participate in any business which competes with that of the Group, Chaoyang Auxillary will endeavour to procure that such opportunities will be offered to the Group on terms reasonably acceptable to the Company.

Any future injection of assets into the Group (including any assets to be injected into the Group by Chaoyang Auxillary) after completion of the Introduction will be subject to the provisions of the Main Board Listing Rules. Pursuant to the Main Board Listing Rules, the Stock Exchange has the discretion to require the Company to issue a circular to its shareholders when any acquisition and disposal of assets by the Group is proposed, irrespective of the size of such acquisition or disposal. The Stock Exchange also has the power, pursuant to the Main Board Listing Rules, to aggregate a series of acquisitions or disposals by the Group and any such acquisitions or disposals may, in any event, result in the Company being treated as a new applicant for listing subject to the requirements for new applicants as set out in the Main Board Listing Rules.

### **COMPETING INTERESTS**

None of the business or interest of the Directors, Substantial Shareholder and their respective associates competes or may compete with the business of the Group.

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## SUBSTANTIAL AND CONTROLLING SHAREHOLDERS

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### SUBSTANTIAL SHAREHOLDER

So far as the Directors are aware, as at the Latest Practicable Date, the persons (other than a Director or the chief executive of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, were as follows:-

Name	Capacity	Number of Shares	Approximate percentage of Domestic Shares	Approximate percentage of H Shares	Approximate percentage of total registered capital
Chaoyang Auxillary	Beneficial owner	170,169,808	73.09%	-	44.24%
Shanxi Trust	Trustee <sup>(1)</sup>	26,635,710	11.44%	-	6.93%
UOB Asset Management Limited	Investment Manager	20,528,000	-	13.52%	5.34%
Fidelity International Limited	Investment Manager	8,667,000	-	5.71%	2.25%

- (1) These 26,635,710 Domestic Shares are trust property held by Shanxi Trust and the beneficiaries are 122 employees and officers of the Company.

Save as disclosed above, the Directors are not aware of any person (other than a Director or the chief executive of the Company) who, as at the Latest Practicable Date, had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

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## SHARE CAPITAL

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### SHARE CAPITAL

As at the Latest Practicable Date, the share capital of the Company was as follows:

	Number of Shares	RMB	Approximate percentage of total share capital
Domestic Shares, nominal value of RMB1.00 each in issue	232,820,000	232,820,000	60.53
H Shares, nominal value of RMB1.00 each in issued	<u>151,800,000</u>	<u>151,800,000</u>	<u>39.47</u>
	<u><u>384,620,000</u></u>	<u><u>384,620,000</u></u>	<u><u>100.00</u></u>

### Minimum public float

Under the Main Board Listing Rules, as the Company will have both Domestic Shares and H Shares in issue after the Main Board Listing, the minimum level of public float to be maintained by the Company at all times after Main Board Listing is 25% of its share capital in issue from time to time, and the Company would be considered as having met the minimum public float requirement if the aggregate of the H Shares in issue and such other securities held by the public would amount to at least 25% of the then issued share capital of the Company, and the percentage of H Shares in public hands shall be not less than 15% of the Company's issued share capital, with all such H Shares being held by the public.

### Ranking

Domestic Shares and H Shares are all ordinary shares in the share capital of the Company. However, unless otherwise approved by relevant authorities, H Shares cannot be subscribed for by or traded between legal or natural persons of China. Domestic Shares, on the other hand, can only be subscribed for by, and traded between, legal or natural persons of the PRC or qualified foreign institutional investors or eligible foreign strategic investors, and must be traded in RMB. All dividends in respect of H Shares are to be paid by the Company in HK\$ whereas all dividends in respect of Domestic Shares are to be paid by the Company in RMB.

### Transfer of Domestic Shares for listing and trading on overseas stock exchange

According and subject to the stipulations by the State Council securities regulatory authority and the Articles of Association, the Domestic Shares may be transferred to overseas investors, and, subject to the following, such transferred shares may be listed or traded on an overseas stock exchange:

- (i) the transfer and trading of such transferred shares shall have duly completed any requisite internal approval process and obtained the approval from the relevant PRC regulatory authorities, including the CSRC; such transfer and trading shall in all respect comply with the regulations prescribed by the State Council securities regulatory authority;

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## SHARE CAPITAL

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- (ii) such transfer and trading shall in all respect comply with the regulations, requirements and procedures prescribed by the relevant overseas stock exchange, but the listing or trading of such shares on an overseas stock exchange (including, without limitation, Main Board) are not subject to the approval of a class meeting of Shareholders;
- (iii) In the event that the Domestic Shares are to be transferred to overseas investors and to be traded as H Shares on Main Board, such transfer and conversion will need to obtain the approval of the relevant PRC regulatory authorities, including the CSRC. The listing of such converted shares on Main Board will also need to obtain the approval of the Stock Exchange. Any application for listing of the converted shares on Main Board after this initial listing is subject to prior notification by way of announcement to inform shareholders and the public of any proposed transfer. An application for listing of such shares on Main Board will be made to the Listing Committee and subject to such conditions as the Listing Committee may require. The Company can apply for the listing of all or any portion of the Domestic Shares on Main Board as H Shares in advance of any proposed transfer to ensure that the transfer process can be completed promptly upon notice to the Stock Exchange and delivery of such shares for entry on the H Share register; any listing of additional shares after this initial listing on Main Board is ordinarily considered by the Stock Exchange to be an administrative matter. No application for the listing of such Domestic Shares on Main Board has been made at the time of this initial listing on Main Board;
- (iv) the relevant Domestic Shares being removed from the relevant shareholder records of the Company (subject to and in accordance with the requirements of the then prevailing PRC law) and registered in the register of shareholders of the Company created for the purpose of complying with the requirements of the relevant stock exchange. In the event that the Domestic Shares are to be transferred to overseas investors and to be traded as H Shares on Main Board, after all the requisite approvals have been obtained, the following procedures will need to be completed: the relevant Domestic Shares will be withdrawn from the PRC share register of the Company and will be re-registered on the Company's H Share register maintained in Hong Kong and the Company's Hong Kong share registrar will be instructed to issue H Share certificates for such shares. Listing of such converted shares on Main Board will also be on the condition that (a) the Company's Hong Kong share registrar lodges with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates, and (b) the admission of the converted shares to trade on Main Board will comply with the Main Board Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the transferred shares are re-registered on the Company's H Share register, such shares will not be listed as H Shares;
- (v) in the event that the relevant stock exchange operates a scripless share trading system similar to CCASS and the holder of the relevant shares elect to deposit his shares in such system for trading, such shares may need to be registered under the name of, and represented by the global certificate issued to, the nominee of such trading system.

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## SHARE CAPITAL

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Except as described above, and in relation to the despatch of notices and financial reports to shareholders, dispute resolution, registration of shares in different parts of the register of shareholders, the method of share transfer and the appointment of dividend-receiving agents, all as provided for in the Articles of Association and summarised in Appendix IV to this document, the Domestic Shares and the H Shares will rank *pari passu* with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this document. The transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time.

### ISSUING MANDATE

At the annual general meeting of the Company held on 18 May 2007, a special resolution was passed to grant the Board a general mandate to issue Domestic Shares and/or H Shares of the Company, the details of which are as follows:

- (1) the Board has been granted, during the Relevant Period (as defined below), an unconditional general mandate (the “General Mandate”) to separately or concurrently issue, allot and deal with additional Domestic Shares and/or H Shares, and to make or grant offers, agreements and options in respect thereof, subject to the following conditions:
  - (a) the General Mandate shall not extend beyond the Relevant Period save that the Board may during the Relevant Period make or grant offers, agreements or options which may require the exercise of such powers after the end of the Relevant Period;
  - (b) the aggregate nominal amount of the Domestic Shares or H Shares allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the Board (otherwise than pursuant to any scrip dividend scheme (or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend), any share option scheme, a Rights Issue (as defined below) or any separate approval of the shareholders of the Company) shall not exceed:
    - (i) 20% of the aggregate nominal amount of the Domestic Shares in issue; and
    - (ii) 20% of the aggregate nominal amount of the H Shares in issue,respectively, in each case as at date of passing the special resolution; and
  - (c) the Board will only exercise its power under such mandate in accordance with the Company Law and the Main Board Listing Rules (as the case may be) (as each of them may be amended from time to time) and only if all necessary approvals from the CSRC and/or other relevant PRC government authorities are obtained;

“Relevant Period” means the period from the passing of the special resolution until the earlier of: (i) the conclusion of the next annual general meeting of the Company following the passing of the special resolution, unless, by special resolution passed at that meeting, the mandate is renewed, either unconditionally or subject to conditions; or (ii) the expiry of the period within which the next annual general meeting is required by the Articles

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## SHARE CAPITAL

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of Association or any applicable law to be held; or (iii) the passing of another special resolution of the Company in a general meeting revoking or varying the authority set out in the special resolution.

“Rights Issue” means the allotment or issue of Shares in the Company or other securities which would or might require Shares to be allotted and issued pursuant to an offer made to all the Shareholders (excluding, as the Board may decide, for such purpose any Shareholder who is resident in a place where such offer is not permitted under the law or regulation of that place) entitled to such offer, pro rata (apart from fractional entitlements) to their then existing holdings of Shares;

- (2) contingent on the Board resolving to exercise the General Mandate and/or issue Shares pursuant to paragraph (1) above, the Board has been authorized:
- (a) to approve, execute and do or procure to be executed and done, all such documents, deeds, and matters as it may consider necessary in connection with the exercise of the General Mandate and/or the issue of such Shares, including, without limitation, to determine the time, price, quantity and place of issue, to make all necessary applications to the relevant authorities, to enter into underwriting agreements (or any other agreements),
  - (b) to determine the use of proceeds and to make all necessary filings and registrations with the relevant PRC, Hong Kong and/or any other places and jurisdictions (as appropriate); and
  - (c) to increase the registered capital of the Company and make all necessary amendments to the Articles of Association to reflect such increase and to register the increased capital with the relevant authorities in the PRC, Hong Kong and/or other places and jurisdictions (as appropriate) as so to reflect the new capital and/or share capital structure of the Company.

The Board may, during the Relevant Period, at its sole discretion exercise the power of the Company pursuant to the General Mandate to issue further H Shares (which, if issued, may comprise the Domestic Shares held by Chaoyang Auxillary that may then be allocated by SASAC to the NSSF Council and converted into H Shares), which exercise may be before and/or after the Main Board Listing provided that, in the event of any exercise of the General Mandate after the Main Board Listing, the Company will observe the conditions set out in paragraphs (i) to (iii) in the section headed “Waivers from compliance with the Main Board Listing Rules – Non-disposal of Shares” in this document.



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## FINANCIAL INFORMATION

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### MANAGEMENT DISCUSSION AND ANALYSIS OF THE TRACK RECORD PERIOD

*Investors should read the following discussion and analysis in conjunction with the consolidated financial statements of the Group as at 31 December 2004, 31 December 2005 and 31 December 2006, all of which is set forth in the Accountants' Report included as Appendix I to this document (the "Financial Information"). Except for the Financial Information, the remainder of the Group's financial information, has been extracted or derived from the management accounts. Investors should read the whole of the Accountants' Report and not rely merely on the information contained in this section.*

*The Directors confirm that they have performed sufficient due diligence on the Group to ensure that, up to the date of this document, there has been no material adverse change in the financial position or prospects of the Group since 31 December 2006 and there is no event since 31 December 2006 which would materially affect the information shown in the Accountants' Report set out in Appendix I.*

*For the purposes of this section, unless the context otherwise requires, references to "2004", "2005" and "2006" refer to the Group's financial year ended 31 December of such year.*

### BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the Track Record Period. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

During the Track Record Period, and up to date of this document there were the following changes in the interest held in subsidiaries and associates:

- the Company acquired approximately 1.25% and 0.79% equity interest in Chaopi Trading at consideration of approximately RMB1,000,000 and RMB628,000, representing the initial cost of investments, from Chaopi Huaqing and Chaopi Flavourings, respectively in June 2004 and thereby increasing its equity interest in Chaopi Trading to approximately 71.7%.

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## FINANCIAL INFORMATION

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- Chaopi Trading entered into two equity transfer agreements with Chaoyang Auxillary to acquire an additional approximately 11.11% and 12.50% equity interest in Chaopi Huaqing and Chaopi Flavourings (at a consideration determined by an independent valuer), respectively, in June 2004. Upon the completion of the equity transfers, Chaopi Trading owned a total interest of approximately 52.22% and 56.25% in Chaopi Huaqing and Chaopi Flavourings, respectively. The Group accounted for Chaopi Huaqing and Chaopi Flavourings as associates for the period from January 2004 to June 2004 and accounted for as subsidiaries by the purchase method of accounting thereafter.
- the Company transferred of its entire 10% equity interest in Chaopi Shuanglong to Chaopi Trading in June 2004 for approximately RMB1,611,000 so as to consolidated the Group's equity holding in Chaopi Shuanglong in Chaopi Trading.
- In June 2004, the Company transferred its approximately 35.07% equity interest in Yiyuantang for approximately RMB14,984,000 and its entire equity interest of approximately 62.73% in Tengyuan for approximately RMB9,038,000 to Chaoyang Auxillary. Yiyuantang and Tengyuan ceased to be an associated company and subsidiary of the Company respectively thereafter. The Group accounted for Yiyuantang as an associated company for the period from January 2004 to June 2004.
- On 22 November 2004, the equity holders of Chaopi Flavourings resolved, at a meeting of its equity holders, to increase the registered capital of Chaopi Flavourings from RMB8,000,000 to RMB9,500,000, and Chaopi Flavourings received cash contributions from (i) Chaopi Trading (which was then already an equity holder of Chaopi Flavourings) in the sum of RMB1,075,000 (of which RMB500,000 was paid and recorded as capital and RMB575,000 was paid and recorded as reserves), and (ii) 李俊偉 (Li Junwei, being a then existing equity holder of Chaopi Flavourings) in the sum of RMB2,150,000 (of which RMB1,000,000 was paid and recorded as capital and RMB1,150,000 was paid and recorded as reserves), and as a result thereof, Chaopi Trading held approximately 52.63% of Chaopi Flavourings's equity.
- On 25 July 2005, Chaopi Trading acquired an approximately 7.33% equity interest in Chaopi Shuanglong from Shenzhen Yunzhongyuan Trading Company Limited and thereby increasing its equity interest in Chaopi Shuanglong to approximately 59.0%.
- On 1 August 2005, the equity holders of Chaopi Trading resolved, at a meeting of its equity holders, to increase the registered capital of Chaopi Trading from RMB80,000,000 to RMB96,000,000, and Chaopi Trading received cash contribution from the Company in the sum of RMB17,206,400 (of which RMB16,000,000 was paid and recorded as capital and RMB1,206,400 was paid and recorded as reserves), and as a result thereof, the Company held approximately 76.42% of Chaopi Trading's equity.
- On 7 February 2007, Chaopi Zhongde was incorporated and is principally engaged in wholesale of general merchandise and provision of storage services. At the time of its incorporation, Chaopi Zhongde was wholly held by Chaopi Trading. On 18 April 2007, Chaopi Trading transferred 20% of Chaopi Zhongde's equity to 北京中得高雅經貿有限公司 (Beijing Zhongde Gaoya Jingmao Company Limited) and thereby reducing its equity interest in Chaopi Zhongde to 80.00%.

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- On 8 February 2007, Chaopi Huilong was incorporated and is principally engaged in the wholesale of general merchandise. At the time of its incorporation, Chaopi Trading held approximately 51.10% of Chaopi Huilong's equity.
- On 23 April 2007, Chaopi Trading acquired 25.00%, 12.50% and 3.50% equity interests in Chaopi Qingdao from 王春林 (Wang Chunlin), 劉東 (Liu Dong) and 王曉娟 (Wang Xiaojuan) respectively and thereby increasing its equity interest in Chaopi Qingdao to 100.00%.
- On 23 April 2007, Chaopi Trading acquired 25.00%, 12.50% and 3.50% equity interests in Chaopi Shijiazhuang from 王春林 (Wang Chunlin), 段雲洪 (Duan Yunhong) and 王曉娟 (Wang Xiaojuan) respectively and thereby increasing its equity interest in Chaopi Shijiazhuang to 100.00%.
- On 24 April 2007, the equity holders of Chaopi Huaqing resolved at a meeting of its equity holders to (i) increase the registered capital of Chaopi Huaqing from RMB9,000,000 to RMB18,000,000 and the said equity holders were offered to subscribe for the increase in registered capital pro-rata to their holdings of equity in Chaopi Huaqing, and (ii) declare a dividend of RMB2,700,000. The said dividend of RMB2,700,000 was re-invested by the equity holders as registered capital, and the balance of the increase in registered capital was contributed by the said equity holders by way of cash payments. Accordingly, Chaopi Trading has contributed RMB3,507,000 to Chaopi Huaqing by way of cash payments as further registered capital to maintain its holdings of equity in Chaopi Huaqing and acquired a further interest of approximately 1.21% in Chaopi Huaqing, and as a result thereof, Chaopi Trading held approximately 53.43% of Chaopi Huaqing's equity.

### OVERVIEW OF OPERATION

The Group is one of the leading distributors of daily consumer products in the Greater Beijing Region, with a turnover of more than RMB4.5 billion for the year ended 31 December 2006. The Group operates its distribution business under the well-known brands of “京客隆” and “朝批”. According to China Chain Store & Franchise Association, the Group was ranked 27th among the top 100 fast moving consumer goods retail chain in China and 38th among the top 100 chain enterprises in China in 2006.

The distribution network of the Group spans across retail and wholesale distribution channels. As at 30 April 2007, the retail distribution network of the Group comprised 170 Retail Outlets, of which 84 were directly-operated and 86 were under franchise arrangements. Under the Group's directly-operated Retail Outlets, there are five hypermarkets, 40 supermarkets and 39 convenience stores, while under the Group's franchised Retail Outlets comprised one supermarket and 85 convenience stores. The Group also operates a wholesale distribution business through Chaopi Trading and its subsidiaries and associated companies under the well-known “朝批” brandname for the wholesale supply of daily consumer products to customers including the Retail Outlets and other retail operators and trading companies. Operating in these retail and wholesale distribution formats, the Group has positioned itself to cater for the needs of a diverse range of customers, ranging from retail operators to end consumers.

### **Major Factors Affecting the Group's Results of Operations**

#### *Retail industry in the PRC*

The opening up of PRC retail industry upon the PRC's accession to the WTO in December 2001 had provided a liberal regulatory environment for foreign players, in particular for those with efficient supply chain management systems in China. The Group has faced stiffer competition from new foreign entrants into the PRC market. Apart from the foreign entrants to the PRC market, the Group also faces intense competition from domestic players. The combination of the above may affect the Group's profit margins and future growth.

#### *Location of stores, rental exposure and renewal of tenancies*

The Group's retail distribution business depends significantly on its ability to deploy retail outlets at prime and convenient locations where there is a high population density and pedestrian flow. Given the scarcity of these prime and convenient locations and their relatively high rental, particularly, in Chaoyang District, there is no assurance that the Group could secure or obtain such locations on favourable terms to the Group. Failure to successfully deploy the Group's Retail Outlets at such prime and convenient locations may affect the Group's sales, and hence may affect the Group's financial position and future growth.

In addition, the Group's Retail Outlets may be resumed by the State for various purposes. The resumption of lands for Retail Outlets located at prime location may again lead to reduced sales.

#### *Direct distribution by suppliers and manufacturers*

The Group's wholesale distribution business depends significantly on its ability to secure long term relationships with suppliers and manufacturers. However, as third party logistics providers become more efficient, the suppliers and manufacturers who presently have arrangements with the Group for wholesale distribution may change their sales and/or distribution format or channels, engage the services of other logistics service providers or undertake direct distribution of their daily consumer products in PRC and/or the Greater Beijing Region on their own. The loss of such wholesale distribution business may affect the Group's results.

### **Discontinued Operations of the Company**

The discontinued operations for 2004 represented the trading of motor vehicles and the provision of related repair services operations. The trading of motor vehicles and provision of related repair services were carried out by Tengyuan. All of the equity interests in Tengyuan were disposed of in June 2004.

For details of the discontinued operations of the Company, please refer to section headed "History and Development and Reorganisation" to this document.

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### CRITICAL ACCOUNTING POLICIES

The Group's discussion and analysis of its financial condition and results of operations is based on the audited consolidated financial statements. The Group's significant accounting policies, and significant accounting judgements and estimates are set forth in sections II(1) and (2), respectively of the Accountants' Report in Appendix I to this document. The Group's reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of these audited consolidated financial statements. The Group bases its estimates on historical experience, the experience of other companies in the industry and on various other assumptions that the Group currently believes to be reasonable, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities and the Group's financial results. The Group's management evaluates its estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions and conditions. Critical accounting policies are those that are both most important to both the Group's financial conditions and results of operations, and require management's most difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that may change in subsequent periods.

The selection of critical accounting policies, the judgment and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Group's audited consolidated financial statements. The Group believes that the following critical accounting policies involve the most significant judgments and estimates used in the preparation of its audited consolidated financial statements.

#### *Revenue recognition*

The Group operates in various distribution sectors and its revenue recognition policies vary from sector to sector. Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised:

- (i) *Sales of merchandise and produce:* Revenue is recognised when the significant risks and rewards of ownership of the merchandise and produce have passed to the buyer and the amount of revenue can be measured reliably.
- (ii) *Income from suppliers:* Income from suppliers comprise promotion income, display space leasing fees and warehouse storage space income. Revenue is recognised according to the underlying contract terms and as these services are provided in accordance therewith.
- (iii) *Rental income:* Rental income from leasing of investment properties and counters under operating leases is recognised on a time proportion basis over the lease terms.
- (iv) *Interest income:* Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.
- (v) *Dividend income:* Dividend income is recognised when the equity/shareholders' right to receive payment has been established.

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### *Depreciation*

Property, plant and equipment, except for the construction in progress, are depreciated on a straight-line basis over the estimated useful life of the asset, after taking into account its estimated residual value. The Group reviews the estimated useful life of the asset regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The estimated useful lives are based on our historical experience with similar assets and have taken into account anticipated technological changes. The depreciation expense for future periods will be adjusted if there are significant changes from previous estimates.

### *Impairment of trade and other receivables*

The Group provides for impairment of trade and other receivables when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. If there is objective evidence that an impairment loss on trade and other receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If the financial condition of the customers were to deteriorate, actual impairment might be higher than expected, which would adversely affect the operating results and financial condition through the recording of a higher impairment.

### *Inventory write down policy*

Inventories are stated at the lower of cost and net realisable value. Cost of inventories, except for motor vehicles, is determined on the first-in first-out basis for all inventory. Cost of motor vehicles is determined on an individual basis. The assessment of the write down amount requires management's estimate. Allowances of inventory are provided by a general provision on the inventory balance and obsolete inventories based on specific identification, taking into account future demand and market conditions.

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## TRADING RECORD

	Year ended 31 December								
	2004			2005			2006		
	Continuing operations	Discontinued operations <sup>(1)</sup>	Total	Continuing operations	Discontinued operations <sup>(1)</sup>	Total	Continuing operations	Discontinued operations <sup>(1)</sup>	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	3,568,865	97,893	3,666,758	4,121,748	-	4,121,748	4,530,975	-	4,530,975
Cost of sales	<u>(3,164,852)</u>	<u>(89,137)</u>	<u>(3,253,989)</u>	<u>(3,621,667)</u>	-	<u>(3,621,667)</u>	<u>(3,966,385)</u>	-	<u>(3,966,385)</u>
Gross profit	404,013	8,756	412,769	500,081	-	500,081	564,590	-	564,590
Other income and gains	154,700	1,362	156,062	143,668	-	143,668	224,308	-	224,308
Selling and distribution costs	<u>(317,899)</u>	<u>(7,232)</u>	<u>(325,131)</u>	<u>(369,764)</u>	-	<u>(369,764)</u>	<u>(419,117)</u>	-	<u>(419,117)</u>
Administrative expenses	<u>(88,285)</u>	<u>(1,358)</u>	<u>(89,643)</u>	<u>(88,924)</u>	-	<u>(88,924)</u>	<u>(107,958)</u>	-	<u>(107,958)</u>
Other expenses	<u>(5,800)</u>	<u>(1,422)</u>	<u>(7,222)</u>	<u>(20,452)</u>	-	<u>(20,452)</u>	<u>(29,897)</u>	-	<u>(29,897)</u>
Finance costs	<u>(20,988)</u>	<u>(130)</u>	<u>(21,118)</u>	<u>(19,073)</u>	-	<u>(19,073)</u>	<u>(26,296)</u>	-	<u>(26,296)</u>
Share of profits and losses of associates	<u>2,177</u>	<u>508</u>	<u>2,685</u>	<u>(32)</u>	-	<u>(32)</u>	<u>(139)</u>	-	<u>(139)</u>
Profit before tax	127,918	484	128,402	145,504	-	145,504	205,491	-	205,491
Tax	<u>(44,127)</u>	<u>(106)</u>	<u>(44,233)</u>	<u>(47,158)</u>	-	<u>(47,158)</u>	<u>(74,072)</u>	-	<u>(74,072)</u>
Profit for the year	<u>83,791</u>	<u>378</u>	<u>84,169</u>	<u>98,346</u>	-	<u>98,346</u>	<u>131,419</u>	-	<u>131,419</u>
Attributable to:									
Equity holders of the parent	73,167	361	73,528	75,098	-	75,098	99,577	-	99,577
Minority interests	<u>10,624</u>	<u>17</u>	<u>10,641</u>	<u>23,248</u>	-	<u>23,248</u>	<u>31,842</u>	-	<u>31,842</u>
	<u>83,791</u>	<u>378</u>	<u>84,169</u>	<u>98,346</u>	-	<u>98,346</u>	<u>131,419</u>	-	<u>131,419</u>
Dividends			<u>39,505</u>			<u>56,367</u>			<u>57,693</u>
Earnings per Share attributable to ordinary equity holders of the parent <sup>(2)</sup>									
- basic for profit for the year (RMB)			<u>29.8 cents</u>			<u>30.5 cents</u>			<u>35.1 cents</u>
- basic for profit from continuing operations (RMB)			<u>29.7 cents</u>			<u>30.5 cents</u>			<u>35.1 cents</u>

(1) The motor vehicle and repair operation was discontinued in 2004. For details, please refer to section headed "History and Development and Reorganisation" in this document.

(2) Earnings per Share for each financial year in the Track Record Period have been computed by dividing the profit attributable to equity holders of the parent for each year by the weighted average number of ordinary Shares (2006: 283,672,055 Shares, 2005 and 2004: 246,620,000 Shares) in issue during the Track Record Period.



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### RESULT OF OPERATIONS

The following table shows the line items of the Group's income statements from continuing operations expressed as a percentage of revenue during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>% of total Revenue</i>		
Revenue	100.0	100.0	100.0
Cost of sales	<u>(88.7)</u>	<u>(87.9)</u>	<u>(87.5)</u>
Gross profit	11.3	12.1	12.5
Other income and gains	4.3	3.5	5.0
Selling and distribution costs	(8.9)	(9.0)	(9.3)
Administrative expenses	(2.4)	(2.1)	(2.4)
Other expenses	(0.2)	(0.5)	(0.7)
Finance costs	(0.6)	(0.5)	(0.6)
Share of profits and losses of associates	<u>0.1</u>	<u>–</u>	<u>–</u>
Profit before tax	3.6	3.5	4.5
Tax	<u>(1.2)</u>	<u>(1.1)</u>	<u>(1.6)</u>
Profit before minority interests	2.4	2.4	2.9
Minority interests	<u>(0.3)</u>	<u>(0.6)</u>	<u>(0.7)</u>
Profit attributable to equity holders of the parent	<u><u>2.1</u></u>	<u><u>1.8</u></u>	<u><u>2.2</u></u>

*Set out below is a discussion on the revenue and expense items in the Group's consolidated income statements from continuing operations.*

### Revenue and cost of sales

The Group's revenue is mainly generated from sale of merchandise and produce through retailing and wholesaling distribution businesses. During the Track Record Period, revenue from retailing distribution business of directly-operated stores contributes approximately 56.3%, 50.0% and 50.7% respectively of the Group's revenue. Revenue from wholesaling distribution business contributes approximately 43.6%, 49.9% and 49.2% of the Group's revenue. Cost of sales of the Group represents costs of goods sold.

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The following table shows a breakdown of the Group's revenue by business segment during the Track Record Period:

	Year ended 31 December								
	2004			2005			2006		
	Continuing operations	Discontinued operation <sup>(1)</sup>	Total	Continuing operations	Discontinued operation <sup>(1)</sup>	Total	Continuing operations	Discontinued operations <sup>(1)</sup>	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sale of merchandise and produce									
– Retailing from directly-operated Retail Outlets	2,009,270	–	2,009,270	2,060,573	–	2,060,573	2,297,306	–	2,297,306
– Wholesaling	1,555,895	–	1,555,895	2,057,361	–	2,057,361	2,228,520	–	2,228,520
Trading of automobiles and provision of related repair services	–	97,893	97,893	–	–	–	–	–	–
Others <sup>(2)</sup>	3,700	–	3,700	3,814	–	3,814	5,149	–	5,149
<b>Total</b>	<b>3,568,865</b>	<b>97,893</b>	<b>3,666,758</b>	<b>4,121,748</b>	<b>–</b>	<b>4,121,748</b>	<b>4,530,975</b>	<b>–</b>	<b>4,530,975</b>

<sup>(1)</sup> The motor vehicle and repair operation was discontinued in 2004. For details, please refer to section headed "History and Development and Reorganisation" in this document.

<sup>(2)</sup> "Others" represent income generated from a subsidiary, Xinyang Tongli, which is engaged in the production of plastic packaging materials and installation and maintenance of commercial equipment, e.g. large refrigerators in the Retail Outlets. Xinyang Tongli has a spare capacity to serve the independent third parties during the Track Record Period apart from serving its Retail Outlets.

### Gross profit and gross profit margin

The table below shows a breakdown of the Group's gross profit and gross profit margin of retailing and wholesaling distribution businesses during the Track Record Period.

	Year ended 31 December					
	2004		2005		2006	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Retailing from directly-operated Retail Outlets						
– Hypermarkets	84,799	13.0	92,127	13.3	102,261	14.6
– Supermarkets	167,482	13.9	177,477	14.7	205,397	14.5
– Convenience Stores	20,115	13.6	23,823	14.8	26,164	14.8
	<u>272,396</u>	<u>13.6</u>	<u>293,427</u>	<u>14.2</u>	<u>333,822</u>	<u>14.5</u>
Wholesaling	130,557	8.4	205,557	10.0	229,375	10.3

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### **Other income and gains**

Other income and gains of the Group mainly represent (i) income from suppliers for display space leasing fee, promotion income, information system service income, merchandise storage and delivery income, (ii) rental income from leasing of investment properties and counters, (iii) net compensation on demolished properties, (iv) gain on exchange of items of property, plant and equipment, and (v) interest income.

The gross rental income of the Group from leasing of investment properties and counters amount to approximately RMB34.5 million, RMB37.0 million and RMB40.3 million respectively during the Track Record Period. The said gross rental income derived from (1) the sub-leases of certain third party counters and other designated areas of the Retail Outlets and (2) leases of investment properties of the Group.

During the Track Record Period, the Group sub-leased certain counters and designated areas in the Retail Outlets to third party individuals or enterprises who are all Independent Third Parties. The third party counters and designated areas offer ancillary services to the customers of the Retail Outlets such as ornaments processing, shoes and watches repairing restaurants, fast food outlets, photo shops and banks. The rentals received from the sub-leasing of third party counters and other designated areas during the Track Record Period were approximately RMB29.0 million, RMB31.5 million and RMB34.8 million respectively. The Group recorded the rental income received from the leased counters and other designated areas in other income and gains. The third party counters and leased designated areas operate independently from the Group and accordingly their turnovers are not accounted for by the Group. There is no profit sharing arrangement between the Group and the third party counter and leased designated areas operators. In respect of the third party counters, the leasehold agreements specify amongst others the following terms: (i) the location and area of the counter; (ii) the operations to be performed in the counter; (iii) a fixed amount of monthly rental; and (iv) fixed leasehold term (usually one year). However, according to the leasehold agreements, the third party counter operators have to cooperate with the promotional activities organised by the Group from time to time.

The Group also leased certain of its investment properties for rental income during the Track Record Period. The rentals received from the leasing of investment properties during the Track Record Period were approximately RMB5.5 million, RMB5.5 million and RMB5.5 million respectively.

During the Track Record Period, in order to strengthen the pedestrian flow of its Retail Outlets, the Group has leased three investment properties, one situated in the Group's main office complex and one inside a hypermarket, to two reputable food chain operators for long term which will be expired in 2009 and 2020 respectively. The remaining one is a composite building and was leased to various individual tenants as offices for medium term.

### **Selling and distribution costs**

Selling and distribution costs of the Group mainly represent salary and welfare, depreciation, energy fee, rental expenses, repair and maintenance, transportation expenses, packaging expenses and advertising expenses.

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### Administrative expenses

Administrative expenses of the Group mainly represent salary and welfare, social security costs (including contribution to pension fund), depreciation expenses, entertainment expenses, contribution to housing fund and union and education fees.

### Other expenses

Other expenses of the Group primarily represent impairment of trade and other receivables, impairment loss of construction in progress, various taxes and surcharges and foreign exchange loss.

### Finance costs

Finance costs of the Group represent interest on bank loans, interest on borrowings from employees and from other enterprises.

### Share of profits and losses of associates

Share of profits and losses of associates of the Group represents share of profits and losses from Chaopi Huaqing, Chaopi Flavourings, Chaopi Tianxing, Chaopi Ziguang and Yiyuantang during the Track Record Period.

### Tax

The Group is not subject to Hong Kong profits tax as the Group had no assessable profit arising in or derived from Hong Kong during the Track Record Period.

The Group is normally subject to Corporate Income Tax of the PRC (“CIT”) at a rate of 33% on its assessable profit. Apart from CIT, the Group is subject to value-added tax (“VAT”) which is the principal indirect tax on the sales of tangible goods (“Output VAT”). Output VAT is calculated at a rate ranging from 0% to 17.0% of the sales value of goods and is payable by the customer in addition to the sales value of goods. The Group pays VAT on its purchases (“Input VAT”) which is deducted against Output VAT in arriving at the net VAT amount payable. All VAT paid and collected is recorded through the VAT payable account, the net Input VAT receivable is included in prepayments, deposits and other receivables on the balance sheet.

### OPERATION STATISTICS OF DIRECTLY-OPERATED STORES

	Year ended 31 December		
	2004	2005	2006
Revenue by store format ( <i>RMB'000</i> )			
– Hypermarkets	653,687	694,362	700,997
– Supermarkets	1,208,077	1,205,007	1,419,103
– Convenience Stores	<u>147,506</u>	<u>161,204</u>	<u>177,206</u>
	<u>2,009,270</u>	<u>2,060,573</u>	<u>2,297,306</u>

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	Year ended 31 December		
	2004	2005	2006
Revenue per operating area per day ( <i>RMB</i> )			
– Hypermarkets	46.2	49.2	49.9
– Supermarkets	48.1	46.9	46.7
– Convenience Stores	49.7	55.3	57.5
Average daily transaction volume			
– Hypermarkets	38,904	39,289	38,257
– Supermarkets	136,213	130,286	146,428
– Convenience Stores	44,075	49,071	53,334
Average value per transaction ( <i>RMB</i> )			
– Hypermarkets	45.9	48.4	50.2
– Supermarkets	25.0	27.8	28.4
– Convenience Stores	9.3	9.0	9.2

Directly-operated supermarkets have been the major revenue contributor to the Group's retail business of directly-operated Retail Outlets. Revenue from directly-operated supermarkets accounted for approximately 60.1%, 58.5% and 61.8% respectively, with revenue from directly-operated hypermarkets accounted for approximately 32.5%, 33.7% and 30.5% respectively and with revenue from directly-operated convenience stores accounted for approximately 7.4%, 7.8% and 7.7% respectively, of the Group's total revenue from retailing distribution business of directly-operated Retail Outlets during the Track Record Period.

Revenue from directly-operated hypermarkets, supermarkets and convenience stores of the Group increased by approximately 1.0%, 17.8% and 9.9%, respectively in 2006. The increase in revenue from supermarkets was mainly due to the 14 new supermarkets set up in 2006 and the same store sales growth of approximately 10.4%. The increase in revenue from convenience stores was primarily attributable to the four new convenience stores set up in 2006 and the same store sales growth of approximately 7.0%.

Revenue from directly-operated hypermarkets and convenient stores of the Group increased by approximately 6.2% and 9.3% whereas revenue from supermarkets decreased by approximately 0.3% in 2005. The decrease in revenue from directly-operated supermarkets was primarily attributable to the combination of the effects of the closures of four supermarkets and openings of four new supermarkets in 2005. The increase in revenue from hypermarkets was mainly attributable to the increase in revenue of the Wangjing hypermarket. The increase in revenue from convenience stores was mainly due to the closures of certain shops operated by the Group's competitors.

### 2006 compared to 2005

#### Revenue

In 2006, the Group's revenue increased by approximately 9.9% from approximately RMB4,121.7 million in 2005 to approximately RMB4,531.0 million in 2006. The increase in revenue was partly attributable to the increase in retail distribution business of directly-operated Retail Outlets by approximately 11.5% from approximately RMB2,060.6 million in 2005 to approximately RMB2,297.3 million in 2006. The increase was mainly due to the combination results of the opening of 14 directly-operated supermarkets during 2006 and the overall same store sales growth of approximately 6.6%.

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For wholesale distribution business, the Group's revenue increased by approximately 8.3% from RMB2,057.4 million in 2005 to approximately RMB2,228.5 million in 2006. The increase was mainly attributable to (i) the full year sales contribution in 2006 of three subsidiaries, namely Chaopi Jinglong, Chaopi Shijiazhuang and Chaopi Qingdao which were set up during 2005, (ii) the tremendous expansion of wholesale business arising from the rapid expansion of domestic retail business resulting in increase in demand of the Group's product, and (iii) continuously optimization of product mix.

### **Cost of sales, gross profit and gross profit margin**

The Group's cost of sales increased by approximately 9.5% from approximately RMB3,621.7 million in 2005 to approximately RMB3,966.4 million in 2006 which was in line with the increase in revenue. The Group's gross profit increased by approximately 12.9% from approximately RMB500.1 million in 2005 to approximately RMB564.6 million in 2006, primarily due to the increase in revenue by approximately 9.9%. Gross profit margin was approximately 12.5% in 2006 and approximately 12.1% in 2005. The increase in gross profit margin was mainly attributable to increase in total purchase volume with lower costs negotiated with suppliers, higher gross profit margin generated by self-operated live and fresh produce and continuously optimization of product mix.

### **Other income and gains**

The Group's other income and gains increased by approximately 56.0% from approximately RMB143.7 million in 2005 to approximately RMB224.3 million in 2006. The increase was mainly attributable to an increase in income from suppliers of approximately RMB41.5 million and bank interest income of approximately RMB29.1 million. The increase in income from suppliers was mainly due to a combination effect of (i) an increase in average fee standard for store display and promotion income with continuous increase in purchase, and (ii) an increase in about 30 new suppliers joined the Group's supply chain in 2006. The increase in interest income was primarily due to the one-off bank interest income of approximately RMB23.0 million earned from the over-subscription of the Company's H shares (the "Over-subscription"). Other income and gains as a percentage of revenue was approximately 5.0% in 2006 as compared to approximately 3.5% in 2005.

### **Selling and distribution costs**

The Group's selling and distribution costs increased by approximately 13.3% from approximately RMB369.8 million in 2005 to approximately RMB419.1 million in 2006. The increase was primarily due to a combination effect of (i) an increase in salary and welfare of approximately RMB17.3 million due to a general increase in salary and more staff were recruited for the 19 new Retail Outlets set up in 2006, (ii) an increase in depreciation of approximately RMB3.5 million was mainly contributed by the fixed assets acquired for the 19 new Retail Outlets set up in 2006, (iii) an increase in energy fee of approximately RMB6.6 million was because of the 19 new Retail Outlets set up in 2006 as well as an increase in unit costs of utilities, (iv) an increase in rental expenses of approximately RMB10.5 million was mainly because of the 19 new Retail Outlets set up in 2006, and (v) an increase in transportation expenses of approximately RMB9.5 million was due to the expansion of wholesale networks and the increase in delivery of merchandises to the Group's retail outlets as well as the increase of gasoline unit price. Selling and distribution costs as a percentage of revenue was approximately 9.3% in 2006 as compared to approximately 9.0% in 2005.

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### **Administrative expenses**

The Group's administrative expenses increased by approximately 21.4% from approximately RMB88.9 million in 2005 to approximately RMB108.0 million in 2006. Such increase was mainly attributable to (i) an increase in salary and welfare of approximately RMB6.3 million as a result of a general increase in salary and the increase in performance bonus paid to the Group's management in 2006, (ii) an increase in social security costs of approximately RMB4.5 million which was in line with the increase in salary, and (iii) an increase in entertainment, audit fee, office supplies, utilities, etc. of approximately RMB6.5 million. Administrative expenses as a percentage of revenue was approximately 2.4% in 2006 as compared to approximately 2.1% in 2005.

### **Other expenses**

The Group's other expenses increased from approximately RMB20.5 million in 2005 to approximately RMB30.0 million in 2006. The increase was mainly attributable to an increase in various taxes and surcharges of approximately RMB4.2 million as a result of an increase in rental income and income from suppliers, and a foreign exchange loss of approximately RMB6.4 million arising from the depreciation of Hong Kong Dollar against RMB in respect of the listing proceeds received from the initial public offering of the Company' H Shares.

### **Finance costs**

The Group's finance costs increased from approximately RMB19.1 million in 2005 to approximately RMB26.3 million in 2006. The increase was mainly attributable to an increase in interest-bearing bank and other borrowings and interest rates in 2006. Finance costs as a percentage of revenue was approximately 0.6% in 2006 as compared to approximately 0.5% in 2005.

### **Share of profits and losses of associates**

The Group share of net loss of associates increase from RMB32,000 in 2005 to approximately RMB139,000 in 2006. The increase in loss was mainly attributable to the increase in operating losses of the two associates, Chaopi Ziguang and Chaopi Tianxing in 2006.

### **Tax**

Income tax paid by the Group increased by approximately 57.1% from approximately RMB47.2 million in 2005 to approximately RMB74.1 million in 2006. The increase was mainly attributable to an increase in taxable income. The Group effective corporate income tax rate increased from approximately 32.4% in 2005 to approximately 36.1% in 2006. The increase in effective tax rate to 36.1% in 2006 was mainly attributable to expenses not deductible for CIT included impairment of trade and other receivables of approximately RMB5.5 million and impairment loss of property, plant and equipment of approximately RMB2.1 million.

### **Minority interests**

The Group's minority interests increased from approximately RMB23.2 million in 2005 to approximately RMB31.8 million in 2006. The increase is in line with the overall increase in profits generated by the subsidiaries in 2006.



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### **Profit attributable to equity holders of the parent**

The Group's profit attributable to equity holders of the parent increased by approximately RMB24.5 million or 32.6% from approximately RMB75.1 million in 2005 to approximately RMB99.6 million in 2006. The Group's profit attributable to equity holders of the parent to revenue increased from approximately 1.8% in 2005 to approximately 2.2% in 2006. Excluding the effect of the one-off bank interest income earned from the Over-subscription and the foreign exchange loss as aforementioned, the Group's profit attributable to equity holders of the parent and net profit margin was approximately RMB90.5 million (representing approximately 20.5% increase comparing to last year) and approximately 2%, respectively in 2006.

### **2005 compared to 2004**

#### **Revenue**

In 2005, the Group's revenue increased by approximately 15.5%, from approximately RMB3,568.9 million in 2004 to approximately RMB4,121.7 million. The increase in revenue was partly attributable to the increase in retail distribution business of directly-operated Retail Outlets by approximately 2.6% from approximately RMB2,009.3 million in 2004 to approximately RMB2,060.6 million in 2005. The combination result of the increase in sales of the Wangjing hypermarket and the opening of four directly-operated supermarkets, two in January 2005, one in July 2005 and one in December 2005; and the closure of four directly-operated supermarkets in April, May, August and December 2005 respectively has contributed to the above increment.

For wholesale distribution business, the Group's revenue increased by approximately 32.2% from RMB1,555.9 million in 2004 to approximately RMB2,057.4 million in 2005. The increase was mainly to the consolidation of the results of Chaopi Huaqing and Chaopi Flavourings, the establishment of Chaopi Qingdao, Chaopi Shijiazhuang and Chaopi Jinglong and the increase in demand of the Group's products. If the revenue of Chaopi Huaqing, Chaopi Flavourings and the newly established companies are not considered, the Group's revenue from wholesale distribution business increased from approximately RMB1,250.4 million in 2004 to approximately RMB1,474.7 million in 2005, representing a year-on-year growth of approximately 17.9%.

#### **Cost of sales, gross profit and gross profit margin**

The Group's cost of sales increased by approximately 14.4% from approximately RMB3,164.9 million in 2004 to approximately RMB3,621.7 million in 2005 which was in line with the increase in revenue. The Group's gross profit increased significantly by approximately 23.8% from approximately RMB404.0 million in 2004 to approximately RMB500.1 million in 2005, primarily due to the increase in revenue by approximately 15.5%. Gross profit margin was approximately 12.1% in 2005 and approximately 11.3% in 2004.

The increase in gross profit margin for the respective business segments was mainly attributable to the increase in purchase volume in 2005 with lower purchase costs negotiated with suppliers.

The gross profit margin of the wholesale business increased from approximately 8.4% in 2004 to 10.0% in 2005 mainly because Chaopi Trading and certain of its subsidiaries have obtained the exclusive distribution rights of certain products, including edible oil and household products, in the Beijing region. Since Chaopi Trading and certain of its subsidiaries are the sole distributors of those products in the Beijing region, they are able to negotiate for higher prices from its customers.

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### Other income and gains

The Group's other income and gains decreased by approximately 7.1% from approximately RMB154.7 million in 2004 to approximately RMB143.7 million in 2005. The decrease was mainly due to a combination effect of (i) an increase in income from suppliers by approximately RMB18.2 million as a result of increased purchase volume, and (ii) a gain on exchange of items of property, plant and equipment of approximately RMB27.5 million in 2004 and no such income was recorded in 2005. Other income and gains as a percentage of revenue was approximately 4.3% in 2004 as compared to approximately 3.5% in 2005.

### Selling and distribution costs

The Group's selling and distribution costs increased by approximately 16.3% from approximately RMB317.9 million in 2004 to approximately RMB369.8 million in 2005. The increase was primarily due to (i) an increase in salary and welfare by approximately RMB15.4 million mainly due to consolidation of the staff costs of Chaopi Huaqing and Chapoi Flavourings and the increase in average salary, (ii) an increase in rental expenses by approximately RMB5.3 million from approximately RMB34.2 million in 2004 to approximately RMB39.5 million in 2005, (iii) an increase in depreciation expenses by approximately RMB7.6 million mainly due to the additions of leasehold improvements and machinery and (iv) an increase in repair and maintenance expenses by approximately RMB6 million. Selling and distribution costs as a percentage of revenue was approximately 8.9% in 2004 as compared to approximately 9.0% in 2005.

### Administrative expenses

The Group's administrative expenses increased slightly from approximately RMB88.3 million in 2004 to approximately RMB88.9 million in 2005. Such increase was mainly due to the increase in depreciation expense mainly attributable to the additions of office equipment. Administrative expenses as a percentage of revenue were approximately 2.4% in 2004 as compared to approximately 2.1% in 2005. The decrease was mainly attributable to the Group's continuous effort in cost control.

### Other expenses

The Group's other expenses increased from approximately RMB5.8 million in 2004 to approximately RMB20.5 million in 2005. The increase in 2005 was mainly due to the loss on disposal of fixed assets of approximately RMB1.5 million in 2005, the increase in impairment of trade and other receivables of approximately RMB7.9 million and increase in business tax, city construction tax and surcharges of approximately RMB5.1 million.

### Finance costs

The Group's finance costs decreased slightly from approximately RMB21.0 million in 2004 to approximately RMB19.1 million in 2005. Finance costs as a percentage of revenue were approximately 0.6% in 2004 and approximately 0.5% in 2005.

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### **Share of profits and losses of associates**

The Group's share of profits and losses of associates decreased sharply from a profit of approximately RMB2.2 million in 2004 to a loss of approximately RMB32,000 in 2005. Such decrease was primarily due to the disposal of an associate, Yiyuantang, in July 2004, and the consolidation of the results of two former associates, Chaopi Huaqing and Chaopi Flavourings, since July 2004.

### **Tax**

Income tax paid by the Group increased by approximately 7.0%, from approximately RMB44.1 million in 2004 to approximately RMB47.2 million in 2005, primarily due to the increase in taxable income. The Group effective corporate income tax rate decreased slightly from approximately 34.5% in 2004 to approximately 32.4% in 2005. In 2005, the effective tax rate of the Group was 32.4% mainly due to the combination effect of expenses not deductible for CIT included impairment of trade and other receivables of approximately RMB6.5 million and advertising expenses of approximately RMB3.0 million not eligible for CIT deduction but offset by the net compensation on demolished properties of approximately RMB9.9 million received from Government, was exempted from CIT.

### **Minority interests**

The Group's minority interests increased significantly from approximately RMB10.6 million in 2004 to approximately RMB23.2 million in 2005, primarily due to the share of net profit by minority shareholders of Chaopi Huaqing and Chaopi Flavourings for the six months in 2004 from July 2004 to December 2004 but for the whole year in 2005. Please see the paragraph headed "The Reorganisation" in the section headed "Statutory and general information" in Appendix V to this document.

### **Profit attributable to equity holders of the parent**

The Group's profit attributable to equity holders of the parent increased by RMB1.9 million from approximately RMB73.2 million in 2004 to approximately RMB75.1 million in 2005. The Group's profit attributable to equity holders of the parent to revenue decreased slightly from approximately 2.1% in 2004 to approximately 1.8% in 2005. The decrease was mainly attributable to the gain on exchange of items of property, plant and equipment of approximately RMB18.4 million (net of tax) which was non-recurring in nature in 2004. Excluding the effect of such non-recurring item, the Group's profit attributable to equity holders of the parent to revenue was approximately 1.5% in 2004.

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### UNAUDITED CONSOLIDATED INCOME STATEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2007

On 9 May 2007, the Company announced the following unaudited consolidated results of the Group for the three months ended 31 March 2007, which has been reviewed by the Audit Committee and approved by Board of Directors, together with the comparative unaudited consolidated figures for the three months ended 31 March 2006:

	<b>For the three months ended 31 March</b>	
	<b>2007</b> <i>RMB'000</i> (Unaudited)	<b>2006</b> <i>RMB'000</i> (Unaudited)
<b>Revenue</b>	1,565,590	1,272,496
Cost of sales	<u>(1,367,524)</u>	<u>(1,121,057)</u>
<b>Gross profit</b>	198,066	151,439
Other income and gains	72,919	57,026
Selling and distribution costs	(127,883)	(99,640)
Administrative expenses	(39,103)	(30,633)
Other expenses	(11,203)	(3,838)
Finance costs	<u>(7,595)</u>	<u>(3,478)</u>
<b>Profit before tax</b>	85,201	70,876
Tax	<u>(30,360)</u>	<u>(26,188)</u>
<b>Profit for the period</b>	<u><u>54,841</u></u>	<u><u>44,688</u></u>
Attributable to:		
Equity holders of the parent	43,298	36,308
Minority interests	<u>11,543</u>	<u>8,380</u>
	<u><u>54,841</u></u>	<u><u>44,688</u></u>
<b>Earnings per share-basic</b>	<u><u>RMB11.3 cents</u></u>	<u><u>RMB14.7 cents</u></u>

#### Revenue

The Group's revenue increased by approximately 23.0% from approximately RMB1,272.5 million in the first quarter of 2006 to approximately RMB1,565.6 million in the three months ended 31 March 2007 was primarily due to the increase in retail and wholesale revenue by approximately 19.3% and 27.0%, respectively. The increase in retail revenue from approximately RMB655.6 million in the first quarter of 2006 to approximately RMB782.5 million during the three months ended 31 March 2007 was mainly attributable to the contribution from the 13 supermarkets which were set up during the

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period from the second quarter of 2006 to the first quarter of 2007 and the Jiugong hypermarket, and the overall same store sales growth of approximately 13.1%. The increase in the wholesale revenue was mainly because of (i) the tremendous expansion of wholesale business arising from the rapid expansion of domestic retail business resulting in increase in demand of the Group's products, (ii) increase in number of regional sole distributorships, (iii) more inventories with selling prices anticipated to be increased in 2007 were stored in advance to accommodate the upcoming market demand especially the Spring Festival, and (iv) continuously optimization of product mix.

### **Cost of sales, gross profit and gross profit margin**

The Group's cost of sales increased by approximately 22.0% from approximately RMB1,121.1 million in the first quarter of 2006 to approximately RMB1,367.5 million in the three months ended 31 March 2007 was in line with the increase in revenue. During the three months ended 31 March 2007, the gross profit of the Group was approximately RMB198.1 million, representing an increase of approximately 30.8% compared with approximately RMB151.4 million of last corresponding period. The increment was in line with the increase in revenue. The increase in gross profit margin from approximately 11.9% in the first quarter of 2006 to approximately 12.7% during the three months ended 31 March 2007 was mainly attributable to (i) better bargaining power with suppliers as an increase in purchase volume, (ii) higher gross profit margin generated by self-operated live and fresh produce of retail business, (iii) increase in wholesale regional sole distributorships with relatively higher gross profit margin, (iv) more inventories with selling prices anticipated to be increased in 2007 were stored in advance by the wholesale subsidiaries to accommodate the upcoming market demand especially the Spring Festival, and (v) continuously optimization of product mix.

### **Other income and gains**

The Group's other income and gains increased by approximately 27.9% from approximately RMB57.0 million in the first quarter of 2006 to approximately RMB72.9 million in the three months ended 31 March 2007. The increase was mainly attributable to an increase in income from suppliers of approximately RMB15.0 million. The increase in income from suppliers was mainly due to a combination effect of (i) an increase in average fee standard for store display and promotion income with continuous increase in purchase, (ii) an increase in suppliers joined the Group's supply chain in 2007, and (iii) the overall increase in the number of Retail Outlets in the first quarter of 2007 led to an increase in volume and scale of promotion and display activities.

### **Selling and distribution costs**

The Group's selling and distribution costs increased by approximately 28.3% from approximately RMB99.6 million in the first quarter of 2006 to approximately RMB127.9 million in the three months ended 31 March 2007. The increase was primarily due to a combination effect of (i) an increase in salary and welfare of approximately RMB8.1 million due to a general increase in salary and more staff were recruited for the new Retail Outlets set up from the second quarter of 2006 to the first quarter of 2007, (ii) an increase in energy fee of approximately RMB3.5 million was because of the set up of the new Retail Outlets as aforementioned as well as an increase in unit costs of utilities, (iii) an increase in rental expenses of approximately RMB4.4 million was mainly because of the set up of the new Retail Outlets as aforementioned, (iv) an increase in transportation expenses of approximately RMB1.2 million was due to the expansion of wholesale networks and the increase in delivery of merchandises to the Group's retail outlets as well as the increase of gasoline unit price, and (v) increase in repair and maintenance expenses of approximately RMB2.7 million due to the overall increase in Retail Outlets.

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### **Administrative expenses**

The Group's administrative expenses increased by approximately 27.6% from approximately RMB30.6 million in the first quarter of 2006 to approximately RMB39.1 million in the three months ended 31 March 2007. Such increase was mainly attributable to an increase in salary and welfare of approximately RMB7.4 million as a result of a general increase in salary and the increase in performance bonus paid to the Group's management in the first quarter of 2007.

### **Other expenses**

The Group's other expenses increased from approximately RMB3.8 million in the first quarter of 2006 to approximately RMB11.2 million in the three months ended 31 March 2007. The increase was mainly attributable to a foreign exchange loss of approximately RMB5.7 million arising from the depreciation of Hong Kong Dollar against RMB in respect of the listing proceeds received from the initial public offering of the Company's H Shares.

### **Finance costs**

The Group's finance costs increased from approximately RMB3.5 million in the first quarter of 2006 to approximately RMB7.6 million in the three months ended 31 March 2007. The increase was mainly attributable to an increase in interest-bearing bank and other borrowings and interest rates in the three months ended 31 March 2007.

### **Tax**

Income tax paid by the Group increased by approximately 15.9% from approximately RMB26.2 million in the first quarter of 2006 to approximately RMB30.4 million in the three months ended 31 March 2007. The increase was mainly attributable to an increase in taxable income.

### **Minority interests**

The Group's minority interests increased from approximately RMB8.4 million in the first quarter of 2006 to approximately RMB11.5 million in the three months ended 31 March 2007. The increase is in line with the overall increase in profits generated by the subsidiaries in the three months ended 31 March 2007.

### **Profit attributable to equity holders of the parent**

The Group's profit attributable to equity holders of the parent increased by approximately RMB7.0 million or 19.3% from approximately RMB36.3 million in the first quarter of 2006 to approximately 43.3 million in the three months ended 31 March 2007. The increase was mainly attributable to the increase in revenue of approximately 23.0% resulting in an increase in gross profit of approximately 30.8% and an increase in other income and gains of approximately 27.9%.

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For ease of reference to understand the Group's result from continuing operations for the Track Record Period after adjusting for certain non-recurring events, we set out below a statement of adjustment for non-recurring events:

	<b>Year ended 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit attributable to the equity holders of the parent before adjusting for non-recurring events	73,167	75,098	99,577
Add/(Less):			
Net gain on exchange of items of property, plant and equipment <sup>(1)</sup>	(18,416)	–	–
Net interest from Over-subscription <sup>(2)</sup>	–	–	(15,466)
Net exchange loss <sup>(3)</sup>	–	–	6,366
	<u>(18,416)</u>	<u>–</u>	<u>(9,100)</u>
Profit attributable to the equity holders of the parent after adjusting for non-recurring events	<u>54,751</u>	<u>75,098</u>	<u>90,477</u>

*Notes:*

1. Pursuant to an agreement entered into with an independent third party real estate developer in June 2002, the Company agreed to relinquish one of its properties for re-development purpose, in exchange for a property with similar area from the property developer upon completing the re-development. Upon relinquishment, the carrying amount of the property was approximately RMB22.4 million. The re-development was completed in December 2004 and a property of similar area was transferred and taken possession by the Company. Based on the valuation on 31 August 2005 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, the exchanged property was valued at RMB49.9 million on an open market, existing use basis. Approximately RMB27.5 million, representing an excess of the fair value of the exchange property of approximately RMB49.9 million over the then carrying amount of the property was recorded as income. Accordingly, an amount of approximately RMB18.4 million (net of tax), was credited to the consolidated income statements. As such net gain on exchange of fixed assets was non-recurring in nature and shall therefore not be interpreted as part of the recurring revenue of the Group.
2. The interest was obtained from the Over-subscription of the Company's H shares from the GEM Listing which was a one-off event and thus shall not be interpreted as part of the recurring revenue of the Group.
3. The exchange loss arising from the depreciation of Hong Kong Dollar against RMB in respect of the listing proceeds received from the GEM Listing which shall not be interpreted as part of the recurring event of the Group.

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## ANALYSIS OF FINANCIAL POSITION

### Summary of Consolidated Balance Sheets

The following illustrates major balance sheet items and key financial ratios of the Group during the Track Record Period.

	Year ended 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	700,353	889,749	1,123,480
Current assets	1,082,930	1,252,434	1,994,434
Current liabilities	1,241,717	1,531,249	1,741,124
Non-current liabilities	161,976	178,230	302,145
Total equity	379,590	432,704	1,074,645
Minority interests	57,097	73,920	89,672

### Key Financial Ratios

	Year ended 31 December		
	2004	2005	2006
Inventory turnover days <sup>(1)(5)</sup>	41	37	41
Debtor turnover days – consolidated <sup>(2)(5)</sup>	31	38	37
Debtor turnover days – wholesale distribution business <sup>(2)(5)(6)</sup>	72	75	76
Creditor turnover days <sup>(3)(5)</sup>	66	64	64
Net gearing ratio <sup>(4)</sup> (%)	101.5	128.6	13.8

1. 
$$\frac{\text{Average inventories}}{\text{Cost of sales}} \times 365 \text{ days}$$

2. 
$$\frac{\text{Average trade receivables}}{\text{Turnover}} \times 365 \text{ days}$$

3. 
$$\frac{\text{Average trade payables}}{\text{Cost of sales}} \times 365 \text{ days}$$

4. 
$$\frac{\text{Interest-bearing bank and other borrowings} - \text{Pledged deposits} - \text{Cash and cash equivalents}}{\text{Total equity}} \times 100\%$$

5. Results from continuing and discontinued operations were used in computing the respective ratios.

6. As the Group involves in both retail and wholesale distribution businesses, additional disclosure is made solely for wholesale distribution business during the Track Record Period.



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The Group's inventory turnover days decreased from 41 days in 2004 to 37 days in 2005, primarily due to management's continuous efforts to improve the product mix in its Retail Outlets which results in a lower number of slow-moving inventory items and the improvements in inventory information management system. The Group's inventory turnover days increased from 37 days in 2005 to 41 days in 2006, primarily due to the increase in inventories of the retail business as a result of the self-operation of live and fresh produce and more inventories with purchase prices anticipated to increase shortly were acquired and stored for the wholesale business.

The Group is able to identify obsolete inventory through its information management system. Inventory counts of full coverage are carried out quarterly.

The Group's debtor turnover days for wholesale distribution business increased from 72 days in 2004 to 75 days in 2005, primarily due to the increase in wholesale distribution business by Chaopi Trading and its subsidiaries which sometimes allow its customers with long term relationship to extend the normal credit period of not more than 60 days. In view of keen competition in the wholesale distribution business in the Greater Beijing Region, the management of the wholesale distribution business has allowed its major customers frequently to settle the outstanding trade payables beyond the normal credit period of 60 days in order to maintain client relationships and to remain its competitiveness in the market. The Group's debtor turnover days for wholesale distribution business maintained at the about same level during 2005 and 2006. The aging analysis of trade receivables of the Group during the Track Record Period is as follows:

	<b>Year ended 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 2 months	339,745	400,397	434,941
2 months to 6 months	54,500	50,360	37,108
6 months to 1 year	4,774	2,457	638
1 year to 2 years	<u>226</u>	<u>1,858</u>	<u>391</u>
	<u><u>399,245</u></u>	<u><u>455,072</u></u>	<u><u>473,078</u></u>

Trade receivables are recognised and carried at original invoice amount less an impairment for any uncollectible amounts. A provision for impairment is made when there is objective evidence that the Group will not be able to collect all the amounts due under the original terms of an invoice. Impaired debts are recognised when they are assessed as uncollectible. During the Track Record Period, the Group had made impairment for trade and other receivables from continuing operations of approximately RMB0.9 million, RMB8.8 million and RMB6.6 million respectively. The increase of impairment in 2005 was mainly due to impairment of approximately RMB7.3 million made for long outstanding balances owed by certain customers of the Group's wholesale distribution business.

The Group's creditor turnover days remained stable during the Track Record Period.

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As at 31 December 2006, the Group has trade payables of approximately RMB6.1 million overdue for over one year. The amount is mainly related to the outstanding payable to suppliers for the goods purchase. The outstanding balance of trade payables of approximately RMB6.1 million overdue for over one year as at 31 December 2006 comprised over 450 suppliers and each with insignificant balance of which the majority were under RMB10,000. The credit period originally given by these suppliers was normally not more than 60 days. The reasons for the Group not to settle such balances are mainly because the Group may withhold such payments as some suppliers have disputes on certain expenses and expenditures (such as the income from suppliers) which should pay the Group, and some suppliers may request for settlement (due to insignificant amount concerned) together with another transactions. The Group will settle such long outstanding trade payables once the disputes are properly resolved and valid documents could be provided to the Group for requesting settlement.

The net gearing ratio increased from 101.5% in 2004 to 128.6% in 2005 was mainly attributable to the increase in interest-bearing bank and other borrowings to finance the construction of the Jiuxianqiao Community Shopping Centre. The decrease to 13.8% in 2006 was mainly due to the IPO proceeds from the GEM Listing and the enlargement of share capital base in 2006.

### LIQUIDITY AND CAPITAL RESOURCES

#### Overview

The Group generally finance its operations through a combination of shareholders' equity, internally generated cash flows and borrowings from banks, employees and other enterprises. The Directors believe that on a long-term basis, the Group's liquidity will be funded from operations and, if necessary, additional equity financing or bank borrowings.

As at 31 December 2006, the Group had net current assets of approximately RMB253.3 million. Current assets mainly comprised of cash and cash equivalents of approximately RMB841.7 million, inventories of approximately RMB499.6 million, trade receivables of approximately RMB473.1 million and prepayments, deposits and other receivables of approximately RMB163.1 million. Current liabilities mainly comprised of trade payables of approximately RMB746.7 million, interest-bearing bank and other borrowings of approximately RMB726.4 million and other payables and accruals of approximately RMB223.7 million.

#### Cash flows

The Group has historically been able to satisfy its working capital needs from cash flow from operations and the proceeds from bank loans and borrowings from employees and other enterprises.

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The following table summarises the Group's cash flows during the Track Record Period:

	Year ended 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash inflow from operating activities	42,243	96,559	134,351
Net cash outflow from investing activities	(120,750)	(239,487)	(544,507)
Net cash inflow from financing activities	<u>60,655</u>	<u>186,804</u>	<u>729,705</u>
Net (decrease)/increase in cash and cash equivalents	(17,852)	43,876	319,549
Cash and cash equivalents at beginning of year	<u>194,717</u>	<u>176,865</u>	<u>220,741</u>
Cash and cash equivalents at end of year	<u><u>176,865</u></u>	<u><u>220,741</u></u>	<u><u>540,290</u></u>

### Cash Flows from Operating Activities

The Group's net cash inflow from operating activities increased by approximately 39.1% from approximately RMB96.6 million in 2005 to approximately RMB134.4 million in 2006. The increase in net cash inflow from operating activities principally reflects (i) an increase in operating profit before working capital changes by approximately 20.7% from approximately RMB218.5 million in 2005 to approximately RMB263.6 million in 2006, (ii) a decrease in prepayments, deposits and other receivables of approximately RMB2.0 million, (iii) an increase in trade payables of approximately RMB104.7 million mainly due to the increase in purchase in 2006, and (iv) an increase in other payables and accruals of approximately RMB12.5 million as compared the figures for 2005 to those for 2006.

However, the increase in net cash inflow from operating activities was partly off-set by (i) an increase in inventories of approximately RMB117.5 million as a result of increase in inventory level as at the end of 2006, (ii) an increase in trade receivables of approximately RMB15.3 million, (iii) an increase in other long term lease prepayments of approximately RMB17.5 million, (iv) a decrease in the amount due to Chaoyang Auxillary of approximately RMB11.9 million, (v) a decrease in other long term payables of approximately RMB8.8 million, (vi) an increase in interest paid of approximately RMB5.7 million, and (vii) an increase in corporate income tax paid of approximately RMB10.7 million as compared the figures for 2005 to those of 2006.

The Group's net cash inflow from operating activities increased by approximately 128.6% from approximately RMB42.2 million in 2004 to approximately RMB96.6 million in 2005. The increase in net cash inflow from operating activities principally reflects (i) an increase in operating profit before working capital changes by approximately 37.7% from approximately RMB158.7 million in 2004 to approximately RMB218.5 million in 2005, (ii) a decrease in net amount due from related parties of approximately RMB3.5 million, (iii) a decrease in other long term lease prepayment of approximately RMB4.7 million, (iv) an increase in other payables and accruals of approximately RMB67.1 million

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mainly due to quality guarantee deposits of approximately RMB77.0 million were received for the construction of the Jiuxianqiao Community Shopping Centre in 2005, (v) an increase in net amount due to Chaoyang Auxillary of approximately RMB13.7 million and (vi) a decrease in interest paid of approximately RMB5.2 million as compared the figures for 2004 to those for 2005.

However, the increase in net cash inflow from operating activities was partly off-set by (i) an increase of inventories of approximately RMB32.9 million to cope with anticipated demand, (ii) an increase in trade receivables, prepayments, deposits and other receivables of approximately RMB97.4 million mainly attributable to the increase in debtors of the wholesale business and the increase in prepayments to suppliers for securing timely supply of products, (iii) a decrease in trade payables of approximately RMB7.8 million, (iv) a decrease in other long term payables of approximately RMB11 million and (v) an increase in PRC corporate income tax paid of approximately RMB15.8 million due to the increase in taxable income as compared the figures for 2004 to those for 2005.

### **Cash Flows from Investing Activities**

Net cash outflow from investing activities during the Track Record Period has been primarily used for purchase items of property, plant and equipment, lease prepayments for land use rights and various projects for the expansion of Distribution Outlets. Such purchases amounted to approximately RMB156.7 million, RMB236.5 million and RMB278.0 million for each of the three years ended 31 December 2006.

Net cash outflow from investing activities significantly increased from approximately RMB239.5 million in 2005 to approximately RMB544.5 million in 2006. The increase was due to a combination of (i) an increase of approximately RMB41.5 million in cash to purchase items of property, plant and equipment for the Group's expansion of Retail Outlets, (ii) an increase in pledged time deposits of approximately RMB3.6 million, and (iii) an increase in non-pledged time deposits with original maturity of more than three months when acquired of approximately RMB301.4 million in 2006, and partially off-set by an increase in interest received of approximately RMB29.0 million in 2006.

Net cash outflow from investing activities increased from approximately RMB120.8 million in 2004 to approximately RMB239.5 million in 2005. The increase was due to a combination of (i) an increase of approximately RMB151.1 million in cash used to purchase items of property, plant and equipment, and (ii) pledged time deposits of approximately RMB13.3 million incurred in 2005, and partially off set by a decrease in purchases of lease prepayments for land use rights of approximately RMB71.3 million in 2005.

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### Cash Flows from Financing Activities

The Group's net cash inflow from financing activities significantly increased from approximately RMB186.8 million in 2005 to approximately RMB729.7 million in 2006. The increase in net cash inflow from financing activities was primarily due to a combination of (i) the net proceeds received from the issue of H shares of approximately RMB586.9 million in 2006, and (ii) an increase in new bank loans and other borrowings of approximately RMB149.8 million was mainly due to the increase in bank loans for the construction of the Jiuxianqiao Community Shopping Centre and the increase in working capital demand of Chaopi group for operation expansion in 2006, off-set by (iii) an increase in repayment of bank loans and other borrowings of approximately RMB162.6 million, and (vi) an increase in dividends paid of approximately RMB27.4 million in 2006.

The Group's net cash inflow from financing activities increased significantly from approximately RMB60.7 million in 2004 to approximately RMB186.8 million in 2005. The increase in net cash inflow from financing activities was primarily due to a combination of (i) an increase in new bank loans and other borrowings by approximately RMB53.6 million in 2005, (ii) a cash contribution of minority equity holders of approximately RMB7.1 million in 2005, (iii) a decrease of repayment of bank loans and other borrowings by approximately RMB127.8 million, (iv) proceeds of government grants of approximately RMB4.1 million received in 2005, offset by (v) one-off proceeds from change of capital contribution by Chaoyang Auxillary of approximately RMB57.0 million in 2004 and (vi) increase in dividends paid to minority shareholders of approximately RMB7.4 million in 2005.

### Net current assets

Details of the current assets and liabilities of the Group as at 30 April 2007 are as follows:

**As at 30 April 2007**  
(RMB'000)  
(Unaudited)

#### CURRENT ASSETS

Inventories	483,005
Trade receivables	546,896
Prepayments, deposits and other receivables	201,398
Cash and cash equivalents	<u>612,065</u>

Total current assets 1,843,364

#### CURRENT LIABILITIES

Trade payables	700,325
Tax payable	3,626
Other payables and accruals	245,118
Interest-bearing bank and other borrowings	615,625
Deferred income-current portion	<u>267</u>

Total current liabilities 1,564,961

NET CURRENT ASSETS 278,403

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### Net tangible assets

The following statement shows the Group's net tangible assets as at 31 December 2006 which has been derived based on the audited consolidated net assets of the Group as at 31 December 2006, shown in the accountants' report of the Group set out in Appendix I to this document.

Net tangible assets of the Group as at 31 December 2006 ( <i>Note 1</i> )	<u><u>RMB982,629,000</u></u>
Net tangible asset value per share ( <i>Note 2</i> )	<u><u>RMB2.555</u></u>

#### Notes:

1. The tangible assets of the Group as at 31 December 2006 is arrived at based on the Group's audited consolidated net assets of approximately RMB1,074,645,000 and deducting intangible assets and minority interests of approximately RMB2,344,000 and RMB89,672,000, respectively from the Accountants' Report set out in the section headed "Accountants' Report" in Appendix I to this document.
2. The net tangible asset value per Share has been arrived at based on the 384,620,000 Shares in issue at the date of this document as if such Shares were outstanding through the financial year ended 31 December 2006.

### Foreign currency risk

The Group collects 100% of revenue in RMB, some of which need to be converted into foreign currencies to pay dividends to the Shareholders upon Main Board Listing. Therefore the Group has a certain level of exposure to foreign exchange fluctuations. The RMB is not a freely convertible currency. However, the PRC Government may take actions that could cause future exchange rates to vary significantly from current or historical exchange rates. Fluctuations in exchange rates may adversely affect the value, translated or converted into Hong Kong dollars, of our net assets, earnings and any dividends we declare. See "Risk factors – Risks relating to the PRC – Changes in foreign exchange regulations and fluctuation of the RMB".

### Interest rate risk

The Group is exposed to risks resulting from fluctuations in interest rates on debt. The Group undertakes debt obligations to support general corporate purposes, including capital expenditures and working capital needs. The loans of the Group bear interest at rates that are subject to adjustment by our lenders in accordance with changes in relevant PBOC regulations. If the PBOC increases interest rates, our finance cost will be increased. In addition, to the extent that the Group may need to raise debt financing in the future, upward fluctuations in interest rates will increase the cost of new debt.

### INDEBTEDNESS

#### Borrowings

As at the close of business on 30 April 2007, being the latest practicable date for this indebtedness statement prior to the printing of this document, the Group had outstanding borrowings of RMB826.5 million, comprising (i) secured short-term bank loans of RMB237.0 million, (ii) unsecured short-term bank loans of RMB140.0 million, of which RMB20.0 million loans were entrusted loans from a commercial entity, an Independent Third Party, (iii) secured current portion of long-term bank loans of approximately RMB28.6 million, (iv) secured long-term bank loans of approximately RMB110.9

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million, (v) secured current portion of long-term borrowings from BITIC of RMB210.0 million, and (vi) unsecured long-term borrowings from BITIC of RMB100 million. The Group's borrowings are bearing interest at commercial rates ranging from 5.25% to 6.39% per annum.

### **FURTHER INFORMATION ON THE EMPLOYEE LOANS, THE BITIC LOANS AND THE EMPLOYEE INVESTMENTS**

#### **Employee Loans**

The Company first started to accept voluntary loans from certain of its employees in 1997 (loans of such nature shall be referred to as the "Employee Loans"). While the Group was confident that it would be able to obtain financing from other sources, the Group implemented the Employee Loans as an arrangement that was mutually beneficial to the Group and the relevant employees.

Under such arrangements, the Group paid interest to its employees at a rate lower than the Group's then prevailing bank loan interest rate (being a differential of approximately 0.5% per annum (on average) during the relevant period), whilst, the employees received interest which was at a rate higher than that generally offered for cash deposited with banks in the PRC (being a differential of approximately 2.0% per annum (on average) during the relevant period).

The Employee Loans were not made by way of monthly deductions from salaries, and were entirely voluntary in nature. Such Employee Loans were made at no fixed dates and were repayable on demand. No employee's employment or continued employment with the Group had ever been made conditional upon the participation of the Employee Loans arrangement with the Company.

As at 31 December 2003, the Group had unsecured Employee Loans of approximately RMB181 million, involving approximately 2,169 employees.

Subsequently in 2004, the Company was advised by its PRC legal advisers that the Employee Loans were not in compliance with the relevant PRC laws. Based on the PRC legal advice obtained, the Group may be subject to a maximum penalty of 5% of the amount of the total Employee Loans.

Hence, in 2004, the Company assessed different financing alternatives to repay the Employee Loans and to rationalise its financing arrangements such that they would be in compliance with the applicable PRC laws.

Chaoyang Auxillary has undertaken to indemnify the Company against any costs and penalties that the Group may suffer due to the non-compliance with the relevant PRC Laws in respect of the Employee Loans, the relevant loan agreements being not enforceable, and the maximum penalty of 5% of the amount of the total borrowings.

#### **BITIC Loans and Employee Investments**

To rationalise the Group's financing arrangement, in June 2004, the Company obtained a loan of RMB130 million (the "First BITIC Loan") from Beijing International Trust and Investment Company Limited ("BITIC"; and the First BITIC Loan and the further loans from BITIC shall together be referred to as the "BITIC Loans"). Insofar as the Company is aware, BITIC (a) was founded in 1984 and is 40% owned by the Beijing State-owned Assets Management Co., Ltd.; (b) is an Independent Third Party to the Company and a licensed non-bank financial institution regulated by the China Banking Regulatory Commission; and (c) offers a wide range of trust, corporate finance and agency services.



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Prior to granting the First BITIC Loan, BITIC had conducted credit due diligence on the Company. The First BITIC Loan was secured by a guarantee from the Company's controlling shareholder, Chaoyang Auxillary. Such guarantee from the Company's controlling shareholder has also covered all subsequent BITIC Loans extended to the Company, whilst other BITIC Loans which were extended to Chaopi Trading was secured by a corporate guarantee from the Company itself. The guarantee from the Company's controlling shareholder was, upon GEM Listing, replaced by a corporate guarantee from the Company and the pledge of the Company's 71.7% equity interest in Chaopi Trading. An annual interest rate of approximately 4.72% was offered by BITIC at that time for the First BITIC Loan, which was lower than the then prevailing interest rate for bank loans of approximately 5.31%, as quoted by PBOC.

In the process of obtaining the First BITIC Loan, the Company introduced BITIC to certain employees of the Group, as these employees, being members of the public, were amongst one of the trust deposit customer groups that, the Company believes, BITIC would, in its ordinary course of business, consider canvassing for funds. BITIC, as a professional and independent service provider, offered an investment proposal to those interested employees of the Group to invest in a trust loan programme such that the investments would be used to fund the BITIC Loans to be provided by BITIC to the Group from time to time (such investment and the further investments made by employees of the Group under this programme shall together be referred to as the "Employee Investments"). One attractive feature of the Employment Investments is that they offer a higher yield to the participating employees of the Group ("Participating Employees"). The Employment Investments made with BITIC in June 2004 carried an annual yield rate of approximately 4.0%, which was significantly higher than the 1.98% deposit interest rate quoted by the PBOC at that time.

Immediately before obtaining the First BITIC Loan, BITIC provided a one-day bridging loan of RMB90 million to the Company through Chaoyang Auxillary. The Company used such bridging loan together with its internal resources to fully repay the Employee Loans. Contemporaneous with the repayment of the Employee Loans, approximately 1,701 Participating Employees voluntarily made Employee Investments with BITIC in an aggregate amount of RMB130 million. In respect of the Employee Investments made by the Participating Employees, investment agreements ("Employee Investment Agreements") were entered into between certain employee representatives ("Employee Representatives") and BITIC. The Company understands that the Employee Representatives came to hold such position due to that personal relationship with the relevant Participating Employees and that was verbally agreed by the relevant Participating Employees. The Employee Representatives were charged with the responsibility of implementing the Employee Investments (including, without limitation, the execution of the Employee Investment Agreements, the collection and deposit of investment funds and other administrative dealings with BITIC) for and on behalf of the Participating Employees. The Company further understands that the Employee Representatives were selected by reason of convenience as well as due to their experience in financial and/or administrative matters, as all of them have held positions in the finance and/or other administrative departments within the Group for a long time. Each Employee Representative was given the role of representing their Participating Employees. By adopting such an arrangement, it was believed that the administrative process with BITIC could hence be undertaken more efficiently and effectively.

In the case of the first tranche of Employee Investments of RMB130 million as described above, Employee Investment Agreements were entered into between 30 Employee Representatives and BITIC. Although no formal written agreement was made between the relevant Participating Employees and the Employee Representatives at the time when the respective tranches of Employee Investments were made, a confirmation letter was subsequently executed in May 2006 by each of the first batch of 1,701 Participating Employees in respect of the first tranche of Employee Investments of RMB130 million as



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well as at other times by other subsequent Participating Employees in respect of subsequent tranches of Employee Investments and extensions thereof, in each case confirming and ratifying the role and authority of the Employee Representatives with retrospective effect (“Confirmation Letters”). The Directors confirm that, from the Group’s perspective, any participation in the Employee Investments has always been and will continue to be entirely voluntary and personal, and any decision of an employee to participate in or withdraw from the Employee Investments would not affect his/her employment with the Group. Indeed, it was noted that out of the employees who held Employee Loans immediately prior to the full repayment of the Employee Loans in June 2004 as described above, approximately 844 employees (“Non-Participating Employees”) had on their own accord decided not to participate in the Employee Investments. The portion of the Employee Loans previously attributed to these Non-Participating Employees amounted to approximately RMB66.8 million. The Directors further confirm that, as at the Latest Practicable Date, all of such Non-Participating Employees either remained in employment with the Group or have otherwise left the Group for reasons wholly unrelated to the Employee Investments, such as retirement.

Pursuant to the Employee Investment Agreements, the first tranche of the Employee Investments had an initial maturity period of two years. Pursuant to the supplemental agreements entered on 24 June 2006 between the Employee Representatives and BITIC and on 26 June 2006 between BITIC and the Group respectively, the maturity period of this first tranche of the Employee Investments as well as the due date of the First BITIC Loan were respectively extended from 24 June 2006 to 24 December 2007. However, out of the original 1,701 Participating Employees in this first tranche of the Employee Investments, 818 employees opted not to extend his/her investment and withdrew an aggregate investment sum of approximately RMB32.64 million upon their maturity on 24 June 2006. The aggregate investment sum in the extended first tranche of the Employee Investments, despite the addition of 23 Participating Employees investing an aggregate of approximately RMB2.64 million, was hence reduced to RMB100 million, and such size of the extended First BITIC Loan was hence also reduced to RMB100 million.

It is a general term of the Employee Investment Agreements that, unless certain events occur (such as any liquidation, dissolution, revocation of licence or prior consent of BITIC, collectively as the “Termination Events”), the Participating Employees are not permitted to withdraw from their Employee Investments prior to their maturity. Any losses incurred by BITIC arising out of any breach, variation or termination of the Employee Investment Agreements shall be borne by the relevant Employee Representatives, unless otherwise caused by a Termination Event or by BITIC. To the best knowledge, information and belief of the Directors, there has been no such withdrawal or termination of any Employee Investment Agreements. However, Participating Employees are permitted by private arrangements to assign their entitlements in the Employee Investments to other employees of the Group who thereby became Participating Employees. To the best knowledge, information and belief of the Directors, the investment sums involved in such private assignments were not substantial or material when compared to the aggregate investment sum under all the Employee Investments as a whole.

From time to time, BITIC have offered and may continue to offer new tranches of Employee Investments which would be open to all employees of the Group (including all Participating Employees in the previous tranches of Employee Investments). The term of such new tranches of Employee Investments may vary. It would, however, be a term of the Employee Investment that all Employment Investments could only be used to fund the BITIC Loans. It would also be expressly stated in the Employee Investment Agreements that all investment risks and losses arising from the Employee Investments, in the absence of any breach of the Employee Investment Agreements by BITIC, should be borne by the Participating Employees. Pursuant to the Employee Investment Agreements, neither the Group nor any Participating Employee has acted as guarantor or offered any form of collateral in

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respect of the Employee Investments and the BITIC Loans respectively. Insofar as the Company is aware, all Employee Investments were made by the Participating Employees with express knowledge of the said terms.

On 16 August 2004, a second tranche of Employee Investments of an aggregate investment sum of RMB50 million was made by 913 Participating Employees pursuant to supplemental agreements to the Employee Investment Agreements executed by 29 Employee Representatives. This second tranche of Employee Investments was lent to the Group by BITIC. Pursuant to supplemental agreements entered into in November 2005 between the Employee Representatives and BITIC and between BITIC and the Group respectively, the term of this second tranche of Employee Investments as well as the due date of the corresponding BITIC Loans were respectively extended from 15 November 2005 to 16 February 2007.

On 29 December 2004, a third tranche of Employee Investments of an aggregate investment sum of RMB40 million was made by 147 Participating Employees pursuant to the Employee Investment Agreements executed by 15 Employee Representatives. This third tranche of Employee Investments was lent to the Group by BITIC. Pursuant to supplemental agreements entered in 26 December 2005 between the Employee Representatives and BITIC and between BITIC and the Group respectively, the term of this third tranche of Employee Investments as well as the due date of the corresponding BITIC Loans were respectively extended from 29 December 2005 to 29 December 2006.

On 1 April 2005, a fourth tranche of Employee Investments of an aggregate investment sum of RMB62.3 million was made by 973 Participating Employees pursuant to the supplemental agreements to the Employee Investment Agreements executed by 28 Employee Representatives. This fourth tranche of Employee Investments was lent to the Group by BITIC, and has a maturity date of 1 October 2006.

On 29 December 2005, a fifth tranche of Employee Investments of an aggregate investment sum of RMB20 million was made by 124 Participating Employees pursuant to the supplemental agreements to the Employee Investment Agreements executed by 15 Employee Representatives. This fifth tranche of Employee Investments was lent to the Group by BITIC, and has a maturity date of 29 December 2006.

On 29 September 2006, a sixth tranche of Employee Investments of an aggregate investment sum of RMB40 million was made by 191 Participating Employee pursuant to the supplemental agreements to the Employee Investment Agreements executed by 10 Employee Representatives. This sixth tranche of Employee Investments was lent to the Group by BITIC, and has a maturity date of 29 June 2008.

As at 30 June 2004, 31 December 2004, 31 December 2005 and 31 December 2006, the total accrued sum of Employee Investments made amounted to approximately RMB130 million, RMB220 million, RMB302.3 million and RMB310.0 million, respectively. As at the same dates, the total number of Participating Employees amounted to approximately 1,701 employees, 2,162 employees, 2,525 employees, and 2,128 employees, respectively. Without taking account of any new tranches of Employment Investments or any extension of maturity in respect of the subsisting tranches of Employment Investments, as at the Latest Practicable Date and to the best of the knowledge, information and belief of the Directors, the latest expected maturity date of the subsisting tranches of the Employment Investments is 29 June 2008. The following table sets out a summary of movements in Employee Investments and the BITIC Loans for each of the three years ended 31 December 2006:

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### BITIC Loans and Employee Investments

Period	Participating Employees	Balance <i>(RMB'million)</i>	Yield on the Employee Investments	Interest rates on BITIC Loans	Settlement
24/06/04 – 24/06/06	1,701	130	4.00%	4.72%	N/A
			(24/6/04 – 31/3/05)	(24/6/04 – 31/3/05)	
			4.50%	5.2475%	
			(1/4/05 – 24/6/06)	(1/4/05 – 24/6/06)	
16/08/04 – 16/11/05	913	50	4.00%	4.72%	N/A
			(16/8/04 – 31/3/05)	(16/8/04 – 31/3/05)	
			4.50%	5.2475%	
			(1/4/05 – 16/11/05)	(1/4/05 – 16/11/05)	
29/12/04 – 29/12/05	147	40	4.00%	4.72%	N/A
<b>As at 31 December 2004</b>	<b>2,162 *</b>	<b>220</b>			
24/06/04 – 24/06/06	1,701	130	4.00%	4.72%	N/A
			(24/6/04 – 31/3/05)	(24/6/04 – 31/3/05)	
			4.50%	5.2475%	
			(1/4/05 – 24/6/06)	(1/4/05 – 24/6/06)	
16/08/04 – 16/11/05	913	50	4.00%	4.72%	Extended to
			(16/8/04 – 31/3/05)	(16/8/04 – 31/3/05)	16 February 2007
			4.50%	5.2475%	
			(1/4/05 – 16/2/07)	(1/4/05 – 16/2/07)	
01/04/05 – 01/10/06	973	62.3	4.50%	5.2475%	N/A
29/12/04 – 29/12/05	147	40	4.00%	4.72%	Extended to
					29 December 2006
29/12/05 – 29/12/06	124	20	4.00%	4.72%	N/A
<b>As at 31 December 2005</b>	<b>2,525 *</b>	<b>302.3</b>			

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Period	Participating Employees	Balance <i>(RMB'million)</i>	Yield on the Employee Investments	Interest rates on BITIC Loans	Settlement
24/06/04 – 24/12/07	918	100	4.50%	5.2475%	The 130 million loan was extended to 24 December 2007 upon expiry. The balance was reduced to 100 million and the number of employees participated was reduced to 918.
16/08/04 – 31/03/08	760	50	4.00% (16/8/04 – 16/2/07) 4.50% (16/2/07 – 31/3/08)	4.72% (16/8/04 – 16/2/07) 5.2475% (16/2/07 – 31/3/08)	The 50 million loan was extended to 31 March 2008. The number of employees participated was reduced to 760.
01/04/05 – 31/03/08	676	60	4.50%	5.2475%	The 62.3 million loan was extended to 31 March 2008. The balance was reduces to 60 million and the number of employees participated was reduced to 676.
29/12/04 – 29/06/08	147	40	4.00% (29/12/04 – 29/12/06) 5.2% (29/12/06 – 29/06/08)	4.72% (29/12/06 – 29/12/06) 6.12% (29/12/06 – 29/06/08)	Extended to 29 June 2008
29/12/05 – 29/06/08	124	20	4.00% (29/12/05 – 29/12/06) 5.2% (29/12/06 – 29/06/08)	4.72% (29/12/05 – 29/12/06) 6.12% (29/12/06 – 29/06/08)	Extended to 29 June 2008
29/09/06 – 29/06/08	191	40	5.2%	6.12%	N/A
<b>As at 31 December 2006</b>	<b>2,128 *</b>	<b>310</b>			

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\* *There were approximately 599, 965 and 691 employees participating in more than one tranche of Employee Investment as at 31 December 2004, 31 December 2005 and 31 December 2006 respectively.*

The PRC legal advisers to the Company have confirmed that the Employee Investments, BITIC Loans and Confirmation Letters were valid and comply with all relevant PRC laws and regulations. The primary reason that the Company chose to obtain the BITIC Loans in June 2004 was that the commercial terms offered by BITIC were the most favorable compared to the other potential lenders canvassed by the Group. From the perspective of the risks to, and the obligations of, the Group, the BITIC Loans are no different from any other loans from financial institutions. The BITIC Loans have been used by the Group for working capital purposes and it is intended that they will continue to be used by the Group for such purposes as well as to finance its operations in the future. The Directors confirmed that the Group has not received any complaints for the arrangement of BITIC Loans and Employees Investments. In relation to the other abovementioned borrowings, the PRC legal opinion states that the risk of litigation and hence the risk of penalty, is minimal as the borrowings have been repaid.

Apart from the Loans, the Group has also obtained other loan facilities from other financial institutions. As at 31 December 2006, the Group had borrowings from such other financial institution of approximately RMB576.4 million being amount repayable within one year and borrowings of RMB120.0 million being amount repayable over one year.

### **Other Borrowings**

In addition, apart from bank loans, Employee Loans and the BITIC Loans, the Group had borrowings from various commercial entities or government bodies under the jurisdiction of SASAC of the Chaoyang District during the Track Record Period. All of those borrowings from various commercial entities and government bodies were repaid before the GEM Listing. Based on the PRC legal opinion, the loans from the various commercial entities and government bodies did not comply with the relevant PRC Laws and the relevant loan agreements were not enforceable.

Chaoyang Auxillary has undertaken to indemnify the Company against any costs and penalties that the Group may suffer due to the non-compliance with the relevant PRC Laws in respect of borrowings from the said employees, the fact that the relevant loan agreements were not enforceable, and that the Group may be subject to a maximum penalty of 5% of the amount of the total borrowings.

In view of the lengthy bank loan application procedures to obtain funds in a timely manner to cope with the Group's fund requirement for its rapid business expansion and at a lower cost compared to bank loan, the Group accepted the borrowings from employees, BITIC and other commercial entities and government bodies under the jurisdiction of SASAC of the Chaoyang District during the Track Record Period.

Going forward, the Company will only obtain borrowings which are in compliance with the relevant PRC laws. All future borrowings must be reviewed by the legal unit of the Company to ensure compliance with the relevant PRC laws.

### **Security**

As at 31 December 2006, the Group had an aggregate interest-bearing bank and other borrowings of approximately RMB1,006.4 million, consisted of secured short-term bank loans of approximately RMB343.4 million, unsecured short-term bank loans of RMB208 million, secured current portion of long-term bank loans of RMB25 million, secured current portion of long-term borrowings from BITIC of RMB150 million, secured long-term bank loans of RMB120 million, secured long-term borrowings

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from BITIC of RMB60 million and unsecured long-term borrowings from BITIC of RMB100 million. The Group's secured bank loans and other borrowings are secured by:

- the Company's corporate guarantee and pledge of 71.7% equity interest in Chaopi Trading owned by the Company.
- certain of the Company's buildings, construction in progress, investment properties and lease prepayments for land use rights with an aggregate net book value of approximately RMB547.9 million as at 31 December 2006.
- certain of the Group's pledged time deposits of approximately RMB16.9 million as at 31 December 2006.

### Contingent liabilities

As at 30 April 2007, the Group had no material contingent liabilities.

### COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The following table sets forth the aggregate amounts, as at 31 December 2006, of the Group's capital commitments principally for the construction and acquisition of fixed assets, investment commitment and future contractual operating lease commitments on a consolidated basis:

#### (i) Capital commitments

	<b>Total</b> <i>RMB'000</i>
Authorised, but not contracted for	16,307
Contracted, but not provided for	<u>84,864</u>
	<u><u>101,171</u></u>

#### (ii) Investment commitment

At 31 December 2006, the Group had commitment authorised but not contracted for amounting to RMB6,132,000 in respect of capital contribution to a subsidiary.

#### (iii) Operating lease commitments – as lessee

	<b>Payment due by period</b>			<b>After five years</b>
	<b>Total</b>	<b>Within one year</b>	<b>Within two to five years (inclusive)</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating lease commitments	<u>955,674</u>	<u>60,260</u>	<u>270,896</u>	<u>624,518</u>

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## FINANCIAL INFORMATION

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Save as otherwise disclosed above, and apart from normal trade payables, the Group did not have any outstanding mortgages, charges, debentures or other loan capital, bank overdrafts, liabilities under acceptances, acceptance credits loan or other similar indebtedness, hire purchase, commitments, guarantees or any other material contingent liabilities.

### **NO MATERIAL ADVERSE CHANGE**

Save as described in the paragraph headed “Indebtedness” and “Commitments And Contractual Obligations” above, the Directors have confirmed that there has been no material change in the Group’s financial or trading position since 31 December 2006 (being the date to which the Group’s latest audited consolidated financial results were prepared, as set out in the Accountants’ Report on the Group in Appendix I to this document).

### **DISCLOSURE UNDER THE MAIN BOARD LISTING RULES**

The Directors confirm that as at the Latest Practicable Date, there were no circumstances which would give rise to any disclosure requirement under Rules 13.12 to 13.19 of the Main Board Listing Rules.

### **DIVIDEND AND WORKING CAPITAL**

#### **Dividend**

During the Track Record Period, the Company’s shareholders had approved the following dividend distributions:

1. a special dividend declared for the year ended 31 December 2004 of RMB3,000;
2. a dividend of RMB16 cents per Share for the year ended 31 December 2004 in the aggregate amount of approximately RMB39,502,000; and
3. a dividend of RMB22.9 cents per Share for the year ended 31 December 2005 in the aggregate amount of approximately RMB56,367,000.

During the annual general meeting held on 18 May 2007, a dividend of RMB15.0 cents per Share for the year ended 31 December 2006 in the aggregate amount of approximately RMB57,693,000 was approved to distribute by the Company’s shareholders.

The above dividends had been paid before Main Board Listing.

The Company may distribute dividends by way of cash or by other means that the Board consider appropriate. A decision to distribute any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders’ approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including our results of operations, cash flows, financial condition, the payment by the Company’s subsidiaries of cash dividends to the Company, future prospects and other factors that the Directors may consider important.

In accordance with the articles of association of the Company, the profit after tax of the Company for the purpose of profit distribution will be the lesser of (i) the profit determined in accordance with PRC GAAP and (ii) the profit determined in accordance with HKFRSs.

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In any case, the Company will pay dividends out of after-tax profits only after it has made the following allocations:

- recovery of accumulated losses, if any;
- allocations to the statutory surplus reserve fund equivalent to 10% of its profit, as determined under PRC GAAP;
- allocations to the statutory public welfare fund equivalent to between 5% and 10% of its after-tax profit, as determined under PRC GAAP (abolished from 1 January 2006); and
- allocations, if any, to a discretionary surplus reserve fund that are approved by the Shareholders in a Shareholders' meeting.

The minimum allocations to the statutory funds are 15% of the after-tax profit, as determined under PRC GAAP during the Track Record Period and change to 10% from 1 January 2006. When the statutory surplus reserve fund reaches and is maintained at or above 50% of the Company's registered capital, no further allocations to this statutory fund will be required. Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years.

The payout ratio of the profit that are available for distribution from the non-wholly owned subsidiaries is close to 100% based on the respective profit available for distribution prepared in accordance with the PRC GAAP. In addition, the Company directly, or indirectly through Chaopi Trading where the Company holds 76.42% of its equity interest, holds majority equity interests in these non-wholly owned subsidiaries. Therefore, the Directors confirm that the Company directly, or indirectly through Chaopi Trading, can elect majority members to the board of directors of each of those non-wholly owned subsidiaries. The respective boards of directors can in turn elect the chairman and appoint the general manager of their respective non-wholly owned subsidiaries. Hence, the Directors confirm that the Company (by itself or through Chaopi Trading) has direct control and influence of the dividend payout policy of each non-wholly subsidiary. Accordingly, the Directors do not foresee any significant difficulties in securing dividends from the Company's non-wholly owned subsidiaries for the payment of dividends to the shareholders of the Company. Going forward, the Directors confirm that the Group intends to pursue the current practice of the subsidiaries in respect of the distribution of dividends to the Company, subject to the best interests of the Group, and capital requirements of each of the subsidiaries from time to time.

### **Working Capital**

As at 31 December 2006, the Group had bank loans of approximately RMB696.4 million and other borrowings of RMB310.0 million from BITIC. The Directors are of the opinion that, taking into account the internally generated financial resources of the Group, its currently available facilities from banks and BITIC and the proceeds from the GEM Listing, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this document.

### **DISTRIBUTABLE RESERVES**

According to the Company's Articles of Association, the amount of retained profits available for distribution to the Shareholders of the Company is the lower of the amount determined in accordance with the PRC GAAP and the amount determined in accordance with HKFRSs. The Company's maximum distributable reserves as at 31 December 2006, which represent the Group's reserves as determined in accordance with PRC GAAP after deduction of the minimum transfers to the statutory surplus reserve and the proposed 2006 final dividend, amounted to approximately RMB26.2 million.



### PROPERTY INTERESTS

Vigers Appraisal & Consulting Limited, an independent firm of professional valuers, has valued the Group's property interests as at 31 March 2007 and is of the opinion that the property interests is valued at an aggregate amount of approximately RMB742.4 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set forth in Appendix III to this document.

As at 31 March 2007, the lessors of Chaopi Trading's Distribution Center in Beijing had not obtained the relevant building ownership certificate. In addition, the tenancy agreements entered into by Chaopi Trading and the lessors in respect of the Distribution Center had not been registered with the relevant PRC authorities as required under the PRC laws and regulations.

Though the wholesale distribution business contributed to over 40% of revenue of the Group during each of the Track Record Period, the Directors consider that the defects in title would not have an adverse impact to the Group should Chaopi Trading be evicted from such premises due to (i) such Distribution Center being a warehouse in nature; (ii) the dry product Logistic Centre can support part of such Distribution Center's function; (iii) such Distribution Center is located in rural area of Chaoyang District and a site with similar area and location can be easily identified, and (iv) most of the fixed assets installed, for example loading systems, are movable in nature and the costs incurred for relocation would be minimal.

Leased properties for five supermarkets numbered 46, 49, 50, 53 and 60 in the section headed "Property Valuation" in Appendix III to this document which as at 31 December 2006 have not registered with relevant PRC authorities, have subsequently completed the relevant registration.

As at 30 April 2007, the tenancy agreements of 20 Retail Outlets, including one hypermarket, 15 supermarkets and four convenience stores, have not been registered with the relevant PRC authorities as required under the PRC laws and regulations.

For the 20 aforementioned Retail Outlets, 16 were in operation as at 30 April 2007; the tenancy agreements of three Retail Outlets were entered in December 2006 and in 2007 of which will be opened in 2007; and the tenancy agreement of one leased property number 59 in the section headed "Property Valuation" in Appendix III to this document with leased terms of six months and expiring in September 2007, which the Group intended not to renew the tenancy and relocate to other premises upon expiry.

For the leased properties which have not yet completed the PRC registration as mentioned, the Company will:

- (a) in respect of the leased properties numbered 51 in the section headed "Property Valuation" in Appendix III to this document, complete the registration of the such tenancies with the PRC authorities on or before 30 June 2007, failing which it would terminate such tenancies within 12 months thereafter. The revenue of this outlet in 2006 was only RMB4.8 million. The Directors confirm the cost of relocation is minimal as most of the fixed assets in this outlet are movable in nature. As the Directors consider sites with similar area and location could be easily identified, the impact to the Group for such relocation is minimal;

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- (b) in respect of the leased properties numbered 42, 47, 55 and 98 in the section headed “Property Valuation” in Appendix III to this document, complete the registration of such tenancies with the PRC authorities on or before 31 December 2007, failing which it would terminate such tenancies within 12 months thereafter;
- (c) in respect of the leased properties numbered 40, 43, 44, 48, 52, 54, 63 and 99 in the section headed “Property Valuation” in Appendix III to this document, procure the relevant lessors to obtain the relevant building ownership certificates and complete the registration of such tenancies with the PRC authorities on or before 31 December 2008, failing which it would terminate such tenancies within 12 months thereafter;
- (d) in respect of the leased property numbered 14 in the section headed “Property Valuation” in Appendix III to this document, based on an undertaking from the relevant lessor, complete the registration of such tenancy with the PRC authorities on or before 6 July 2011, failing which it would terminate such tenancy within 12 months thereafter;
- (e) in respect of the leased properties numbered 56 and 100 in the section headed “Property Valuation” in Appendix III to this document, procure the relevant lessors to obtain the relevant building ownership certificates and complete the registration of such tenancies with the PRC authorities on or before 31 December 2009, failing which it would terminate such tenancies within 12 months thereafter; and
- (f) in respect of the leased properties numbered 57, 58 and 61 in the section headed “property valuation” in Appendix III to this document, which has not yet commenced operation, procure the relevant lessors to obtain the relevant building ownership certificates and complete the registration of such tenancies with the PRC authorities on or before 31 December 2009, failing which it would terminate such tenancies within 12 months thereafter.

For the above 16 Retail Outlets in operation with an aggregate net operating area of approximately 26,659 sq.m., including 1 hypermarket, 11 supermarkets and 4 convenience stores, which have not yet completed the PRC registration procedures. The annual revenue of these 16 Retail Outlets in 2006 was only approximately RMB106.4 million, representing only 2.3% of the total revenue of the Group for the year 2006. The hypermarket commenced operations on the last day of 2006. The revenue generated by each of supermarkets and convenience stores accounted for less than 1% of the Group’s revenue for the year ended 31 December 2006.

In view of (i) the insignificant revenue generated by these 16 Retail Outlets in operation; (ii) sites with similar area and location as the 16 Retail Outlets could be easily identified; and (iii) nearly all of the assets in the 16 Retail Outlets are movable in nature and the costs incurred for relocation would be minimal, the Directors consider the properties where the 16 Retail Outlets situated are not crucial to the Group’s activities and the cost incurred for such relocation is minimal.

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### CONSTRUCTION IN PROGRESS

As at 31 December 2006, the Group's construction in progress of approximately RMB414.0 million mainly represented the construction costs and related expenditures in relation to the Jiuxianqiao Community Shopping Centre, the Changping hypermarket and the extension of the dry product Logistics Centre with carrying values of approximately RMB313.6 million, RMB41.3 million and RMB49.6 million, respectively. The source of funding is from internally generated resources, borrowings from banks, BITIC Loans and proceeds from the GEM Listing. The Jiuxianqiao Community Shopping Centre is currently under internal decoration and will have its opening in the fourth quarter of 2007. The construction of the Changping hypermarket is in the process of planning and design which is expected to be completed before mid 2009. The extension of the dry product Logistics Centre is currently in the process of handling the procedures of related land use rights before the implementation of planning and design tasks which are anticipated to take a long duration of time. Accordingly, its expected completion date cannot be estimated at this stage.



18th Floor  
Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

29 June 2007

The Directors  
**Beijing Jingkelong Company Limited**  
**DBS Asia Capital Limited**

Dear Sirs,

We set out below our report on the financial information regarding Beijing Jingkelong Company Limited (the “Company”) and its subsidiaries (collectively “the Group”) for each of the three years ended 31 December 2006 (the “Relevant Years”) for inclusion in the introduction document of the Company dated 29 June 2007 in connection with the listing by way of introduction of the entire H share capital of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was established as a state-owned enterprise under the name of Beijing Guandongdian Shang Sha in the People’s Republic of China (the “PRC”) in May 1994 with a registered capital of RMB2 million. In February 1996, the Company changed its name to Beijing Jingkelong Shang Sha. In June 1997, the Company’s registered capital was increased to RMB22.19 million. In May 2002, the Company was transformed into a limited liability company with a registered capital of RMB236.66 million and was renamed as Beijing Jingkelong Supermarket Chain Company Limited. In December 2002, the Company changed its name to Beijing Jingkelong Supermarket Chain Group Company Limited. With effect from 1 November 2004, the Company was transformed into a joint stock company with limited liability by converting its net assets as at 31 December 2003, as determined in accordance with the applicable relevant PRC accounting principles and financial regulations (the “PRC GAAP”), net of dividends declared in August 2004, into 246,620,000 shares of RMB1 each, and was renamed as Beijing Jingkelong Company Limited.

On 25 September 2006, an aggregate of 132,000,000 H shares of the Company, which comprised 120,000,000 new H shares and 12,000,000 H shares converted from the Company’s domestic shares (the “Domestic Shares”), were issued to the public and listed on the Growth Enterprise Market (the “GEM”) of the Stock Exchange. On 25 September 2006, an additional 18,000,000 new H shares and 1,800,000 H shares converted from the Domestic Shares, were issued to the public and listed on the GEM of the Stock Exchange as a result of the full exercise of the over-allotment option as detailed in the Company’s prospectus dated 12 September 2006. The detailed movement of the share capital is set out in note 33 of Section II of this report. The Company has proposed to withdraw its listing from the GEM of the Stock Exchange so as to arrange its H shares to be listed on the Main Board of the Stock Exchange.

In the opinion of the directors, the parent and ultimate holding company of the Company is Beijing Chaoyang Auxillary Food Company (“Chaoyang Auxillary”), a state-owned enterprise established in the PRC.

The Group is principally engaged in the retail and wholesale distribution of daily consumer products in the region covering Beijing City and certain parts of its periphery. The retail distribution business, comprising a network of hypermarkets, supermarkets and convenience stores (collectively

the “Retail Outlets” and individually a “Retail Outlet”), operates in the distribution of live and fresh produce, dry products, beverages, processed food and daily necessities, whereas the wholesale distribution business provides the wholesale supply of daily consumer products to consumers, including the Retail Outlets and other retail operators, and trading companies.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries and associates. All of these entities are private limited liability companies, which have substantially similar characteristics to a private company incorporated in Hong Kong.

Name	Place and date of incorporation/ operations	Nominal value of paid-up and registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
<b>Subsidiaries</b>					
Beijing Jingkelong (Langfang) Company Limited (“Jingkelong Langfang”)	Langfang, PRC 26 April 2000	RMB10,000,000	80.00	–	Retail of general merchandise
Beijing Chaopi Trading Company Limited (“Chaopi Trading”) <sup>(3)</sup>	Beijing, PRC 31 May 2002 <sup>(1)</sup>	RMB192,000,000	76.42	–	Wholesale of general merchandise
Beijing Xinyang Tongli Commercial Facilities Company Limited (“Xinyang Tongli”)	Beijing, PRC 31 May 2002 <sup>(1)</sup>	RMB1,600,000	52.03	–	Production of plastic packing materials and installation and maintenance of commercial equipment
Beijing Jingkelong Supermarket Chain Company Limited	Beijing, PRC 5 July 2006	RMB29,000,000	100.00	–	Retail of general merchandise
Beijing Chaopi Huaqing Beverage Company Limited (“Chaopi Huaqing”) <sup>(2)</sup>	Beijing, PRC 13 December 2000	RMB18,000,000	–	40.83	Wholesale of drinks and food
Beijing Chaopi Flavourings Company Limited (“Chaopi Flavourings”) <sup>(2)</sup>	Beijing, PRC 29 April 2001	RMB23,750,000	–	40.22	Wholesale of flavourings, edible oil and food
Beijing Chaopi Shuanglong Alcohol Sales Company Limited (“Chaopi Shuanglong”) <sup>(2)</sup>	Beijing, PRC 29 August 2002	RMB24,000,000	–	45.09	Wholesale of alcoholic beverages

Name	Place and date of incorporation/ operations	Nominal value of paid-up and registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Beijing Chaopi Jinglong Oil Sales Company Limited ("Chaopi Jinglong") <sup>(2)</sup>	Beijing, PRC 9 May 2005	RMB18,000,000	–	41.44	Wholesale of edible oil
Shijiazhuang Chaopi Xinlong Trading Company Limited ("Chaopi Shijiazhuang")	Shijiazhuang, PRC 12 September 2005	RMB5,000,000	–	76.42	Wholesale of alcoholic beverages
Qingdao Chaopi Jinlong Trading Company Limited ("Chaopi Qingdao")	Qingdao, PRC 28 September 2005	RMB5,000,000	–	76.42	Wholesale of alcoholic beverages
Beijing Chaopi Zhongde Trading Company Limited	Beijing, PRC 7 February 2007	RMB28,000,000	–	61.14	Wholesale of general merchandise and provision of storage services
Beijing Chaopi Huilong Trading Company Limited <sup>(2)</sup>	Beijing, PRC 8 February 2007	RMB12,000,000	–	39.05	Wholesale of general merchandise

#### Associates

Beijing Chaopi Tianxing Vegetables Company Limited	Beijing, PRC 31 July 2002	RMB310,000	–	27.11	Retail of fruits and vegetables
Beijing Chaopi Ziguang Trading Company Limited	Beijing, PRC 8 December 2003	RMB1,100,000	–	34.73	Wholesale of alcoholic beverages

#### Notes:

- (1) Represents the date of change of legal status from a state-owned enterprise to a limited liability company.
- (2) The companies are directly held by Chaopi Trading as to more than 50% equity interests and are recognised as the subsidiaries of Chaopi Trading. Since the Company holds a 76.42% equity interest in Chaopi Trading, these companies are accounted for as subsidiaries of the Company, though the equity interests attributable to the Company are less than 50%.
- (3) The Company's equity interest in Chaopi Trading of 71.7% was pledged to secure the Company's other borrowings from Beijing International Trust and Investment Company Limited ("BITIC") of RMB210 million as at 31 December 2006.

- (4) The Company, its subsidiaries and associates were all established in the PRC and have adopted 31 December as their financial year end date. The management accounts and statutory financial statements of the Company and its subsidiaries were prepared in accordance with the PRC GAAP. The statutory financial statements of the Group and of the Company for each of the three years ended 31 December 2006 prepared in accordance with the PRC GAAP were audited by Ernst & Young Hua Ming Certified Public Accountants (安永華明會計師事務所) which is not a certified public accountant firm registered in Hong Kong. The statutory financial statements of all its subsidiaries and associates, except for Jingkelong Langfang, for each of the three years ended 31 December 2006 prepared in accordance with the PRC GAAP were audited by Beijing Hua Long Certified Public Accountants Co., Ltd. (北京華龍會計師事務所有限責任公司). The auditors of Jingkelong Langfang for each of the three years ended 31 December 2006 were Langfang Huaanda Certified Public Accountants Co., Ltd. (廊坊華安達會計師事務所有限責任公司).

For the purpose of this report, the directors of the Company have prepared the financial statements of the Company and of the Group for the Relevant Years, or from their respective dates of establishment or dates of acquisition, whichever is a shorter period, in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “HK GAAP Accounts”). In preparing this report, no adjustments were considered necessary to restate the audited HK GAAP Accounts to conform to the accounting policies referred to in note 1 of Section II of this report, which are in compliance with HKFRSs.

The financial information set out in this report, including the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group for the Relevant Years and the consolidated balance sheets of the Group and the balance sheets of the Company as at 31 December 2004, 2005 and 2006 together with the notes thereto (collectively the “Financial Information”), has been prepared based on the audited HK GAAP Accounts.

The directors of the respective companies now comprising the Group are responsible for the preparation and the true and fair presentation of the respective accounts. The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information, financial statements and management accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. It is our responsibility to form an independent opinion on the Financial Information for the Relevant Years and to report our opinion to you.

### **Procedures Performed in Respect of the Relevant Years**

The HK GAAP Accounts have been audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Years in accordance with Hong Kong Standards on Auditing issued by the HKICPA, and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKICPA.

### **Opinion in Respect of the Relevant Years**

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of state of affairs of the Company and of the Group as at 31 December 2004, 2005 and 2006 and of the Group’s results and cash flows for each of the Relevant Years in accordance with HKFRSs.

## I. FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENTS

The following is a summary of the consolidated income statements of the Group for the Relevant Years:

	Notes	Year ended 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
<b>CONTINUING OPERATIONS</b>				
REVENUE	4	3,568,865	4,121,748	4,530,975
Cost of sales		(3,164,852)	(3,621,667)	(3,966,385)
Gross profit		404,013	500,081	564,590
Other income and gains	4	154,700	143,668	224,308
Selling and distribution costs		(317,899)	(369,764)	(419,117)
Administrative expenses		(88,285)	(88,924)	(107,958)
Other expenses		(5,800)	(20,452)	(29,897)
Finance costs	6	(20,988)	(19,073)	(26,296)
Share of profits and losses of associates		2,177	(32)	(139)
PROFIT BEFORE TAX	5	127,918	145,504	205,491
Tax	9	(44,127)	(47,158)	(74,072)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		83,791	98,346	131,419
<b>DISCONTINUED OPERATIONS</b>				
Profit for the year from discontinued operations	11	378	–	–
PROFIT FOR THE YEAR		<u>84,169</u>	<u>98,346</u>	<u>131,419</u>
Attributable to:				
Equity holders of the parent	10	73,528	75,098	99,577
Minority interests		10,641	23,248	31,842
		<u>84,169</u>	<u>98,346</u>	<u>131,419</u>



	<i>Notes</i>	<b>Year ended 31 December</b>		
		<b>2004</b>	<b>2005</b>	<b>2006</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
DIVIDENDS	12			
Final		39,502	56,367	57,693
Special		3	—	—
		<u>39,505</u>	<u>56,367</u>	<u>57,693</u>
Dividend per share (RMB)		<u>16.0 cents</u>	<u>22.9 cents</u>	<u>15.0 cents</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13			
Basic for profit for the year (RMB)		<u>29.8 cents</u>	<u>30.5 cents</u>	<u>35.1 cents</u>
Basic for profit from continuing operations (RMB)		<u>29.7 cents</u>	<u>30.5 cents</u>	<u>35.1 cents</u>

## CONSOLIDATED BALANCE SHEETS

Set out below is a summary of the consolidated balance sheets of the Group as at the end of each of the Relevant Years:

	Notes	As at 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	14	600,687	795,642	1,011,199
Investment properties	15	18,704	17,813	16,922
Lease prepayments for land use rights	16	73,698	72,946	72,194
Interests in associates	18	887	918	198
Available-for-sale investments	19	350	350	3,099
Intangible assets	20	1,360	2,080	2,344
Other long term lease prepayments	21	4,667	–	17,524
		<u>700,353</u>	<u>889,749</u>	<u>1,123,480</u>
<b>CURRENT ASSETS</b>				
Inventories	22	348,690	382,164	499,644
Trade receivables	23	399,245	455,072	473,078
Prepayments, deposits and other receivables	24	145,831	181,130	163,102
Short term investments		1,200	–	–
Due from related parties	25	3,497	36	–
Due from Chaoyang Auxillary	26	7,602	–	–
Pledged deposits	27	–	13,291	16,919
Cash and cash equivalents	27	176,865	220,741	841,691
		<u>1,082,930</u>	<u>1,252,434</u>	<u>1,994,434</u>
<b>CURRENT LIABILITIES</b>				
Trade payables	28	635,375	642,030	746,690
Tax payable		25,800	26,553	44,100
Other payables and accruals	29	142,198	209,379	223,671
Interest-bearing bank and other borrowings	30	432,000	640,604	726,396
Due to Chaoyang Auxillary	26	5,811	11,880	–
Deferred income-current portion	31	–	267	267
Dividends payable		533	536	–
		<u>1,241,717</u>	<u>1,531,249</u>	<u>1,741,124</u>
<b>NET CURRENT (LIABILITIES)/ ASSETS</b>				
		<u>(158,787)</u>	<u>(278,815)</u>	<u>253,310</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>				
		<u>541,566</u>	<u>610,934</u>	<u>1,376,790</u>

		As at 31 December		
	Notes	2004	2005	2006
		RMB'000	RMB'000	RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>541,566</u>	<u>610,934</u>	<u>1,376,790</u>
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	30	130,000	150,000	280,000
Other long term payables	29	19,705	8,750	–
Deferred income	31	–	3,733	3,466
Deferred tax liabilities	32	<u>12,271</u>	<u>15,747</u>	<u>18,679</u>
Total non-current liabilities		<u>161,976</u>	<u>178,230</u>	<u>302,145</u>
Net assets		<u>379,590</u>	<u>432,704</u>	<u>1,074,645</u>
EQUITY				
<b>Equity attributable to equity holders of the parent</b>				
Issued capital	33	246,620	246,620	384,620
Reserves	34	36,371	55,797	542,660
Proposed final dividend	12	<u>39,502</u>	<u>56,367</u>	<u>57,693</u>
		322,493	358,784	984,973
<b>Minority interests</b>		<u>57,097</u>	<u>73,920</u>	<u>89,672</u>
Total equity		<u>379,590</u>	<u>432,704</u>	<u>1,074,645</u>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The changes in the consolidated shareholders' equity of the Group for the Relevant Years are as follows:

Notes	Attributable to equity holders of the parent												
	Paid-in capital	Issued capital	Share premium account	Capital reserve	Available-	Statutory surplus reserve	Statutory public welfare fund	Proposed final dividend	Retained profits	Subtotal	Minority interests	Total equity	
					for-sale investment revaluation reserve								
					RMB'000								
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
					note 34(b)(i)	note 34(b)(ii)							
At 1 January 2004	236,660	-	-	-	-	5,776	2,888	29,133	3,644	278,101	45,903	324,004	
Profit for the year	-	-	-	-	-	-	-	-	73,528	73,528	10,641	84,169	
Total income and expense for the year	-	-	-	-	-	-	-	-	73,528	73,528	10,641	84,169	
2003 dividend declared	-	-	-	-	-	-	-	(29,133)	-	(29,133)	-	(29,133)	
Dividends paid to minority equity holders	-	-	-	-	-	-	-	-	-	-	(6,400)	(6,400)	
Capitalisation of reserves upon transformation into a joint stock company	(a)	(236,660)	246,620	-	-	(3,997)	(1,999)	-	(3,964)	-	-	-	
Transfer to capital reserve	(b)	-	-	-	4,426	-	-	-	(4,426)	-	-	-	
Appropriation to reserves		-	-	-	-	6,532	3,266	-	(9,798)	-	-	-	
Equity interest acquisition		-	-	-	-	-	-	-	-	-	15,307	15,307	
Equity interest disposal		-	-	-	-	-	-	-	-	-	(6,654)	(6,654)	
Equity interest transfer		-	-	-	-	-	-	-	-	-	(1,700)	(1,700)	
Proposed final 2004 dividend	12	-	-	-	-	-	-	39,502	(39,502)	-	-	-	
Special 2004 dividend declared	12	-	-	-	-	-	-	-	(3)	(3)	-	(3)	
At 31 December 2004 and at 1 January 2005		-	246,620	-	4,426*	-	8,311*	4,155*	39,502	19,479*	322,493	57,097	379,590
Profit for the year		-	-	-	-	-	-	-	75,098	75,098	23,248	98,346	
Total income and expense for the year		-	-	-	-	-	-	-	75,098	75,098	23,248	98,346	
2004 dividend declared		-	-	-	-	-	-	(39,502)	-	(39,502)	-	(39,502)	
Dividends paid to minority equity holders		-	-	-	-	-	-	-	-	-	(10,715)	(10,715)	
Release of unpaid liability		-	-	-	695	-	-	-	-	695	-	695	
Appropriation to reserves		-	-	-	-	10,211	5,105	-	(15,316)	-	-	-	
Equity interest injection		-	-	-	-	-	-	-	-	-	7,132	7,132	

		Attributable to equity holders of the parent											
		Share			Available- for-sale		Statutory		Proposed		Minority		Total
Notes		Paid-in capital	Issued capital	premium account	Capital reserve	revaluation reserve	Statutory surplus reserve	public welfare fund	final dividend	Retained profits	Subtotal	interests	equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		note 34(b)(i) note 34(b)(ii)											
		-	-	-	-	-	-	-	-	-	-	(1,972)	(1,972)
		-	-	-	-	-	-	-	-	-	-	(870)	(870)
	12	-	-	-	-	-	-	-	56,367	(56,367)	-	-	-
At 31 December 2005													
	and at 1 January 2006	-	246,620	-	5,121*	-	18,522*	9,260*	56,367	22,894*	358,784	73,920	432,704
	Change in fair value of available-for-sale investments	-	-	-	-	2,749	-	-	-	-	2,749	-	2,749
Total income and expense recognised directly in equity													
	Profit for the year	-	-	-	-	2,749	-	-	-	-	2,749	-	2,749
Total income and expense for the year													
	2005 dividend declared	-	-	-	-	-	-	-	(56,367)	-	(56,367)	-	(56,367)
	Dividend paid to minority equity holders	-	-	-	-	-	-	-	-	-	-	(16,090)	(16,090)
	Issue of H shares upon listing	33(b)	120,000	428,597	-	-	-	-	-	-	548,597	-	548,597
	Issue of H shares upon exercising the over-allotment option	33(c)	18,000	64,501	-	-	-	-	-	-	82,501	-	82,501
	Share issue expenses	-	-	(50,868)	-	-	-	-	-	-	(50,868)	-	(50,868)
	Appropriation to reserves	-	-	-	-	-	15,267	-	-	(15,267)	-	-	-
	Transfer of unutilised statutory public welfare fund to statutory surplus reserve	-	-	-	-	-	9,260	(9,260)	-	-	-	-	-
	Proposed final 2006 dividend	12	-	-	-	-	-	-	57,693	(57,693)	-	-	-
At 31 December 2006													
		-	384,620	442,230*	5,121*	2,749*	43,049*	-	57,693	49,511*	984,973	89,672	1,074,645

\* These reserve accounts comprised the consolidated reserves of RMB36,371,000, RMB55,797,000 and RMB542,660,000 in the consolidated balance sheets as at 31 December 2004, 2005 and 2006, respectively.

*Notes:*

- (a) On 1 November 2004, the Company was transformed from a limited liability company into a joint stock company with limited liability by converting its net assets as at 31 December 2003, as determined in accordance with the PRC GAAP into 246,620,000 Domestic Shares of RMB1.00 each. As at 31 December 2004, the Company's authorised and issued share capital is RMB246,620,000, divided into 246,620,000 Domestic Shares of RMB1.00 each.
- (b) On 11 June 2004, the equity holders of the Company entered into an agreement whereby the mode of capital contribution by Chaoyang Auxillary in May 2002 was approved to change from buildings to cash.

In May 2002, when the Company converted from a state-owned enterprise into a limited liability company, Chaoyang Auxillary pledged to increase its investment in the Company to RMB176.5 million which included, among others, contributing buildings of approximately RMB57,046,000 into the Company. Since taking possession of the property in April 2002, the Company had not been able to register the property ownership with the relevant authorities for the aforesaid buildings so contributed by Chaoyang Auxillary under its name. To comply with the relevant rules governing capital contribution stipulated by the State Administration of Industry and Commerce, the PRC, under which an investor is required to contribute other assets to substitute the original contributed assets when the title of which is not transferred to and is registered under the name of the invitee within the time limit specified in the rules, all the equity holders of the Company agreed on 11 June 2004 to have Chaoyang Auxillary change its mode of capital contribution to cash of approximately RMB57,046,000, equivalent to the amount of the buildings originally contributed in May 2002, and take back the above-mentioned buildings upon cash contribution. The equity holders of the Company further agreed that there should be no change to the registered capital and the respective equity interests of each of the equity holders immediately after the completion of the agreement. Chaoyang Auxillary contributed cash of approximately RMB57,046,000 and took back the above-mentioned buildings in June 2004.

An amount of approximately RMB4,426,000, representing an excess of the above cash contribution of approximately RMB57,046,000 over the then carrying amount of the above-mentioned buildings of approximately RMB52,620,000 (*note 14*) on the date of completion of the agreement, was credited to the consolidated income statements and then appropriated to the capital reserve account as additional paid-in capital arising from the change of capital contribution made by Chaoyang Auxillary.

## CONSOLIDATED CASH FLOW STATEMENTS

The consolidated cash flow statements of the Group for the Relevant Years are as follows:

	Notes	Year ended 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax:				
From continuing operations		127,918	145,504	205,491
From discontinued operations	11	484	–	–
Adjustments for:				
Finance costs	6	21,118	19,073	26,296
Interest income	5	(8,987)	(8,378)	(37,417)
Dividend income from available-for-sale investments	5	–	(30)	–
Excess over the cost of business combinations	4	(169)	(1,972)	–
Goodwill written off	5	186	–	–
Amortisation of intangible assets	5	1,063	312	383
Recognition of lease prepayments for land use rights	5	125	752	752
Impairment of available-for-sale investments	5	1,188	–	–
Loss on disposal of a subsidiary	36	1,410	–	–
Gain on disposal of an associate	4	(1,248)	–	–
Gain on exchange of items of property, plant and equipment	4	(27,486)	–	–
Share of profits and losses of associates		(2,685)	32	139
Gain on disposal of short term investments	4	–	(18)	–
(Gain)/loss on disposal of items of property, plant and equipment, net	5	(2,710)	1,468	555
Government grants	4	(50)	–	–
Depreciation	5	45,616	53,490	58,927
Impairment loss on items of property, plant and equipment	5	–	–	2,100
Impairment of trade and other receivables	5	909	8,818	6,640
Write down/(reversal of write down) of inventories to net realisable value	5	2,067	(569)	5
Recognition of deferred income	31	–	–	(267)
		158,749	218,482	263,604
(Increase)/decrease in inventories		40,830	(32,905)	(117,485)
Increase in trade receivables		(82,679)	(65,389)	(15,276)
(Increase)/decrease in prepayments, deposits and other receivables		(17,730)	(32,021)	1,982
(Increase)/decrease in net amounts due from related parties		(10,497)	3,461	36
(Increase)/decrease in other long term lease prepayments		(4,667)	4,667	(17,524)
(Increase)/decrease in amounts due from associates		65,846	(63)	581
Increase/(decrease) in trade payables		45,552	(7,763)	104,660
Decrease in bills payable		(23,440)	–	–
Increase in other payables and accruals		35,872	67,105	12,484
Increase/(decrease) in a net amounts due from/to Chaoyang Auxillary		(77,314)	13,671	(11,880)

	Notes	Year ended 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
Decrease in other long term payables		(37,128)	(10,955)	(8,750)
Cash generated from operations		93,394	158,290	212,432
Interest paid		(24,029)	(18,802)	(24,488)
PRC corporate income tax paid		(27,122)	(42,929)	(53,593)
Net cash inflow from operating activities		42,243	96,559	134,351
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received		8,987	8,378	37,417
Dividends received from available-for-sale investments		–	30	–
Dividends received from associates		2,735	–	–
Proceeds from disposal of short term investments		–	1,218	–
Purchases of items of property, plant and equipment		(85,046)	(236,520)	(277,979)
Purchases of investment properties		(338)	–	–
Additions to lease prepayments for land use rights		(71,322)	–	–
Purchases of intangible assets		(1,852)	(1,032)	(647)
Proceeds from disposal of items of property, plant and equipment		777	2,610	1,731
Acquisition of subsidiaries	35	12,515	–	–
Additional investment in subsidiaries		(1,628)	(880)	–
Disposal of a subsidiary	36	(1,448)	–	–
Disposal of an associate		14,985	–	–
Increase in short term investments		(1,200)	–	–
Decrease/(increase) in pledged time deposits		2,085	(13,291)	(3,628)
Increase in non-pledged time deposits with original maturity of more than three months when acquired		–	–	(301,401)
Net cash outflow from investing activities		(120,750)	(239,487)	(544,507)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Net proceeds from issue of H shares		–	–	586,906
Proceeds from change of capital contribution		57,046	–	–
Cash contribution of minority equity holders		2,150	7,132	–
Proceeds from government grants		50	4,076	–
New bank loans and other borrowings		643,000	696,604	846,395
Repayment of bank loans and other borrowings		(595,772)	(468,000)	(630,603)
Prepayment of share issue expenses		(3,876)	(2,800)	–
Dividends paid		(28,552)	(29,466)	(56,903)
Dividends paid to minority equity holders		(13,391)	(20,742)	(16,090)
Net cash inflow from financing activities		60,655	186,804	729,705
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(17,852)	43,876	319,549
Cash and cash equivalents at beginning of year		194,717	176,865	220,741
CASH AND CASH EQUIVALENTS AT END OF YEAR		176,865	220,741	540,290



	<i>Notes</i>	Year ended 31 December		
		<b>2004</b>	<b>2005</b>	<b>2006</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	27	176,865	220,741	413,140
Non-pledged time deposits with original maturity of less than three months when acquired	27	—	—	127,150
		<u>176,865</u>	<u>220,741</u>	<u>540,290</u>

## BALANCE SHEETS

Set out below is a summary of the balance sheets of the Company as at the end of each of the Relevant Years:

	Notes	As at 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	14	547,460	732,737	890,229
Investment properties	15	18,704	17,813	16,922
Lease prepayments for land use rights	16	73,698	72,946	72,194
Interests in subsidiaries	17	117,218	178,768	345,030
Intangible assets	20	1,360	2,080	2,344
Other long term lease prepayments	21	4,667	–	–
Total non-current assets		<u>763,107</u>	<u>1,004,344</u>	<u>1,326,719</u>
<b>CURRENT ASSETS</b>				
Inventories	22	121,779	135,019	157,054
Trade receivables	23	3,792	10,818	8,380
Prepayments, deposits and other receivables	24	63,223	89,015	61,928
Due from related parties	25	3,497	36	–
Due from Chaoyang Auxillary	26	7,602	–	–
Cash and cash equivalents	27	143,514	143,755	674,661
Total current assets		<u>343,407</u>	<u>378,643</u>	<u>902,023</u>
<b>CURRENT LIABILITIES</b>				
Trade payables	28	330,144	356,641	419,443
Tax payable		7,532	4,741	15,531
Other payables and accruals	29	86,273	176,357	186,276
Interest-bearing bank and other borrowings	30	206,000	326,300	462,000
Due to Chaoyang Auxillary	26	–	2,070	–
Deferred income-current portion	31	–	267	267
Dividends payable		533	536	–
Total current liabilities		<u>630,482</u>	<u>866,912</u>	<u>1,083,517</u>
NET CURRENT LIABILITIES		<u>(287,075)</u>	<u>(488,269)</u>	<u>(181,494)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>476,032</u>	<u>516,075</u>	<u>1,145,225</u>

	Notes	As at 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>476,032</u>	<u>516,075</u>	<u>1,145,225</u>
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	30	130,000	150,000	180,000
Other long term payables	29	17,500	8,750	–
Deferred income	31	–	3,733	3,466
Deferred tax liabilities	32	<u>12,271</u>	<u>15,747</u>	<u>18,679</u>
Total non-current liabilities		<u>159,771</u>	<u>178,230</u>	<u>202,145</u>
Net assets		<u><u>316,261</u></u>	<u><u>337,845</u></u>	<u><u>943,080</u></u>
EQUITY				
Issued capital	33	246,620	246,620	384,620
Reserves	34	30,139	34,858	500,767
Proposed final dividend	12	<u>39,502</u>	<u>56,367</u>	<u>57,693</u>
Total equity		<u><u>316,261</u></u>	<u><u>337,845</u></u>	<u><u>943,080</u></u>

## II. NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

The Financial Information, which is prepared based on the audited financial statements of the Group for the Relevant Years, has been prepared in accordance with HKFRSs and accounting principles generally accepted in Hong Kong. These financial statements have been prepared on a historical cost convention, except for available-for-sale investments, which have been measured at fair value. The accounting policies set out below have been consistently applied throughout the Relevant Years. The Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the Relevant Years. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company’s subsidiaries.

#### Impact of issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11, HK(IFRIC)-Int 12 and HKFRS 8 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007, 1 January 2008 and 1 January 2009, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

### **Subsidiaries**

A subsidiary is an entity, whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

### **Joint ventures**

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and other parties have an interest.

The joint venture agreement between the ventures stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture arrangement.

A joint venture is treated as:

- (i) a subsidiary if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

- (ii) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (iii) an associate, if the Group/Company does not have unilateral control or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; and
- (iv) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

### **Associates**

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

### **Goodwill**

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

#### **Excess over the cost of business combinations**

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The excess for associates is included in the Group's share of the associates' profit or loss in the period in which the investments are acquired.

#### **Impairment of non-financial assets other than goodwill**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired assets.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

### **Related parties**

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

### **Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.



Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Buildings	20 to 25 years
Leasehold improvements	Over the lease terms
Machinery	5 to 10 years
Office equipment	5 years
Motor vehicles	5 to 8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and various infrastructure projects under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### **Investment properties**

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are stated at cost including transaction costs and are depreciated on the straight-line basis to write off the cost of each property over their estimated useful lives between 20 to 25 years, after taking into account their estimated residual values.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

### **Intangible assets (other than goodwill)**

Intangible assets represent the acquisition costs of software less accumulated amortisation and impairment losses. Intangible assets with finite lives are amortised over the useful economic life on the straight-line basis of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

**Leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

**Investments and other financial assets**

Financial assets in the scope of HKAS 39 are classified as either loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of other categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

*Fair value*

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

**Impairment of financial assets**

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

*Assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are recognised when they are assessed as uncollectible.

*Assets carried at cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

*Available-for-sale financial assets*

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

**Financial liabilities at amortised cost (including interest-bearing loans and borrowings)**

Financial liabilities including trade and other payables, an amount due to Chaoyang Auxillary and interest-bearing loans and borrowings are initially started at the fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

**Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a deracination of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis for all inventories except motor vehicles, the cost of which is determined on the individual basis. Cost, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

**Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

### **Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary difference except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with interests in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with interests in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### **Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) from sale of merchandise and produce, when the significant risks and rewards of ownership of the merchandise and produce have passed to the buyer and the amount of revenue can be measured reliably;
- (ii) income from suppliers, comprising promotion income, display space leasing fees and warehouse storage space income, according to the underlying contract terms and as these services are provided in accordance therewith;
- (iii) rental income, on a time proportion basis over the lease terms;
- (iv) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (v) dividend income, when the equity/shareholders' right to receive payment has been established.

**Retirement benefits scheme**

The Company and its subsidiaries participate in defined contribution retirement benefits schemes organised by the local government authorities in the PRC. The Company and its subsidiaries are required to make contributions to the retirement benefits schemes which are based on a certain percentage of the total salary of those employees and have no further obligation for post-retirement benefits. The contributions are charged to the income statement of the Group as they become payable in accordance with the rules of the schemes.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as a part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs capitalised. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate based on the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining qualifying assets, has been applied to the expenditure on the individual assets.

**Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

**Foreign currencies**

The financial statements are presented in RMB, which is the Company's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies date are retranslated into the functional currency rates ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.



## 2. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

#### *Operating lease commitments – Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

### Estimation uncertainties

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

#### *Write down of inventories to net realisable value*

Write down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write down amount requires management's estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and write down charge/reversal in the period in which such estimate has been changed.

#### *Impairment of trade and other receivables*

Impairment of trade and other receivables is made based on assessment of the recoverability of trade and other receivables. The identification of doubtful debts requires management's judgements. Where the actual outcome is different from the original estimate, such differences will impact the carrying value of the receivables and doubtful debt expenses/write-back in the period in which such estimate has been changed.

## 3. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of assets. No further geographical segment information is presented as the Group's customers and operations are located in the PRC.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and

returns that are different from those of the other business segments. Summary details of the business segments during the Relevant Years are as follows:

- (i) the retailing segment engages in the distribution of live and fresh produce, dry products, beverages, processed food and daily necessities through Retail Outlets;
- (ii) the wholesaling segment engages in the wholesale supply of daily consumer products to consumers including the Retail Outlets and other retail operators, and trading companies;
- (iii) the pharmaceuticals segment engages in the retailing and wholesaling of prescribed and over-the-counter pharmaceuticals;
- (iv) the automobile segment engages in the trading of motor vehicles and the provision of related repair services; and
- (v) the “others” segment comprises, principally, the production of plastic packaging materials, and installation and maintenance of commercial equipment.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices. The discontinued operations of the Group for the Relevant Years comprised the pharmaceuticals and automobile segments.

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

## Year ended 31 December 2004

	Continuing operations			Discontinued operations			Consolidated RMB'000
	Retailing RMB'000	Wholesaling RMB'000	Others RMB'000	Pharmac- euticals RMB'000	Automobile RMB'000	Eliminations RMB'000	
<b>Segment revenue:</b>							
Sales to external customers	2,009,270	1,555,895	3,700	-	97,893	-	3,666,758
Intersegment sales	97,725	255,649	8,026	-	-	(361,400)	-
Other income and gains	146,571	7,455	674	-	114	-	154,814
<b>Total</b>	<b>2,253,566</b>	<b>1,818,999</b>	<b>12,400</b>	<b>-</b>	<b>98,007</b>	<b>(361,400)</b>	<b>3,821,572</b>
<b>Segment results</b>	<b>97,738</b>	<b>48,719</b>	<b>272</b>	<b>-</b>	<b>268</b>	<b>-</b>	<b>146,997</b>
Gain on disposal of an associate							1,248
Loss on disposal of a subsidiary							(1,410)
Finance costs	(9,027)	(11,961)	-	-	(130)	-	(21,118)
Share of profits of associates	-	2,177	-	508	-	-	2,685
Profit before tax							128,402
Tax							(44,233)
Profit for the year							<b>84,169</b>
<b>Assets and liabilities:</b>							
Segment assets	1,067,356	769,103	3,802	-	-	(57,865)	1,782,396
Interests in associates	-	887	-	-	-	-	887
<b>Total assets</b>							<b>1,783,283</b>
Segment liabilities	(816,734)	(642,850)	(1,974)	-	-	57,865	<b>(1,403,693)</b>
<b>Other segment information:</b>							
Capital expenditure	197,829	22,640	129	-	5,695	-	226,293
Depreciation:							
Property, plant and equipment	39,135	3,691	106	-	1,744	-	44,676
Investment properties	940	-	-	-	-	-	940
Recognition of lease prepayments for land use rights	125	-	-	-	-	-	125
Amortisation of intangible assets	1,063	-	-	-	-	-	1,063
Impairment of available-for-sale investments	-	1,188	-	-	-	-	1,188

## Year ended 31 December 2005

	Retailing <i>RMB'000</i>	Wholesaling <i>RMB'000</i>	Others <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
<b>Segment revenue:</b>					
Sales to external customers	2,060,573	2,057,361	3,814	–	4,121,748
Intersegment sales	106,107	298,323	8,029	(412,459)	–
Other income and gains	134,868	11,468	639	(3,307)	143,668
	<u>2,301,548</u>	<u>2,367,152</u>	<u>12,482</u>	<u>(415,766)</u>	<u>4,265,416</u>
<b>Segment results</b>	<u>73,893</u>	<u>90,389</u>	<u>327</u>	<u>–</u>	164,609
Finance costs	(7,121)	(15,225)	(34)	3,307	(19,073)
Share of losses of associates	–	(32)	–	–	(32)
Profit before tax					145,504
Tax					<u>(47,158)</u>
Profit for the year					<u>98,346</u>
<b>Assets and liabilities:</b>					
Segment assets	1,365,788	975,996	3,607	(204,126)	2,141,265
Interests in associates	–	918	–	–	918
Total assets					<u>2,142,183</u>
Segment liabilities	(1,125,687)	(786,259)	(1,659)	204,126	<u>(1,709,479)</u>
<b>Other segment information:</b>					
Capital expenditure	222,784	22,630	8	–	245,422
Depreciation:					
Property, plant and equipment	43,283	9,201	115	–	52,599
Investment properties	891	–	–	–	891
Recognition of lease prepayments for land use rights	752	–	–	–	752
Amortisation of intangible assets	<u>312</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>312</u>

## Year ended 31 December 2006

	Retailing <i>RMB'000</i>	Wholesaling <i>RMB'000</i>	Others <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
<b>Segment revenue:</b>					
Sales to external customers	2,297,306	2,228,520	5,149	–	4,530,975
Intersegment sales	147,559	333,227	8,904	(489,690)	–
Other income and gains	191,543	38,247	502	(5,984)	224,308
	<u>2,636,408</u>	<u>2,599,994</u>	<u>14,555</u>	<u>(495,674)</u>	<u>4,755,283</u>
<b>Segment results</b>	<u>97,742</u>	<u>133,793</u>	<u>391</u>	<u>–</u>	231,926
Finance costs	(10,397)	(21,883)	–	5,984	(26,296)
Share of losses of associates	–	(139)	–	–	(139)
Profit before tax					205,491
Tax					(74,072)
Profit for the year					<u>131,419</u>
<b>Assets and liabilities:</b>					
Segment assets	2,170,050	1,106,226	4,219	(162,779)	3,117,716
Interests in associates	–	198	–	–	198
Total assets					<u>3,117,914</u>
Segment liabilities	(1,313,482)	(890,307)	(2,259)	162,779	<u>(2,043,269)</u>
<b>Other segment information:</b>					
Capital expenditure	256,856	21,707	63	–	278,626
Depreciation:					
Property, plant and equipment	45,384	12,550	102	–	58,036
Investment properties	891	–	–	–	891
Recognition of lease prepayments for land use rights	752	–	–	–	752
Amortisation of intangible assets	383	–	–	–	383
Impairment loss on items of property, plant, and equipment	2,100	–	–	–	2,100
Foreign exchange difference	6,366	–	–	–	6,366

## 4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts. The allowances for returns and trade discounts were approximately RMB44 million, RMB36 million and RMB44 million for each of the three years ended 31 December 2006, respectively.

An analysis of the Group's revenue, other income and gains for the Relevant Years is as follows:

	Note	Year ended 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
<b>Revenue</b>				
Sale of merchandise and produce				
Retailing		2,009,270	2,060,573	2,297,306
Wholesaling		1,555,895	2,057,361	2,228,520
		3,565,165	4,117,934	4,525,826
Others		3,700	3,814	5,149
		3,568,865	4,121,748	4,530,975
Attributable to continuing operations reported in the consolidated income statements				
Trading of automobiles and provision of related repair services attributable to discontinued operations	11	97,893	–	–
		97,893	–	–
Total revenue		3,666,758	4,121,748	4,530,975
<b>Other income and gains</b>				
Income from suppliers				
Promotion income		35,585	42,765	70,700
Display space leasing fee		12,915	18,332	30,976
Information system service income		958	1,141	1,944
Merchandise storage and delivery income		6,700	11,612	13,079
Others		2,219	2,714	1,409
		58,377	76,564	118,108
Gross rental income		34,497	36,950	40,313
Net compensation on demolished properties <sup>(1)</sup>		11,982	11,129	17,002
Interest income		8,875	8,378	37,417
Gain on exchange of items of property, plant and equipment		27,486	–	–
Gain on disposal of items of property, plant and equipment, net <sup>(2)</sup>		2,710	–	–
Excess over the cost of business combinations		169	1,972	–
Gain on disposal of short term investments		–	18	–
Government grants		50	–	–
Gain on sale of wastes		2,063	3,010	3,467
Franchise fee		1,256	1,688	1,762
Logistics service income		952	599	2,511
Others		6,283	3,360	3,728
		154,700	143,668	224,308
Attributable to continuing operations reported in the consolidated income statements		154,700	143,668	224,308

	Note	Year ended 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
Attributable to discontinued operations:				
Interest income		112	–	–
Gain on disposal of an associate <sup>(3)</sup>		1,248	–	–
Others		2	–	–
		<u>          </u>	<u>          </u>	<u>          </u>
	11	1,362	–	–
		<u>          </u>	<u>          </u>	<u>          </u>
Total other income and gains		<u>156,062</u>	<u>143,668</u>	<u>224,308</u>

## Notes:

- (1) During the Relevant Years, the Group entered into agreements with Chaoyang Auxillary and independent third party real estate developers that certain retail outlet properties were demolished and re-possessed by the developers. The Group has been compensated for the loss of business and the related items of property, plant and equipment, primarily leasehold improvements, and machinery and equipment of the affected properties, arising from the demolition and re-possession. The net compensation on demolished properties represented the gross compensation received from Chaoyang Auxillary and the developers in excess of the carrying amounts of the related items of property, plant and equipment upon the demolition.
- (2) Included in the gain on disposal of items of property, plant and equipment in 2004 was an amount of approximately RMB4,426,000 arising from the change of capital contribution made by Chaoyang Auxillary, details of which are disclosed in note (b) of the consolidated statements of changes in equity.
- (3) The gain on disposal of an associate in 2004 was related to the sale of 35.07% equity interests in Beijing Yiyuantang Medicine Chain Company Limited (“Yiyuantang”) to Chaoyang Auxillary.

## 5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):#

	Notes	Year ended 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
Cost of inventories sold		3,253,989	3,621,667	3,966,385
Depreciation:				
Property, plant and equipment	14	44,676	52,599	58,036
Investment properties	15	940	891	891
		45,616	53,490	58,927
Amortisation of intangible assets	20	1,063	312	383
Recognition of lease prepayments for land use rights	16	125	752	752
Goodwill written off		186	-	-
Minimum lease payments under operating leases on properties		34,245	39,539	50,015
Gain on disposal of an associate		(1,248)	-	-
Loss on disposal of a subsidiary	36	1,410	-	-
(Gain)/loss on disposal of items of property, plant and equipment, net		(2,710)	1,468	555
Impairment of trade and other receivables		909	8,818	6,640
Write down/(reversal of write down) of inventories to net realisable value		2,067	(569)	5
Impairment of available-for-sale investments		1,188	-	-
Net rental income		(29,105)	(31,800)	(34,272)
Direct operating expense (including repairs and maintenance) arising on rental-earning investment properties		5,392	5,150	6,041
Impairment loss on items of property, plant and equipment	14	-	-	2,100
Auditors' remuneration		392	160	1,385
Staff costs:				
Directors' and supervisors' emoluments	8	2,335	1,908	3,072
Other staff costs				
Wages, salaries and social security costs		148,731	160,495	185,432
Retirement benefits contributions		18,746	16,417	18,431
		167,477	176,912	203,863
		169,812	178,820	206,935
Foreign exchange difference		-	-	6,366
Dividend income from available-for-sale investments		-	(30)	-
Interest income		(8,987)	(8,378)	(37,417)
		(8,987)	(8,378)	(37,417)

# The disclosures presented in this note include those amounts charged/credited in respect of the discontinued operations.



The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively “State-owned Enterprises”).

For the each of the three years ended 31 December 2006, sales to the Group’s twenty largest customers represented approximately 20.8%, 30.5% and 31.2% of the Group’s total revenue respectively. To the best knowledge of the directors, out of the sales to the twenty largest customers, transactions with State-owned Enterprises represented approximately 14.7%, 12.2% and 8.7% of the transaction values of the Group’s twenty largest customers for the each of the three years ended 31 December 2006.

For the each of the three years ended 31 December 2006, purchases from the Group’s twenty largest suppliers represented approximately 36.8%, 40.0% and 40.6% of the Group’s total purchase respectively. To the best knowledge of the directors, out of the purchases from the twenty largest suppliers, transactions with State-owned Enterprises represented approximately 28.3%, 31.1% and 41.1% of the transaction values of the Group’s twenty largest suppliers for the each of the three years ended 31 December 2006.

## 6. FINANCE COSTS

### Group

	Year ended 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Interest on bank loans repayable:			
Within five years	15,895	16,205	28,323
Over five years	–	293	–
	<hr/>	<hr/>	<hr/>
	15,895	16,498	28,323
Interest on other borrowings from:			
Employees <sup>(1)</sup>	4,168	–	–
Other enterprises	7,125	14,175	15,745
	<hr/>	<hr/>	<hr/>
	11,293	14,175	15,745
Total interest	27,188	30,673	44,068
Less: Interest capitalised <sup>(2)</sup>	(6,200)	(11,600)	(17,772)
	<hr/>	<hr/>	<hr/>
	<u>20,988</u>	<u>19,073</u>	<u>26,296</u>
Attributable to discontinued operations (note 11)	130	–	–
Attributable to continuing operations reported in the consolidated income statements	20,988	19,073	26,296
	<hr/>	<hr/>	<hr/>
	<u>21,118</u>	<u>19,073</u>	<u>26,296</u>

## Notes:

- (1) The Group acquired certain borrowings from employees which were unsecured, bore annual interest rates of 5% to 6% and were fully repaid by June 2004.
- (2) The capitalisation rate used to determine the amount of finance costs eligible for capitalisation were 5.31%, 5% and 5.85%, and 5.32% and 6.04% for each of the three years ended 31 December 2006, respectively.

**7. RETIREMENT BENEFITS**

The aggregate contributions of the Group to the retirement benefit schemes were approximately RMB19,057,000, RMB16,651,000 and RMB18,820,000 for each of the three years ended 31 December 2006, respectively.

**8. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS**

Details of the remuneration of directors and supervisors during the Relevant Years, disclosed pursuant to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, are as follows:

**Group**

	Directors			Supervisors		
	Year ended 31 December			Year ended 31 December		
	2004	2005	2006	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fees	-	124	148	-	60	58
Other emoluments:						
Salaries, allowances and benefits in kind	1,339	1,027	967	685	463	640
Performance related bonuses*	-	-	530	-	-	340
Retirement benefits contributions	203	161	235	108	73	154
Total	<u>1,542</u>	<u>1,312</u>	<u>1,880</u>	<u>793</u>	<u>596</u>	<u>1,192</u>

\* Certain executive directors and supervisors of the Company are entitled to bonus payments which are determined based on the Company's gross profit for the year ended 31 December 2006.

**(a) Independent non-executive directors**

The fees paid to independent non-executive directors during the Relevant Years were as follows:

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Mr. Fan Faming	–	35	34
Mr. Huang Jiangming	–	35	34
Mr. Chung Chi Kong	–	33	80
Ms. Deng Xiaofeng	–	21	–
	<hr/>	<hr/>	<hr/>
Total	–	124	148
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

There were no other emoluments payable to the independent non-executive directors during the Relevant Years.

## (b) Executive directors and non-executive directors

	Fees	Salaries, allowance and benefits in kind	Performance related bonuses	Retirement benefits contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>2004</b>					
<i>Executive directors:</i>					
Mr. Wei Tingzhan	-	234	-	36	270
Mr. Li Jianwen	-	302	-	48	350
Mr. Liu Yuejin	-	154	-	24	178
Mr. Bai Xianrong	-	191	-	29	220
Ms. Chen Limin	-	307	-	41	348
Mr. Gu Hanlin	-	151	-	25	176
	-	1,339	-	203	1,542
<i>Non-executive directors:</i>					
Mr. Gu Hanlin	-	-	-	-	-
Mr. Li Shunxiang	-	-	-	-	-
	-	-	-	-	-
Total	-	1,339	-	203	1,542
<b>2005</b>					
<i>Executive directors:</i>					
Mr. Wei Tingzhan	-	233	-	37	270
Mr. Li Jianwen	-	346	-	54	400
Ms. Li Chunyan	-	223	-	35	258
Mr. Liu Yuejin	-	225	-	35	260
	-	1,027	-	161	1,188
<i>Non-executive directors:</i>					
Mr. Gu Hanlin	-	-	-	-	-
Mr. Li Shunxiang	-	-	-	-	-
	-	-	-	-	-
Total	-	1,027	-	161	1,188
<b>2006</b>					
<i>Executive directors:</i>					
Mr. Wei Tingzhan	-	233	130	57	420
Mr. Li Jianwen	-	344	200	86	630
Ms. Li Chunyan	-	195	100	46	341
Mr. Liu Yuejin	-	195	100	46	341
	-	967	530	235	1,732
<i>Non-executive directors:</i>					
Mr. Gu Hanlin	-	-	-	-	-
Mr. Li Shunxiang	-	-	-	-	-
	-	-	-	-	-
Total	-	967	530	235	1,732

## (c) Supervisors

	Fees	Salaries, allowance and benefits in kind	Performance related bonuses	Retirement benefits contributions	Total remuneration
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>2004</b>					
Ms. Ma Xiurong	–	125	–	20	145
Ms. Liu Wenyu	–	108	–	17	125
Ms. Wang Shuying	–	177	–	28	205
Ms. Chen Jie	–	52	–	8	60
Ms. Qu Xinhua	–	223	–	35	258
Total	<u>–</u>	<u>685</u>	<u>–</u>	<u>108</u>	<u>793</u>
<b>2005</b>					
Ms. Chen Jie	–	177	–	28	205
Ms. Qu Xinhua	–	286	–	45	331
Mr. Yang Baoqun	–	–	–	–	–
Mr. Chen Zhong	30	–	–	–	30
Ms. Cheng Xianghong	30	–	–	–	30
Total	<u>60</u>	<u>463</u>	<u>–</u>	<u>73</u>	<u>596</u>
<b>2006</b>					
Ms. Chen Jie	–	233	130	57	420
Ms. Qu Xinhua	–	233	130	57	420
Mr. Yang Baoqun	–	–	–	–	–
Ms. Wang Shuying	–	174	80	40	294
Mr. Chen Zhong	29	–	–	–	29
Ms. Cheng Xianghong	29	–	–	–	29
Total	<u>58</u>	<u>640</u>	<u>340</u>	<u>154</u>	<u>1,192</u>

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the Relevant Years.

The emoluments of each of the directors and supervisors for each of the Relevant Years fell within the range of nil to HK\$1,000,000 (equivalent to RMB975,600).

The five individuals whose remuneration was the highest in the Group during the Relevant Years are all non-director and non-supervisor employees.

The remuneration paid to the non-director and non-supervisor highest paid employees is as follows:

**Group**

	<b>Year ended 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowances and benefits in kind	2,276	1,655	3,220
Performance related bonuses	–	3,693	4,767
Retirement benefits contributions	77	119	125
	<u>2,353</u>	<u>5,467</u>	<u>8,112</u>

The number of non-director and non-supervisor highest paid employees whose remuneration fell within the following bands is as follows:

	<b>Number of employees</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
Nil to HK\$1,000,000 (equivalent to RMB975,600)	5	3	–
HK\$1,000,001 to HK\$1,500,000 (equivalent to RMB975,601 to RMB1,463,400)	–	2	3
HK\$1,500,001 to HK\$2,000,000 (equivalent to RMB1,463,401 to RMB1,951,200)	–	–	2
	<u>5</u>	<u>5</u>	<u>5</u>

**9. TAX**

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The Group is not liable for income tax in Hong Kong as it did not have assessable income currently arising in Hong Kong during the Relevant Years. Under the prevailing PRC income tax law, the Group and its associates are subject to corporate income tax at a rate of 33% on their respective taxable income.

The determination of income tax in the consolidated income statements of the Group is as follows:

**Group**

	<i>Note</i>	<b>Year ended 31 December</b>		
		<b>2004</b>	<b>2005</b>	<b>2006</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax - the PRC		33,011	43,682	71,140
Deferred income tax	32	<u>11,116</u>	<u>3,476</u>	<u>2,932</u>
Total tax change for the year		<u><u>44,127</u></u>	<u><u>47,158</u></u>	<u><u>74,072</u></u>

A reconciliation of tax expense applicable to profit before tax at the statutory rate to tax expense at the Group's effective tax rate, and a reconciliation of the statutory rate to the effective tax rate, are as follows:

**Group**

	<b>2004</b>		<b>Year ended 31 December</b>		<b>2006</b>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Profit before tax (including profit from the discontinued operations)	<u>128,402</u>		<u>145,504</u>		<u>205,491</u>	
Income tax at the PRC statutory income tax rate	42,373	33.0	48,016	33.0	67,812	33.0
Expenses not deductible for tax	4,482	3.5	5,756	4.0	3,570	1.7
Tax losses not recognised	84	-	24	-	2,857	1.4
Tax losses utilised from previous periods	(390)	(0.3)	(89)	-	-	-
Income not subject to tax	(2,947)	(2.3)	(3,896)	(2.7)	-	-
Others	<u>631</u>	<u>0.5</u>	<u>(2,653)</u>	<u>(1.9)</u>	<u>(167)</u>	<u>-</u>
Tax charged at the Group's effective rate	<u><u>44,233</u></u>	<u><u>34.4</u></u>	<u><u>47,158</u></u>	<u><u>32.4</u></u>	<u><u>74,072</u></u>	<u><u>36.1</u></u>
Represented by:						
Tax charge attributable to discontinued operations ( <i>note 11</i> )	106		-		-	
Tax charge attributable to continuing operations reported in the consolidated income statements	<u>44,127</u>		<u>47,158</u>		<u>74,072</u>	
	<u><u>44,233</u></u>		<u><u>47,158</u></u>		<u><u>74,072</u></u>	

The share of tax attributable to associates amounting to RMB2,100,000, RMB300 and Nil for each of the three years ended 31 December 2006, respectively, is included in "Share of profits and losses of associates" on the face of the consolidated income statements.

**10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT**

The consolidated profit attributable to equity holders of the parent for each of the three years ended 31 December 2006 include profits of RMB70,281,000, RMB60,391,000 and RMB81,372,000 which has been dealt with in the financial statements of the Company (*note 34(b)*).

**11. DISCONTINUED OPERATIONS**

The discontinued operations represented the sale of pharmaceuticals, the trading of automobiles and the provision of related repair services, which were respectively conducted by Yiyuantang, a then 70.13%-owned subsidiary, and Beijing City Tengyuan Xingye Vehicle Service Limited Company ("Tengyuan"), a then 62.73%-owned subsidiary. The operating results of Yiyuantang were consolidated into the Group's consolidated income statements until June 2003 when the Company disposed off half of its equity interests therein to a third party. Together with equity interests in Tengyuan, the remaining half of the equity interests in Yiyuantang was sold to Chaoyang Auxillary in June 2004.

In the opinion of the directors of the Company, the disposal of these discontinued operations above-mentioned is consistent with the Group's long term strategy to concentrate on retail chain and wholesaling operations of general merchandise and produce.

The results of the discontinued operations for the Relevant Years are presented below:

	<b>Year ended 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	97,893	–	–
Cost of sales	(89,137)	–	–
Gross profit	8,756	–	–
Other income and gains	1,362	–	–
Selling and distribution costs	(7,232)	–	–
Administrative expenses	(1,358)	–	–
Other expenses	(1,422)	–	–
Finance costs	(130)	–	–
Share of profit of an associate	508	–	–
Profit before tax from the discontinued operations	484	–	–
Tax	(106)	–	–
Profit for the year from the discontinued operations	<u>378</u>	<u>–</u>	<u>–</u>
Attributable to:			
Equity holders of the parent	361	–	–
Minority interests	17	–	–
	<u>378</u>	<u>–</u>	<u>–</u>

There was no carrying value of the assets and liabilities of the discontinued operations as at 31 December 2004.



The net cash flows incurred by the discontinued operations are as follows:

	Year ended 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Operating activities	1,391	–	–
Investing activities	(10,498)	–	–
Financing activities	141	–	–
Net cash outflow	<u>(8,966)</u>	<u>–</u>	<u>–</u>
Earnings per share - basic (RMB)	<u>0.15 cents</u>	<u>–</u>	<u>–</u>

The calculations of basic earnings per share from the discontinued operations are based on:

	Year ended 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
<i>Earnings:</i>			
Profit attributable to ordinary equity holders of the parent from the discontinued operations	<u>361</u>	<u>–</u>	<u>–</u>

	Number of shares		
	Year ended 31 December		
	2004	2005	2006
<i>Shares:</i>			
Weighted average number of ordinary shares in issue during the year ended 31 December 2004 used in the basic earnings per share calculation	<u>246,620,000</u>	<u>–</u>	<u>–</u>

The Company's weighted average number of share in issue used in the basic earnings per share calculation for the year ended 31 December 2004 is determined based on the assumption that the 246,620,000 shares had been in issue throughout the year ended 31 December 2004.

## 12. DIVIDENDS

	Year ended 31 December		
	2004 RMB'000	2005 RMB'000	2006 RMB'000
Proposed final	39,502	56,367	57,693
Declared special	<u>3</u>	<u>–</u>	<u>–</u>
	<u><u>39,505</u></u>	<u><u>56,367</u></u>	<u><u>57,693</u></u>
Proposed final dividend per ordinary share (RMB)	<u><u>16.0 cents</u></u>	<u><u>22.9 cents</u></u>	<u><u>15.0 cents</u></u>

The proposed final dividend of RMB per share for the year ended 31 December 2006 has been approved by the Company's shareholders at the annual general meeting held on 18 May 2007.

For the period before the listing of the Company's shares, for dividend purposes, the amount which the Company can legally distribute by way of a dividend is determined by reference to its profit available for distribution as reflected in its PRC statutory financial statements which are prepared in accordance with the PRC GAAP. This profit differs from that reflected in this report which is prepared in accordance with HKFRSs.

Upon the listing of the Company's shares, the profit after tax of the Company for the purpose of profit distribution will be the lesser of (i) the profit determined in accordance with the PRC GAAP and (ii) the profit determined in accordance with HKFRSs.

### 13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the Relevant Years attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the Relevant Years.

	<b>Year ended 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Earnings:</i>			
Profit attributable to ordinary equity holders of the parent from:			
Continuing operations	73,167	75,098	99,577
Discontinued operations	361	–	–
	<u>73,528</u>	<u>75,098</u>	<u>99,577</u>
	<b>Number of shares</b>		
	<b>Year ended 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
<i>Shares:</i>			
Weighted average number of ordinary shares in issue during the Relevant Years used in the basic earnings per share calculation	<u>246,620,000</u>	<u>246,620,000</u>	<u>283,672,055</u>

The Company's weighted average number of share in issue used in the basic earnings per share calculation for the year ended 31 December 2004 is determined based on the assumption that the 246,620,000 shares had been in issue throughout the year ended 31 December 2004.

The Company's weighted average number of shares in issue used in the basic earnings per share calculation for the year ended 31 December 2006 is determined by adjusting 120,000,000 new H shares issued to the public and listed on the GEM of the Stock Exchange on 25 September 2006 and a further 18,000,000 new H shares issued as a result of the full exercise of the over-allotment option on 25 September 2006.

Diluted earnings per share for each of the three years ended 31 December 2006 have not been presented because no diluting events existed during the Relevant Years.

## 14. PROPERTY, PLANT AND EQUIPMENT

## Group

	Leasehold			Office	Motor	Construction	Total
	Buildings improvements		Machinery	equipment	vehicles	in progress	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>31 December 2004</b>							
At 1 January 2004:							
Cost	238,388	80,246	182,632	73,948	38,112	111,375	724,701
Accumulated depreciation	(31,175)	(10,739)	(62,630)	(32,353)	(13,020)	-	(149,917)
Net carrying amount	<u>207,213</u>	<u>69,507</u>	<u>120,002</u>	<u>41,595</u>	<u>25,092</u>	<u>111,375</u>	<u>574,784</u>
At 1 January 2004, net of							
accumulated depreciation	207,213	69,507	120,002	41,595	25,092	111,375	574,784
Additions	49,977	2,717	29,841	8,370	5,897	55,979	152,781
Acquisition of subsidiaries	-	-	753	212	2,184	-	3,149
Take-back by Chaoyang Auxillary*	(52,620)	-	-	-	-	-	(52,620)
Disposals	-	(1,070)	(129)	(1,012)	(280)	-	(2,491)
Disposal of a subsidiary	(4,343)	(1,410)	(1,751)	(817)	(12,870)	(9,049)	(30,240)
Depreciation	(7,801)	(2,703)	(17,613)	(12,638)	(3,921)	-	(44,676)
Transfers	782	5,493	1,532	3,739	-	(11,546)	-
At 31 December 2004,							
net of accumulated depreciation	<u>193,208</u>	<u>72,534</u>	<u>132,635</u>	<u>39,449</u>	<u>16,102</u>	<u>146,759</u>	<u>600,687</u>
At 31 December 2004:							
Cost	219,219	85,856	211,491	82,028	28,674	146,759	774,027
Accumulated depreciation	(26,011)	(13,322)	(78,856)	(42,579)	(12,572)	-	(173,340)
Net carrying amount	<u>193,208</u>	<u>72,534</u>	<u>132,635</u>	<u>39,449</u>	<u>16,102</u>	<u>146,759</u>	<u>600,687</u>

**Group**

	Leasehold			Office	Motor	Construction	Total
	Buildings improvements	improvements	Machinery	equipment	vehicles	in progress	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>31 December 2005</b>							
At 31 December 2004 and at 1 January 2005:							
Cost	219,219	85,856	211,491	82,028	28,674	146,759	774,027
Accumulated depreciation	(26,011)	(13,322)	(78,856)	(42,579)	(12,572)	-	(173,340)
Net carrying amount	<u>193,208</u>	<u>72,534</u>	<u>132,635</u>	<u>39,449</u>	<u>16,102</u>	<u>146,759</u>	<u>600,687</u>
At 1 January 2005, net of accumulated depreciation	193,208	72,534	132,635	39,449	16,102	146,759	600,687
Additions	5,794	10,890	39,552	1,744	1,996	184,414	244,390
Acquisition from Chaoyang Auxillary	-	6,830	308	75	30	-	7,243
Disposals	-	-	(3,354)	(191)	(534)	-	(4,079)
Depreciation	(8,254)	(5,524)	(21,821)	(13,972)	(3,028)	-	(52,599)
Transfers	2,370	23,639	14,562	638	-	(41,209)	-
At 31 December 2005, net of accumulated depreciation	<u>193,118</u>	<u>108,369</u>	<u>161,882</u>	<u>27,743</u>	<u>14,566</u>	<u>289,964</u>	<u>795,642</u>
At 31 December 2005:							
Cost	227,383	127,215	257,096	81,404	27,605	289,964	1,010,667
Accumulated depreciation	(34,265)	(18,846)	(95,214)	(53,661)	(13,039)	-	(215,025)
Net carrying amount	<u>193,118</u>	<u>108,369</u>	<u>161,882</u>	<u>27,743</u>	<u>14,566</u>	<u>289,964</u>	<u>795,642</u>

**Group**

	Leasehold			Office	Motor	Construction	Total
	Buildings improvements	improvements	Machinery	equipment	vehicles	in progress	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>31 December 2006</b>							
At 31 December 2005 and at 1 January 2006:							
Cost	227,383	127,215	257,096	81,404	27,605	289,964	1,010,667
Accumulated depreciation	(34,265)	(18,846)	(95,214)	(53,661)	(13,039)	-	(215,025)
Net carrying amount	<u>193,118</u>	<u>108,369</u>	<u>161,882</u>	<u>27,743</u>	<u>14,566</u>	<u>289,964</u>	<u>795,642</u>
At 1 January 2006, net of accumulated depreciation	193,118	108,369	161,882	27,743	14,566	289,964	795,642
Additions	8,438	67,379	30,470	14,865	5,439	151,388	277,979
Disposals	-	-	(1,438)	(50)	(798)	-	(2,286)
Impairment	-	-	-	-	-	(2,100)	(2,100)
Depreciation	(8,463)	(9,249)	(27,157)	(10,085)	(3,082)	-	(58,036)
Transfers	1,050	17,680	4,642	1,883	-	(25,255)	-
At 31 December 2006, net of accumulated depreciation and impairment	<u>194,143</u>	<u>184,179</u>	<u>168,399</u>	<u>34,356</u>	<u>16,125</u>	<u>413,997</u>	<u>1,011,199</u>
At 31 December 2006:							
Cost	236,871	212,274	284,323	95,014	28,939	416,097	1,273,518
Accumulated depreciation and impairment	(42,728)	(28,095)	(115,924)	(60,658)	(12,814)	(2,100)	(262,319)
Net carrying amount	<u>194,143</u>	<u>184,179</u>	<u>168,399</u>	<u>34,356</u>	<u>16,125</u>	<u>413,997</u>	<u>1,011,199</u>

## Company

	Leasehold		Machinery	Office equipment	Motor vehicles	Construction in progress	Total
	Buildings improvements	improvements					
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>31 December 2004</b>							
At 1 January 2004:							
Cost	231,914	70,551	170,740	57,661	10,473	101,231	642,570
Accumulated depreciation	(29,303)	(6,808)	(59,165)	(26,872)	(6,282)	-	(128,430)
Net carrying amount	<u>202,611</u>	<u>63,743</u>	<u>111,575</u>	<u>30,789</u>	<u>4,191</u>	<u>101,231</u>	<u>514,140</u>
At 1 January 2004, net of accumulated depreciation							
At 1 January 2004, net of accumulated depreciation	202,611	63,743	111,575	30,789	4,191	101,231	514,140
Additions	49,976	1,897	13,172	4,985	1,665	52,001	123,696
Take-back by Chaoyang Auxillary*	(52,620)	-	-	-	-	-	(52,620)
Disposals	-	-	(129)	(295)	(201)	-	(625)
Depreciation	(7,685)	(2,029)	(15,946)	(10,348)	(1,123)	-	(37,131)
Transfers	782	4,072	1,519	100	-	(6,473)	-
At 31 December 2004, net of accumulated depreciation	<u>193,064</u>	<u>67,683</u>	<u>110,191</u>	<u>25,231</u>	<u>4,532</u>	<u>146,759</u>	<u>547,460</u>
At 31 December 2004:							
Cost	219,033	76,520	185,003	60,816	11,013	146,759	699,144
Accumulated depreciation	(25,969)	(8,837)	(74,812)	(35,585)	(6,481)	-	(151,684)
Net carrying amount	<u>193,064</u>	<u>67,683</u>	<u>110,191</u>	<u>25,231</u>	<u>4,532</u>	<u>146,759</u>	<u>547,460</u>

**Company**

	Leasehold		Machinery	Office equipment	Motor vehicles	Construction in progress	Total
	Buildings improvements	improvements					
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>31 December 2005</b>							
At 31 December 2004 and at 1 January 2005:							
Cost	219,033	76,520	185,003	60,816	11,013	146,759	699,144
Accumulated depreciation	(25,969)	(8,837)	(74,812)	(35,585)	(6,481)	-	(151,684)
Net carrying amount	<u>193,064</u>	<u>67,683</u>	<u>110,191</u>	<u>25,231</u>	<u>4,532</u>	<u>146,759</u>	<u>547,460</u>
At 1 January 2005, net of accumulated depreciation							
	193,064	67,683	110,191	25,231	4,532	146,759	547,460
Additions	5,794	9,105	13,018	7,080	1,996	184,414	221,407
Acquisition from Chaoyang Auxillary	-	6,830	308	75	30	-	7,243
Acquisition from a subsidiary	-	-	1,852	146	-	-	1,998
Disposals	-	-	(3,343)	(180)	(144)	-	(3,667)
Depreciation	(8,211)	(4,246)	(18,332)	(9,701)	(1,214)	-	(41,704)
Transfers	2,370	23,639	14,562	638	-	(41,209)	-
At 31 December 2005, net of accumulated depreciation	<u>193,017</u>	<u>103,011</u>	<u>118,256</u>	<u>23,289</u>	<u>5,200</u>	<u>289,964</u>	<u>732,737</u>
At 31 December 2005:							
Cost	227,197	116,094	206,274	65,793	11,713	289,964	917,035
Accumulated depreciation	(34,180)	(13,083)	(88,018)	(42,504)	(6,513)	-	(184,298)
Net carrying amount	<u>193,017</u>	<u>103,011</u>	<u>118,256</u>	<u>23,289</u>	<u>5,200</u>	<u>289,964</u>	<u>732,737</u>



**Company**

	Leasehold		Machinery	Office equipment	Motor vehicles	Construction in progress	Total
	Buildings improvements	improvements					
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>31 December 2006</b>							
At 31 December 2005 and at 1 January 2006:							
Cost	227,197	116,094	206,274	65,793	11,713	289,964	917,035
Accumulated depreciation	(34,180)	(13,083)	(88,018)	(42,504)	(6,513)	-	(184,298)
Net carrying amount	<u>193,017</u>	<u>103,011</u>	<u>118,256</u>	<u>23,289</u>	<u>5,200</u>	<u>289,964</u>	<u>732,737</u>
At 1 January 2006, net of accumulated depreciation	193,017	103,011	118,256	23,289	5,200	289,964	732,737
Additions	8,437	43,115	26,083	8,017	852	151,388	237,892
Acquisition from subsidiaries	-	-	206	-	-	-	206
Transfer to subsidiaries	-	(23,485)	(8,985)	(304)	-	-	(32,774)
Disposals	-	-	(1,438)	(38)	(556)	-	(2,032)
Impairment	-	-	-	-	-	(2,100)	(2,100)
Depreciation	(8,462)	(6,451)	(19,598)	(8,064)	(1,125)	-	(43,700)
Transfers	1,050	17,680	4,642	1,883	-	(25,255)	-
At 31 December 2006, net of accumulated depreciation and impairment	<u>194,042</u>	<u>133,870</u>	<u>119,166</u>	<u>24,783</u>	<u>4,371</u>	<u>413,997</u>	<u>890,229</u>
At 31 December 2006:							
Cost	236,684	153,404	220,335	72,984	9,260	416,097	1,108,764
Accumulated depreciation and impairment	(42,642)	(19,534)	(101,169)	(48,201)	(4,889)	(2,100)	(218,535)
Net carrying amount	<u>194,042</u>	<u>133,870</u>	<u>119,166</u>	<u>24,783</u>	<u>4,371</u>	<u>413,997</u>	<u>890,229</u>

\* This related to the change of capital contribution by Chaoyang Auxillary from buildings to cash in 2004, details of which are set out in note (b) of the consolidated statements of changes in equity.

All the Group's and the Company's buildings are situated in the PRC.

The Group's buildings with a net book value of approximately RMB32 million as at 31 December 2004 were pledged to secure certain bank loans granted to the Group (note 30).

The Group's and the Company's buildings with a net book value of approximately RMB87 million as at 31 December 2005 were pledged to secure certain bank loans granted to the Group and the Company (note 30).

The Group's and the Company's buildings and construction in progress with net book values of approximately RMB169 million and RMB294 million, respectively, as at 31 December 2006 were pledged to secure certain bank loans granted to the Group and the Company (*note 30*).

As at 31 December 2006, except for the properties under construction and a property with net book value of approximately RMB7.5 million located in Beijing, the Group has obtained the relevant building ownership certificates.

## 15. INVESTMENT PROPERTIES

### Group and Company

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January	19,306	18,704	17,813
Additions	338	–	–
Depreciation provided during the year	(940)	(891)	(891)
	<u>18,704</u>	<u>17,813</u>	<u>16,922</u>
Carrying amount at 31 December	<u>18,704</u>	<u>17,813</u>	<u>16,922</u>
Fair value	<u>26,114</u>	<u>26,732</u>	<u>30,470</u>

The Group's and the Company's investment properties are situated in the PRC.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 39(a) to the financial statements.

The Group's and the Company's investment properties with carrying amounts of RMB16,477,000 and RMB16,922,000 as at 31 December 2005 and 2006, respectively were pledged to secure certain bank loans granted to the Group and the Company (*note 30*).

The fair values of the investment properties as at each of the balance sheet date were determined based on the valuations performed by Vigers Appraisal & Consulting Limited ("Vigers"), an independent firm of professional valuers located at 10/F The Grande Building, 398 Kwun Tong Road, Kowloon, Hong Kong. The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation. As at 31 December 2004, as the Group was in the process of obtaining the relevant building ownership certificates, the fair value then was provided by Vigers for indicative purpose.

**16. LEASE PREPAYMENTS FOR LAND USE RIGHTS****Group and Company**

	<b>As at 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount at 1 January	2,501	73,698	72,946
Additions	71,322	–	–
Recognised during the year	(125)	(752)	(752)
	<u>73,698</u>	<u>72,946</u>	<u>72,194</u>
Carrying amount at 31 December	<u><u>73,698</u></u>	<u><u>72,946</u></u>	<u><u>72,194</u></u>

The leasehold land is held under long term leases and is situated in the PRC.

The Group's and the Company's lease prepayments for land use rights of carrying amounts of RMB68 million as at 31 December 2006 were pledged to secure certain bank loans granted to the Group and the Company (*note 30*).

**17. INTERESTS IN SUBSIDIARIES****Company**

	<b>As at 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted investments, at cost	66,269	84,352	113,352
Amounts due from subsidiaries	108,158	151,931	236,370
Amounts due to subsidiaries	(57,209)	(57,515)	(4,692)
	<u>117,218</u>	<u>178,768</u>	<u>345,030</u>
	<u><u>117,218</u></u>	<u><u>178,768</u></u>	<u><u>345,030</u></u>

Included in the amounts due from subsidiaries as at 31 December 2005 and 2006 were entrusted loans lent by the Company (the "Lender") to Chaopi Trading, Chaopi Flavourings, Chaopi Huaqing and Chaopi Jinglong (collectively the "Borrowers") amounting to RMB30 million, RMB20 million, RMB29.5 million and RMB20 million and RMB100 million, RMB20 million, RMB29.5 million and RMB20 million, respectively, to finance the Borrowers' working capital. The entrusted loans were arranged via Beijing Bank Jiulongshan Branch (the "Bank"). However, the Bank has no liability to either the Lender or the Borrowers in case of default. These entrusted loans were unsecured, bearing an annual interest rate of 5.6% and 6.1% during each of the two years ended 31 December 2006. Except for the loan to Chaopi Trading of RMB50 million maturing on 26 December 2007, all the loans will mature on 19 December 2007.

Except for the aforementioned entrusted loans, all the amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

The Company's equity interest in Chaopi Trading of 71.7% was pledged to secure certain borrowings granted to the Company (*note 30*).

Particulars of the subsidiaries held by the Company are set out on pages 195 to 197 of this document.

## 18. INTERESTS IN ASSOCIATES

### Group

	As at 31 December		
	2004 RMB'000	2005 RMB'000	2006 RMB'000
Share of net assets	369	337	198
Amounts due from associates	518	581	–
	887	918	198
	887	918	198

The amounts due from associates as at 31 December 2004 and 2005 were unsecured, interest-free and were fully settled by 2006.

Particulars of the associates held by the Group are set out on page 196 of this document.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2004 RMB'000	2005 RMB'000	2006 RMB'000
Assets	4,366	2,791	899
Liabilities	(3,477)	(1,973)	(409)
Revenues	467,525*	7,263	3,632
Profits/(losses)	6,579*	(71)	(329)
	6,579*	(71)	(329)

\* The revenues and profits for the year ended 31 December 2004 included those of Chaopi Flavourings, Chaopi Huaqing and Yiyuantang. Chaopi Flavourings and Chaopi Huaqing were associates of the Group before the acquisition of additional of 11.11% and 12.50% equity interests by Chaopi Trading from Chaoyang Auxillary in June 2004, whilst Yiyuantang was an associate prior to the disposal of 35.07% equity interests by the Company to Chaoyang Auxillary in June 2004.

## 19. AVAILABLE-FOR-SALE INVESTMENTS

## Group

	As at 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Listed equity investment in the PRC, at fair value	350	350	3,099
Unlisted equity investment, at cost	1,188	1,188	1,188
Less: Impairment of equity investment	(1,188)	(1,188)	(1,188)
	-	-	-
	<u>350</u>	<u>350</u>	<u>3,099</u>

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturing date or coupon rate. The fair value of listed equity investment is based on quoted market prices.

During the year ended 31 December 2006, the gross gain of the Group's available-for-sale investments recognised directly in equity amounted to RMB2,749,000.

As at the end of each of the Relevant Years, the unlisted equity investment was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably.

**20. INTANGIBLE ASSETS**

The intangible assets represented the carrying amount of software acquired.

**Group and Company**

	<b>As at 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost at 1 January, net of accumulated amortisation	571	1,360	2,080
Additions	1,852	1,032	647
Amortisation provided during the year	(1,063)	(312)	(383)
	<u>1,360</u>	<u>2,080</u>	<u>2,344</u>
At 31 December, net of accumulated amortisation	<u>1,360</u>	<u>2,080</u>	<u>2,344</u>
At 31 December:			
Cost	4,439	5,471	6,118
Accumulated amortisation	(3,079)	(3,391)	(3,774)
	<u>1,360</u>	<u>2,080</u>	<u>2,344</u>
Net carrying amount	<u>1,360</u>	<u>2,080</u>	<u>2,344</u>

**21. OTHER LONG TERM LEASE PREPAYMENTS**

Other long term lease prepayments of the Group and the Company as at 31 December 2004 represented rental expenses prepaid for two years commencing from January 2006. In 2005, the commencement of the rental period has been postponed to an uncertain date due to the ongoing negotiation between the lessor who sublet the premises to the Company and the original landlord of the premises. The prepaid balance was then transferred out into other receivables as at 31 December 2005.

Other long term lease prepayments of the Group as at 31 December 2006 represented rental deposits for leasing eight premises for five to eighteen years commencing from the middle of 2006.

**22. INVENTORIES****Group**

	<b>As at 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Merchandise and produce for resale	346,606	379,876	490,309
Raw materials	–	–	6,479
	<hr/>	<hr/>	<hr/>
	346,606	379,876	496,788
Low value consumables	2,084	2,288	2,856
	<hr/>	<hr/>	<hr/>
	<u>348,690</u>	<u>382,164</u>	<u>499,644</u>

**Company**

	<b>As at 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Merchandise and produce for resale	121,515	134,891	150,486
Raw materials	–	–	6,479
	<hr/>	<hr/>	<hr/>
	121,515	134,891	156,965
Low value consumables	264	128	89
	<hr/>	<hr/>	<hr/>
	<u>121,779</u>	<u>135,019</u>	<u>157,054</u>

**23. TRADE RECEIVABLES**

The Group normally allows a credit period of not more than 60 days to its customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

An aged analysis of the trade receivables of the Group and the Company as at the end of each of the Relevant Years, based on invoice date and net of provisions, is as follows:

**Group**

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Within 2 months	339,745	400,397	434,941
2 to 6 months	54,500	50,360	37,108
6 months to 1 year	4,774	2,457	638
1 to 2 years	226	1,858	391
	<u>399,245</u>	<u>455,072</u>	<u>473,078</u>

**Company**

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Within 2 months	3,114	10,751	7,796
2 to 6 months	464	47	301
6 months to 1 year	166	–	13
1 to 2 years	48	20	270
	<u>3,792</u>	<u>10,818</u>	<u>8,380</u>

**24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES****Group**

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Prepayments to suppliers	61,766	86,177	75,329
Other receivables and prepaid expenses	21,341	35,167	29,055
Input value-added tax receivables	62,724	59,786	58,718
	<u>145,831</u>	<u>181,130</u>	<u>163,102</u>



**Company**

	<b>As at 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments to suppliers	3,407	5,122	14,451
Other receivables and prepaid expenses	18,450	41,985	19,109
Input value-added tax receivables	41,366	41,908	28,368
	<u>63,223</u>	<u>89,015</u>	<u>61,928</u>

Included in the Company's other receivables and prepaid expenses were dividend receivables from a subsidiary amounting to RMB6,900,000 and RMB16,900,000 as at 31 December 2004 and 2005, respectively, which were fully settled by 2006.

**25. AMOUNTS DUE FROM RELATED PARTIES**

The amounts due from related parties as at 31 December 2004 and 2005 were unsecured, interest-free and were fully repaid by 2006.

**26. AMOUNTS DUE FROM/TO CHAOYANG AUXILLARY**

Amounts due from/to Chaoyang Auxillary were unsecured. Apart from the following amounts, all the amounts due from/to Chaoyang Auxillary were interest-free and have no fixed repayment terms.

<b>Maturity date</b>	<b>Interest rate per annum</b>	<b>As at 31 December</b>		
		<b>2004</b>	<b>2005</b>	<b>2006</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amount due to Chaoyang Auxillary:				
June 2006	5.58%	600	600	-
*	5.58%	4,000	4,000	-
*	4.72%	-	4,000	-
Amount due from Chaoyang Auxillary:				
June 2005	5.58%	11,000	-	-
* <i>No fixed repayment date</i>				

## 27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

## Group

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Cash and bank balances	176,865	220,741	413,140
Pledged time deposits with original maturity of more than three months when acquired	–	13,291	16,919
Non-pledged time deposits with original maturity of:			
More than three months when acquired	–	–	301,401
Less than three months when acquired	–	–	127,150
	<u>176,865</u>	<u>234,032</u>	<u>858,610</u>
Less: pledged time deposits with original maturity of more than three months when acquired ( <i>note 30</i> )	–	(13,291)	(16,919)
	<u>176,865</u>	<u>220,741</u>	<u>841,691</u>

## Company

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Cash and bank balances	143,514	143,755	246,110
Non-pledged time deposits with original maturity of:			
More than three months when acquired	–	–	301,401
Less than three months when acquired	–	–	127,150
	<u>143,514</u>	<u>143,755</u>	<u>674,661</u>

The Group's cash and bank balances, including pledged bank deposits, were denominated in RMB amounted to RMB176,865,000, RMB234,032,000 and RMB399,920,000 as at 31 December 2004, 2005 and 2006, respectively, which are not freely convertible in the international market. The remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

**28. TRADE PAYABLES**

An aged analysis of the trade payables of the Group and the Company as at the end of each of the Relevant Years, based on invoice date, is as follows:

**Group**

	<b>As at 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 2 months	569,473	581,688	681,810
2 to 6 months	53,264	46,608	53,577
6 months to 1 year	4,358	3,576	5,234
1 to 2 years	4,306	2,976	1,798
Over 2 years	3,974	7,182	4,271
	<u>635,375</u>	<u>642,030</u>	<u>746,690</u>

**Company**

	<b>As at 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 2 months	277,078	304,629	358,125
2 to 6 months	43,613	43,026	52,170
6 months to 1 year	2,754	2,151	4,606
1 to 2 years	3,244	1,163	1,268
Over 2 years	3,455	5,672	3,274
	<u>330,144</u>	<u>356,641</u>	<u>419,443</u>

Included in the trade payables were the balances of cash advances made by customers into the Jingkelong cards of RMB62 million (the Company: RMB53 million), RMB94 million (the Company: RMB81 million) and RMB130 million (the Company: RMB109 million) as at 31 December 2004, 2005 and 2006, respectively.

## 29. OTHER PAYABLES AND ACCRUALS

## Group

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Accrued salaries, wages and benefits	111,637	93,989	75,473
Deposit from suppliers and lessees	13,550	91,794	78,590
Interest expense payable	4,159	6,037	7,845
Rental expense payable	1,025	3,862	2,614
Accrued operating expenses	3,566	1,014	6,469
Construction fee payables	–	4,236	32,737
Other tax payables	1,453	1,212	7,543
Rental deposit refundable	–	–	2,010
Expense payables to suppliers	3,285	151	950
Rebates to customers	6,767	–	–
Others	16,461	15,834	9,440
	<hr/>	<hr/>	<hr/>
Total other payables and accruals	161,903	218,129	223,671
Less: Portion classified as current liabilities	(142,198)	(209,379)	(223,671)
	<hr/>	<hr/>	<hr/>
Long term portion-accrued salaries, wages and benefits	<u>19,705</u>	<u>8,750</u>	<u>–</u>

## Company

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Accrued salaries, wages and benefits	78,400	73,374	62,227
Deposit from suppliers and lessees	10,212	86,691	72,988
Interest expense payable	3,969	5,726	6,602
Rental expense payable	423	2,525	1,769
Accrued operating expenses	225	923	5,408
Construction fee payables	–	4,236	28,861
Other tax payables	888	612	3,048
Expense payables to suppliers	97	116	196
Others	9,559	10,904	5,177
	<hr/>	<hr/>	<hr/>
Total other payables and accruals	103,773	185,107	186,276
Less: Portion classified as current liabilities	(86,273)	(176,357)	(186,276)
	<hr/>	<hr/>	<hr/>
Long term portion-accrued salaries, wages and benefits	<u>17,500</u>	<u>8,750</u>	<u>–</u>

## 30. INTEREST-BEARING BANK AND OTHER BORROWINGS

## Group

	Maturity	As at 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
Bank loans:				
Secured	2007 – 2011	3,000	144,304	488,396
Unsecured	2007	290,000	320,000	208,000
		<u>293,000</u>	<u>464,304</u>	<u>696,396</u>
Other borrowings:				
Secured	2007 – 2008	–	–	210,000
Unsecured	2008	269,000	326,300	100,000
		<u>269,000</u>	<u>326,300</u>	<u>310,000</u>
Total bank loans and other borrowings		<u><u>562,000</u></u>	<u><u>790,604</u></u>	<u><u>1,006,396</u></u>
Analysed into:				
Bank loans repayable:				
Within one year or on demand		293,000	364,304	576,396
In the second year		–	–	21,750
In the third to fifth years, inclusive		–	–	98,250
Over five years		–	100,000	–
		<u>293,000</u>	<u>464,304</u>	<u>696,396</u>
Other borrowings repayable:				
Within one year or on demand		89,000	176,300	150,000
In the second year		180,000	150,000	160,000
		<u>269,000</u>	<u>326,300</u>	<u>310,000</u>
Total bank loans and other borrowings		562,000	790,604	1,006,396
Less: Portion classified as current liabilities		(432,000)	(640,604)	(726,396)
Long term portion		<u><u>130,000</u></u>	<u><u>150,000</u></u>	<u><u>280,000</u></u>

Company	Maturity	As at 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
Bank loans:				
Secured	2007 – 2011	–	100,000	432,000
Unsecured	–	120,000	110,000	–
		<u>120,000</u>	<u>210,000</u>	<u>432,000</u>
Other borrowings:				
Secured	2007 – 2008	–	–	210,000
Unsecured	–	216,000	266,300	–
		<u>216,000</u>	<u>266,300</u>	<u>210,000</u>
Total bank loans and other borrowings		<u><u>336,000</u></u>	<u><u>476,300</u></u>	<u><u>642,000</u></u>
Analysed into:				
Bank loans repayable:				
Within one year or on demand		120,000	110,000	312,000
In the second year		–	–	21,750
In the third to fifth years, inclusive		–	–	98,250
Over five years		–	100,000	–
		<u>120,000</u>	<u>210,000</u>	<u>432,000</u>
Other borrowings repayable:				
Within one year or on demand		86,000	216,300	150,000
In the second year		130,000	50,000	60,000
		<u>216,000</u>	<u>266,300</u>	<u>210,000</u>
Total bank loans and other borrowings		336,000	476,300	642,000
Less: Portion classified as current liabilities		(206,000)	(326,300)	(462,000)
Long term portion		<u><u>130,000</u></u>	<u><u>150,000</u></u>	<u><u>180,000</u></u>

**(a) Bank loans**

All of the Group's and the Company's bank loans, which are denominated in RMB, bear fixed interest rates ranging from 5.0% to 6.1%, 3.6% to 6.1% and 4.0% to 6.1% per annum as at 31 December 2004, 2005 and 2006, respectively.

*(i) Secured bank loans*

As at 31 December 2004, the secured bank loans of the Group amounting to RMB3 million were secured by certain of the Group's buildings with an aggregate net book value of approximately RMB32 million (*note 14*). These secured bank loans were also guaranteed by the Company and a minority shareholder of a subsidiary.

As at 31 December 2005, the secured bank loans of the Group and the Company amounting to RMB100 million were secured by certain of the Company's buildings and investment properties with aggregate net book values of approximately RMB87 million (*note 14*) and RMB16.5 million (*note 15*), respectively. In addition, the secured bank loan of the Group amounting to RMB44.3 million were secured by certain of the Group's pledged time deposits (*note 27*).

As at 31 December 2006, the secured bank loans of the Group and the Company amounting to RMB432 million were secured by certain of the Company's buildings and construction in progress, investment properties and lease prepayments for land use rights with aggregate net book values of approximately RMB169 million (*note 14*), RMB294 million (*note 14*), RMB16.9 million (*note 15*) and RMB68 million (*note 16*), respectively. In addition, the secured bank loans of the Group amounting to RMB56.4 million were secured by certain of the Group's pledged time deposits (*note 27*).

*(ii) Unsecured bank loans*

As at 31 December 2004, the unsecured bank loans of the Group and the Company amounting to RMB100 million (the Company: RMB100 million) was guaranteed by Beijing Blue Island Tower, an independent third party, amounting to RMB20 million (the Company: RMB20 million) was guaranteed by Chaoyang Auxillary and amounting to RMB170 (the Company: Nil) million was guaranteed by the Company.

As at 31 December 2005, the unsecured bank loans of the Group and the Company amounting to RMB100 million (the Company: RMB100 million) was guaranteed by Beijing Blue Island Tower and amounting to RMB200 million (the Company: Nil) was guaranteed by the Company. In addition, there were entrusted loans from third parties amounting to RMB20 million (the Company: RMB10 million) as at 31 December 2005.

As at 31 December 2006, the unsecured bank loans of the Group amounting to RMB180 million was guaranteed by the Company. There were entrusted loans from a third party amounting to RMB28 million as at 31 December 2006.

Entrusted loans are tri-partite arrangements, under which banks, as entrusted by certain non-financial institutions, lend the Group the funds sourced from such non-financial institutions at a management fee. Such non-financial institutions are considered the providers of the entrusted loans. In the opinions of the directors, the interest rates of the entrusted loans are similar with those of normal bank borrowings.

**(b) Other borrowings***(i) Secured other borrowings*

Secured other borrowing of the Group and the Company as at 31 December 2006 was borrowings from BITIC amounting to RMB210 million, which was secured by the 71.7% equity interest in a subsidiary (*note 17*).

*(ii) Unsecured other borrowings*

Included in unsecured other borrowings of the Group and the Company as at 31 December 2004 were borrowings from BITIC amounting to RMB220 million (the Company: RMB180 million) and other loans amounting to RMB49 million (the Company: RMB36 million). The BITIC borrowing of RMB180 million was guaranteed by Chaoyang Auxillary and the remaining BITIC borrowing of RMB40 million was guaranteed by the Company.

Included in unsecured other borrowings of the Group and the Company as at 31 December 2005 were borrowings from BITIC amounting to RMB302.3 million (the Company: RMB242.3 million) and other loans amounting to RMB24 million (the Company: RMB24 million). The BITIC borrowing of RMB242.3 million was guaranteed by Chaoyang Auxillary and the remaining BITIC borrowing of RMB60 million was guaranteed by the Company.

Subsequent to the Company's listing on the GEM of the Stock Exchange in September 2006, the BITIC borrowings guaranteed by Chaoyang Auxillary were fully released and were replaced by a guarantee from the Company.

Included in unsecured other borrowings of the Group as at 31 December 2006 were borrowings from BITIC amounting to RMB100 million, which were guaranteed by the Company.

Except for interest-free borrowings of RMB22 million and RMB20 million as at 31 December 2004 and 2005, respectively, all of the Group's and the Company's other borrowings as at 31 December 2004, 2005 and 2006 were denominated in RMB and bore fixed interest rates ranging from 3.6% to 5.3%, 3.6% to 5.3% and 5.3% to 6.1% per annum, respectively.



**31. DEFERRED INCOME****Group and Company**

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January	–	–	4,000
Received during the year	–	4,000	–
Released to the income statement	–	–	(267)
	<hr/>	<hr/>	<hr/>
Carrying amount at 31 December	–	4,000	3,733
Current portion	–	(267)	(267)
	<hr/>	<hr/>	<hr/>
Non-current portion	<u>–</u>	<u>3,733</u>	<u>3,466</u>

In 2005, the Beijing Municipal Commission of Development and Reform and the Beijing Municipal Chaoyang District Finance Bureau granted RMB3 million and RMB1 million, respectively, to the Company for the construction of a fresh produce logistics centre and a logistics system. The construction has been completed as at 31 December 2005. Therefore, the amounts are recorded in government grants and amortised over the useful lives of the corresponding assets beginning from 1 January 2006.

**32. DEFERRED TAX LIABILITIES**

The movements in deferred tax liabilities of the Group and the Company during the Relevant Years are as follows:

**Group and Company**

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
At beginning of year	1,155	12,271	15,747
Additions during the year	11,116	3,476	2,932
	<hr/>	<hr/>	<hr/>
At end of year	<u>12,271</u>	<u>15,747</u>	<u>18,679</u>
Provision in respect of:			
Temporary difference arising from capitalised interest expenses into construction in progress	3,201	7,029	10,313
Temporary differences arising from gain on exchange of items of property, plant and equipment	9,070	8,718	8,366
	<hr/>	<hr/>	<hr/>
	<u>12,271</u>	<u>15,747</u>	<u>18,679</u>

## 33. ISSUED CAPITAL

## Company

	Number of shares As at 31 December		
	2004	2005	2006
Domestic Shares of RMB1.00 each	246,620,000	246,620,000	232,820,000
H shares of RMB1.00 each	–	–	151,800,000
	<u>246,620,000</u>	<u>246,620,000</u>	<u>384,620,000</u>
	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Issued and fully paid:			
Domestic Shares of RMB1.00 each	246,620	246,620	232,820
H shares of RMB1.00 each	–	–	151,800
	<u>246,620</u>	<u>246,620</u>	<u>384,620</u>

A summary of the movements in the Company's share capital is as follows:

	Notes	Domestic Shares of RMB1.00 each RMB'000	H shares of RMB1.00 each RMB'000	Total RMB'000
Capitalisation of reserves upon transformation into a joint stock company	(a)	246,620	–	246,620
At 31 December 2004 and 2005 and 1 January 2006		246,620	–	246,620
Sales of Domestic Shares by Chaoyang Auxillary and conversion into H shares upon listing	(b)	(12,000)	12,000	–
Issuance of new H shares upon listing	(b)	–	120,000	120,000
Sales of Domestic Shares by Chaoyang Auxillary and conversion into H shares upon full exercise of the over-allotment option	(c)	(1,800)	1,800	–
Issuance of new H shares upon full exercise of the over-allotment option	(c)	–	18,000	18,000
At 31 December 2006		<u>232,820</u>	<u>151,800</u>	<u>384,620</u>

*Notes:*

- (a) The details of the capitalisation of reserves upon transformation into a joint stock company are set out in note (a) of the consolidated statements of changes in equity.
- (b) On 25 September 2006, the Company issued 132,000,000 H Shares, consisting of 120,000,000 new H shares and 12,000,000 H Shares converted from Domestic Shares, with a par value of RMB1.00 each, to the public by way of placement and offer at HK\$4.50 (equivalent to approximately RMB4.57) each. The gross proceeds received from the issue of the 120,000,000 new H shares amounted to RMB548,597,000. Part of the proceeds amounting to RMB120,000,000 was recorded as share capital, and the remaining balance of the proceeds of RMB428,597,000 was recorded to the share premium account.
- (c) On 25 September 2006, the over-allotment option was exercised. An additional 19,800,000 shares, consisting of 18,000,000 new H shares and 1,800,000 H shares converted from Domestic Shares, with a par value of RMB1.00 each were issued to the public by way of placement at HK\$4.50 (equivalent to approximately RMB4.57) each. The gross proceeds received from the issue of the 18,000,000 new H shares amounted to RMB82,501,000. Part of the proceeds amounting to RMB18,000,000 was recorded as share capital, and the remaining balance of the proceeds of RMB64,501,000 was recorded to the share premium account.

## 34. RESERVES

## (a) Group

The amounts of the Group's reserves and the movement therein for the Relevant Years are presented in the consolidated statements of changes in equity of pages 202 to 204 of this document.

## (b) Company

	Share premium account <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i> <i>(note i)</i>	Statutory public welfare fund <i>RMB'000</i> <i>(note ii)</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2004	-	-	3,997	1,999	3,327	9,323
Capitalisation of reserves upon transformation into a joint stock company <i>(note iv)</i>	-	-	(3,997)	(1,999)	(3,964)	(9,960)
Profit for the year	-	-	-	-	70,281	70,281
Transfer to capital reserve <i>(note v)</i>	-	4,426	-	-	(4,426)	-
Appropriation to reserves	-	-	4,647	2,324	(6,971)	-
Proposed final 2004 dividend	-	-	-	-	(39,502)	(39,502)
Special 2004 dividend declared	-	-	-	-	(3)	(3)
At 31 December 2004 and at 1 January 2005	-	4,426	4,647	2,324	18,742	30,139
Release of unpaid liability	-	695	-	-	-	695
Profit for the year	-	-	-	-	60,391	60,391
Appropriation to reserves	-	-	6,631	3,316	(9,947)	-
Proposed final 2005 dividend	-	-	-	-	(56,367)	(56,367)
At 31 December 2005 and at 1 January 2006	-	5,121	11,278	5,640	12,819	34,858
Issue of H shares upon listing <i>(note 33(b))</i>	428,597	-	-	-	-	428,597
Issue of H shares upon exercising the over-allotment option <i>(note 33(c))</i>	64,501	-	-	-	-	64,501
Share issue expense	(50,868)	-	-	-	-	(50,868)
Profit for the year	-	-	-	-	81,372	81,372
Appropriation to reserves	-	-	9,326	-	(9,326)	-
Transfer of unutilised statutory public welfare fund to statutory surplus reserve	-	-	5,640	(5,640)	-	-
Proposed final 2006 dividend	-	-	-	-	(57,693)	(57,693)
At 31 December 2006	<u>442,230</u>	<u>5,121</u>	<u>26,244</u>	<u>-</u>	<u>27,172</u>	<u>500,767</u>

*Notes:*

## (i) Statutory surplus reserve

In accordance with the PRC Company Law and the respective companies' articles of association, the Company and its subsidiaries are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with the PRC GAAP, to the statutory surplus reserve. When the balance of the reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of registered capital after such uses.

## (ii) Statutory public welfare fund

In accordance with the PRC Company Law and the respective companies' articles of association, the Company and its subsidiaries are required to appropriate 5% of annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with the PRC GAAP, to the statutory public welfare fund, which is utilised to build or acquire capital items, such as dormitories and other facilities for the employees of the Company and its subsidiaries, and cannot be used to pay for staff welfare expenses. Titles of these capital items will remain with the respective companies now comprising the Group.

According to the revised PRC Company Law effective from 1 January 2006, the Company and its subsidiaries are not required to transfer its profit after tax to the statutory public welfare fund. All unutilised balances of the fund as at 1 January 2006 were transferred to the statutory surplus reserve.

## (iii) Distributable reserve

As at 31 December 2006, the Company had retained profits of approximately RMB26.2 million after the appropriation of the proposed final dividend, as determined in accordance with the lower of either the amount determined under the PRC GAAP or the amount determined under HKFRSs, available for distribution by way of cash or in kind.

## (iv) The details of the capitalisation of reserves upon transformation into a joint stock company are set out in note (a) of the consolidated statements of changes in equity.

## (v) This related to the change of capital contribution by Chaoyang Auxillary from buildings to cash in 2004, details of which are set out in note (b) of the consolidated statements of changes in equity.

**35. BUSINESS COMBINATIONS**

In June 2004, the Company's subsidiary, Chaopi Trading entered into two equity transfer agreements with Chaoyang Auxillary to acquire additional 11.11% and 12.50% equity interests in Chaopi Huaqing and Chaopi Flavourings, respectively. Upon the completion of the equity transfer, Chaopi Trading owned total equity interest of 52.22% and 56.25% in Chaopi Huaqing and Chaopi Flavourings, respectively. Chaopi Huaqing and Chaopi Flavourings became the subsidiaries of Chaopi Trading from then onwards.

The acquisition of additional interests in Chaopi Huaqing and Chaopi Flavourings was accounted for under the purchase method of accounting. On the effective date of the acquisition, the assets and liabilities of Chaopi Huaqing and Chaopi Flavourings were as follows:

	<i>Note</i>	<b>Chaopi Huaqing RMB'000</b>	<b>Chaopi Flavourings RMB'000</b>	<b>Total RMB'000</b>
Property, plant and equipment	<i>14</i>	1,116	2,033	3,149
Trade receivables		32,536	60,851	93,387
Cash and bank balances		2,135	13,839	15,974
Prepayments, deposits and other receivables		11,001	3,779	14,780
Inventories		8,786	22,112	30,898
Trade payables		(14,931)	(51,532)	(66,463)
Tax payable		(293)	(1,782)	(2,075)
Other payables and accruals		(27,928)	(32,972)	(60,900)
		<u>12,422</u>	<u>16,328</u>	<u>28,750</u>
Less: Minority interests		(6,226)	(7,144)	(13,370)
Less: Carrying amounts of investments in associates before the acquisition		(4,816)	(7,143)	(11,959)
		<u>1,380</u>	<u>2,041</u>	<u>3,421</u>
Net assets acquired arising from increase in equity interest attributable to the Group		1,380	2,041	3,421
Goodwill/(excess over the cost of a business combination) on acquisition		(74)	112	38
		<u>1,306</u>	<u>2,153</u>	<u>3,459</u>
Satisfied by cash		<u>1,306</u>	<u>2,153</u>	<u>3,459</u>

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of additional equity interests in Chaopi Huaqing and Chaopi Flavourings is as follows:

	<i>RMB'000</i>
Total cash consideration	(3,459)
Cash and bank balances acquired	<u>15,974</u>
Net inflow of cash and cash equivalents in respect of the acquisition of additional equity interests in Chaopi Huaqing and Chaopi Flavourings	<u>12,515</u>

Since their acquisitions, Chaopi Huaqing and Chaopi Flavourings contributed approximately RMB99.4 million and RMB268.2 million, respectively, to the Group's turnover, and approximately a net loss of RMB0.26 million and a net profit of RMB3 million, respectively, to the consolidated profit after tax and before minority interests for the year ended 31 December 2004.

**36. DISPOSAL OF A SUBSIDIARY**

Pursuant to an equity transfer agreement entered into between the Company and Chaoyang Auxillary on 21 June 2004, the Company transferred all its equity interests of 62.73% in Tengyuan.

On the effective date of disposal on 21 June 2004, the assets and liabilities of Tengyuan were as follows:

	<i>Note</i>	<i>RMB'000</i>
Property, plant and equipment	<i>14</i>	30,240
Trade receivables		6,192
Cash and bank balances		10,486
Pledged deposits		14,322
Prepayments, deposits and other receivables		11,632
Inventories		28,939
Short term bank loan		(9,170)
Trade payables		(1,032)
Bills payable		(13,660)
Tax payable		(52)
Other payables and accruals		(60,795)
Minority interests		(447)
		<u>16,655</u>
Less: Minority interests		<u>(6,207)</u>
Net assets disposed of arising from the disposition of equity interest attributable to the Group		10,448
Loss on disposal of a subsidiary		<u>(1,410)</u>
		<u><u>9,038</u></u>
Satisfied by cash		<u><u>9,038</u></u>

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of Tengyuan is as follows:

	<i>RMB'000</i>
Cash consideration	9,038
Cash and bank balances disposed	<u>(10,486)</u>
Net outflow of cash and cash equivalents in respect of the disposal of Tengyuan	<u><u>(1,448)</u></u>

Prior to its disposition, Tengyuan contributed approximately RMB98.2 million to the Group's turnover and approximately RMB20,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2004.

**37. CONTINGENT LIABILITIES**

As at the end of each of the Relevant Years, contingent liabilities not provided in the financial statements were as follows:

**Company**

	<b>As at 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Guarantee given to banks in connection with facilities granted to subsidiaries	173,000	200,000	180,000
Guarantee given to other financial institutions in connection with facilities granted to subsidiaries	40,000	60,000	100,000
	<u>213,000</u>	<u>260,000</u>	<u>280,000</u>

As at 31 December 2004, 2005 and 2006, the facilities granted to subsidiaries subject to guarantees given to banks and other financial institutions by the Company were utilised to the extent of approximately RMB173,000,000, RMB200,000,000 and RMB180,000,000, and RMB40,000,000, RMB60,000,000 and RMB100,000,000, respectively.

**38. PLEDGE OF ASSETS**

Details of the Group's and the Company's assets for securing bank loans and other borrowings during the Relevant Years are included in notes 14, 15, 16, 17 and 27 to the financial statements, respectively.

**39. OPERATING LEASE ARRANGEMENTS****(a) As lessor**

The Group and the Company lease its properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 15 years. The terms of the leases generally also require the tenants to pay security deposits.



As at the end of each of the Relevant Years, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

**Group**

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Within one year	21,686	23,988	21,263
In the second to fifth years, inclusive	73,860	74,898	56,380
After five years	22,255	22,901	20,815
	<u>117,801</u>	<u>121,787</u>	<u>98,458</u>

**Company**

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Within one year	21,011	19,788	21,083
In the second to fifth years, inclusive	73,115	58,098	55,660
After five years	20,275	21,101	19,195
	<u>114,401</u>	<u>98,987</u>	<u>95,938</u>

**(b) As lessee**

The Group and the Company lease certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 5 to 20 years.

As at the end of each of the Relevant Years, the Group and the Company had the following total future minimum lease payments under non-cancellable operating leases falling due as follows:

**Group**

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Within one year	40,227	43,574	60,260
In the second to fifth years, inclusive	165,743	178,404	270,896
After five years	501,215	446,073	624,518
	<u>707,185</u>	<u>668,051</u>	<u>955,674</u>

**Company**

	<b>As at 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	27,207	27,988	38,980
In the second to fifth years, inclusive	116,181	125,828	201,094
After five years	424,503	381,675	521,931
	<u>567,891</u>	<u>535,491</u>	<u>762,005</u>

**40. COMMITMENTS****(a) Capital commitments**

The Group and the Company had the following capital commitments, principally for the construction and acquisition of property, plant and equipment at the end of each of the Relevant Years:

**Group and Company**

	<b>As at 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Authorised, but not contracted for	–	–	16,307
Contracted, but not provided for	65,403	38,788	84,864
	<u>65,403</u>	<u>38,788</u>	<u>101,171</u>

**(b) Investment commitment**

At 31 December 2006, the Group had commitment authorised but not contracted for amounting to RMB6,132,000 in respect of capital contribution to a subsidiary.

## 41. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed in notes 25 and 26 to the financial statements, the Group had the following material transactions with related parties during the Relevant Years:

**Group**

	<i>Notes</i>	Year ended 31 December		
		2004	2005	2006
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Ultimate holding company:				
Expenses on property leasing	(i)	9,916	9,056	8,176
Compensation income	(ii)	–	13,880	10,426
Purchases of items of property, plant and equipment	14	–	7,243	–
Interest expense		1,458	257	62
Interest income		51	307	–
Acquisition of subsidiaries	35	3,459	–	–
Disposal of a subsidiary	36	9,038	–	–
Disposal of an associate		14,984	–	–
Disposal of long term investments		400	–	–
Transfer out of items of property, plant and equipment	14	52,620	–	–
Associates:				
Purchase of merchandise		58,256	–	–
Transfer to equity interest		1,628	–	–
Interest income		1,578	–	–
A related party:				
Automobile repair and maintenance expense		500	250	–

*Notes:*

- (i) Pursuant to three property lease agreements and supplementary agreements signed between the Company and Chaoyang Auxillary, between Chaopi Trading and Chaoyang Auxillary dated 30 April 2004 and between Xinyang Tongli and Chaoyang Auxillary dated 1 July 2004, and the supplementary agreements, with the commencement and expiry dates on 1 January 2004 and 31 December 2023, respectively, the Company, Chaopi Trading and Xinyang Tongli rent properties from Chaoyang Auxillary for operation purposes at a basic annual rental expense, including related business taxes and property taxes of approximately RMB7,340,000, RMB1,099,000 and RMB16,000, respectively, with a term of increase of rental expense including related business taxes of 5% or 20% for each aforesaid fixed rental period. Pursuant to a supplementary agreement dated 24 March 2006 signed between the Company and Chaoyang Auxillary, the Company ceased the rental of one of the leased properties from Chaoyang Auxillary with effect from 1 January 2006. The aggregate annual rental paid to Chaoyang Auxillary by the Company for the year ended 31 December 2006 was reduced from RMB7,340,000 to RMB7,061,000. The aggregate annual rental to be paid to Chaoyang Auxillary by the Company since 1 January 2007 was revised to RMB6,713,000.

- (ii) For the year ended 31 December 2005, the gross compensation income was received from Chaoyang Auxillary for the Company's loss of business and the related items of property, plant and equipment, primarily leasehold improvements and machinery and equipment of a demolished retail outlet and a warehouse originally rented from Chaoyang Auxillary. The net compensation of RMB11.1 million, representing the gross compensation of RMB13.9 million received from Chaoyang Auxillary in excess of the carrying amounts of the related items of property, plant and equipment upon the demolition of RMB2.8 million, was recorded in the other income and gains account.

For the year ended 31 December 2006, the gross compensation income was received from Chaoyang Auxillary for the Company's loss of business and the related items of property, plant and equipment, primarily leasehold improvements and machinery and equipment of three demolished retail outlets originally rented from Chaoyang Auxillary. The net compensation of RMB10.1 million, representing the gross compensation of RMB10.4 million received from Chaoyang Auxillary in excess of the carrying amounts of the related items of property, plant and equipment upon the demolition of the retail outlets of RMB0.3 million, was recorded in the other income and gains account.

- (iii) Pursuant to a deed of indemnity dated 1 March 2006 and a supplementary agreement dated 10 August 2006, Chaoyang Auxillary has undertaken to indemnify the Company against the following:
1. any costs, expenses, losses and claims that the Company and Chaopi Trading may suffer as a result of relocation or eviction from certain premises rented from outside parties in the event of that any of the corresponding tenancy agreements is determined to be void due to a lack of building ownership certificates or proper property title deeds by the lessors;
  2. any costs and penalties that the Group may suffer due to the non-compliance with the relevant PRC Laws in respect of borrowings from the employees, the fact that the relevant loan agreements were not enforceable, and that the Group may be subject to a maximum penalty of 5% of the amount of the total borrowings; and
  3. any costs and penalties that the Group may suffer due to any breach of the applicable PRC laws and regulations on the use of the Jingkelong cards and the membership reward cards which were issued by the Company as part of the Group's marketing strategy for its retail operations.

(b) Compensation of key management personnel of the Group

	<b>Year ended 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Short term employee benefits	2,507	3,127	4,427
Post-employment benefits	384	324	503
	<hr/>	<hr/>	<hr/>
Total compensation paid to key management personnel	<u>2,891</u>	<u>3,451</u>	<u>4,930</u>

Further details of the directors' and supervisors' emoluments are included in note 8 to the financial statements.

(c) Transactions with other State-owned Enterprises in the PRC

During the Relevant Years, the Group had transactions with State-owned Enterprises including, but not limited to, sales and purchases of merchandise. It is impracticable to identify all the transactions with the other State-owned Enterprises due to the nature of business of the Group, however, the directors consider that transactions with other State-owned Enterprises are activities conducted in the ordinary course of the Group's business at terms that are consistently applied to all customers, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and other State-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

#### 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, and cash and short term time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, credit risk and foreign currency risk. The board of directors reviews and approves policies for managing each of these risks and they are summarised below:

##### **Cash flow interest rate risk**

The Group's income statement is affected by changes in interest rates due to the impact of such changes on interest income and expenses from bank balances and interest-bearing bank and other borrowings. The Group's policy is to obtain the most favourable interest rates available.

##### **Liquidity risk**

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings. The Group's financing activities are managed centrally by maintaining an adequate level of cash and cash equivalents to finance the Group's operations. The Group also ensures the availability of bank credit facilities to address any short term funding requirements.

The Group's cash and cash equivalents are placed with reputable financial institutions.

**Credit risk**

Credit risk arises mainly from the risk that counterparties defaulting on the terms of their agreements. The carrying amounts of cash and cash equivalents, pledged time deposits, trade receivables, other receivables and available-for-sale investments represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group monitors the exposure to credit risk on an ongoing basis and credit evaluations are performed on customers requiring credit over a certain amount. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The credit risk on balances of cash and cash equivalents is low as these balances are placed with reputable financial institutions.

As at 31 December 2004, 2005 and 2006, there was no significant concentration of credit risk.

**Foreign currency risk**

The Group's businesses are principally located in PRC and the Group's sales and purchases were mainly in RMB. As at the balance sheet date, all the Group's assets and liabilities are denominated in RMB, except for time deposits of RMB458,690,000 as at 31 December 2006, denominated in Hong Kong dollars ("HK\$"). Accordingly, the Group is exposed to the exchange differences arising from the translation of the deposits in HK\$ to RMB at the rates of exchange ruling at 31 December 2006.

**43. POST BALANCE SHEET EVENTS**

- (a) On 25 January 2007, the Company announced a proposal to shareholders to approve the migration of the Company's H shares from the GEM to the Main Board of the Stock Exchange (the "Migration") at the Extraordinary General Meeting which was held on 20 March 2007. The Migration was approved on that day.

The proposed Migration did not have a significant impact on the financial statements of the Group for the year ended 31 December 2006.

Further details of this transaction are also set out in the announcement of the Company dated 25 January 2007 and the circular to shareholders dated 1 February 2007.

- (b) On 10 February 2007, the Company and Beijing Shou Lian Group Enterprises Company Limited ("Shou Lian") entered into a capital increase agreement in relation to the issue of RMB50 million of new equity capital of Shou Lian (representing a 11.04% of the enlarged equity capital) at the consideration of RMB50 million to the Company.

In conjunction with the capital increase agreement as mentioned above, on the same date, the Company also entered into a co-operation agreement with Shou Lian and Beijing Xi Dan You Yi Group ("Xi You") which held approximately 45.3% of the total enlarged equity of Shou Lian (the "Delegated Equity") for a period of three years commencing 28 February 2007 (the "Delegated Period").

The principal terms of the co-operation agreement are (i) Shou Lian's retail network will be operated, on terms of the Group's franchise arrangements, under the Group's "京客隆" brandname; (ii) the Group has preferential right to acquire the Delegated Equity when Xi You disposes the Delegated Equity; (iii) the Group has a right to acquire the Delegated Equity at the date of each anniversary during the Delegated Period, subject to written notification received by Xi You to confirm whether the Group will exercise or forfeit the purchase rights within one month before the date of each anniversary; (iv) the Group shall exercise the voting rights attached to the Delegated Equity in accordance with Xi You's direction; (v) Xi You enjoys the right of profit sharing and bears any loss resulting from the operations of Shou Lian according to its percentage shareholding in Shou Lian; and (vi) the Company will lend an interest-bearing designated loan of RMB50 million to Shou Lian through a bank in the PRC.

Further details of this transaction are also set out in the announcement of the Company dated 10 February 2007.

- (c) On 7 February 2007, the Group, through a non-wholly subsidiary, established a subsidiary, Beijing Chaopi Zhongde Trading Company Limited ("Chaopi Zhongde") to engage in wholesale of general merchandise and provision of storage services. The Company holds an indirect interest of 76.42% in Chaopi Zhongde. The total equity of Chaopi Zhongde is RMB28 million and has been fully paid up on 30 January 2007.
- (d) On 8 February 2007, the Group, through a non-wholly subsidiary, established a subsidiary, Beijing Chaopi Huilong Trading Company Limited ("Chaopi Huilong") to engage in wholesale of general merchandise. The Company holds an indirect interest of 39.05% in Chaopi Huilong. The total equity of Chaopi Huilong is RMB12 million and the portion being contributed by the Group is RMB6,132,000 and has been fully paid up on 22 January 2007.
- (e) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.
- (f) Pursuant to an agreement entered into between Chaopi Trading, Chaopi Zhongde and an independent third party on 18 April 2007, the independent third party would transfer the distribution and supplier networks of the wholesale of consumer sanitary products in the region covering Beijing City and certain parts of its periphery and other part of China to Chaopi Zhongde for a consideration of RMB5,600,000. In addition, Chaopi Trading would transfer 20% of its equity interest in Chaopi Zhongde for a consideration of RMB5,600,000, which approximated the fair values of the identifiable assets and liabilities of Chaopi Zhongde at that date to the independent third party. After the completion of the transfer of this equity interest, the Company holds an indirect interest of 61.14% in Chaopi Zhongde.

- (g) On 23 April 2007, the equity holders of Chaopi Trading resolved to increase the registered capital of Chaopi Trading from RMB96,000,000 to RMB192,000,000. The increase in the registered capital of RMB96,000,000 was settled by dividend declared by Chaopi Trading of RMB28,800,000 and cash contribution from the equity holders based on their respective equity interest therein. Upon the completion of the increase in the registered capital, the Company continues to hold approximately 76.42% of Chaopi Trading. The cash contribution of RMB51,352,700 by the Company has been fully paid on 22 May 2007.
- (h) On 23 April 2007, Chaopi Trading acquired the remaining equity interests of 41% each in Chaopi Qingdao and Chaopi Shijiazhuang from their minority equity holders, at considerations of RMB810,000 and RMB820,000 respectively, which have been fully paid on 27 April 2007. Upon the acquisitions, the Company holds indirect interests of 76.42% each in Chaopi Qingdao and Chaopi Shijiazhuang.
- (i) On 23 April 2007, Chaopi Trading resolved to increase the registered capital each of Chaopi Qingdao and Chaopi Shijiazhuang from RMB2,000,000 to RMB5,000,000 respectively. The aggregate capital of RMB3,000,000 each of Chaopi Qingdao and Chaopi Shijiazhuang have been fully paid on 10 May 2007 and 29 April 2007, respectively.
- (j) On 24 April 2007, the equity holders of Chaopi Huaqing resolved to increase the registered capital of Chaopi Huaqing from RMB9,000,000 to RMB18,000,000. The increase in the registered capital of RMB9,000,000 was settled by dividend declared by Chaopi Huaqing of RMB2,700,000 and cash contribution from Chaopi Trading of RMB3,507,000 and the minority equity holders in aggregate of RMB2,793,000. Upon the completion of the increase in the registered capital, the Company's indirect interest in Chaopi Huaqing increased from 39.91% to 40.83%. The cash contribution of RMB3,507,000 by Chaopi Trading has been fully paid on 10 May 2007.
- (k) On 27 April 2007, the equity holders of Chaopi Flavourings resolved to increase the registered capital of Chaopi Flavourings from RMB9,500,000 to RMB23,750,000. The increase in the registered capital of RMB14,250,000 was settled by dividend declared by Chaopi Flavourings of RMB10,450,000 and a conversion of its capital reserve of RMB1,725,000 and statutory surplus reserve of RMB2,075,000 into the registered capital. Upon the completion of the increase in the registered capital, the Company continues to hold an indirect interest of approximately 40.22% in Chaopi Flavourings.
- (l) On 27 April 2007, the equity holders of Chaopi Jinglong resolved to increase the registered capital of Chaopi Jinglong from RMB12,000,000 to RMB18,000,000. The increase in the registered capital of RMB6,000,000 was settled by dividend declared by Chaopi Jinglong of RMB3,600,000 and cash contribution from the equity holders based on their respective equity interest therein. Upon the completion of the increase in the registered capital, the Company continues to hold an indirect interest of approximately 41.44% in Chaopi Jinglong. The cash contribution of RMB1,301,496 by Chaopi Trading has been fully paid on 15 May 2007.



- (m) On 27 April 2007, the equity holders of Chaopi Shuanglong resolved to increase the registered capital of Chaopi Shuanglong from RMB12,000,000 to RMB24,000,000. The increase in the registered capital of RMB12,000,000 was settled by dividend declared by Chaopi Shuanglong of RMB12,000,000. Upon the completion of the increase in the registered capital, the Company continues to hold an indirect interest of approximately 45.09% in Chaopi Shuanglong.

#### **44. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2006.

Yours faithfully,

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

**SUMMARY**

The Group achieved the follows for the three months ended 31 March 2007:

- Revenue amounted to approximately RMB1,565.6 million (first quarter of 2006: RMB1,272.5 million), representing an increase of approximately 23.0% as compared with the same period last year.
- Gross profit amounted to approximately RMB198.1 million (first quarter of 2006: RMB151.4 million), representing an increase of approximately 30.8% as compared with the same period last year.
- Gross profit margin was approximately 12.7%, approximately 0.8% higher than that of the last corresponding period.
- Profit attributable to equity holders amounted to approximately RMB43.3 million (first quarter of 2006: RMB36.3 million), representing an increase of approximately 19.3% as compared with last corresponding period.
- Same store sales growth increased from approximately 7.2% during the first quarter of 2006 to approximately 13.1%.
- 2 directly-operated supermarkets and 2 convenience stores operated under the franchise agreements were opened.
- Total number of retail outlets was 170 (including 5 hypermarkets, 41 supermarkets and 124 convenience stores).
- As at 31 March 2007, total borrowings stood at approximately RMB894.9 million, comprising bank loans of approximately RMB584.9 million and the borrowings from Beijing International Trust and Investment Company Limited of RMB310 million.

## EXTRACTED FROM FIRST QUARTERLY REPORT 2007 PUBLISHED BY THE COMPANY

The unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 31 March 2007 (the “Reporting Period”) together with the comparative unaudited consolidated figures for the three months ended 31 March 2006:

	<i>Notes</i>	<b>For the three months ended 31 March</b>	
		<b>2007</b> <i>RMB'000</i> (Unaudited)	<b>2006</b> <i>RMB'000</i> (Unaudited)
<b>Revenue</b>	3	1,565,590	1,272,496
Cost of sales		<u>(1,367,524)</u>	<u>(1,121,057)</u>
<b>Gross profit</b>		198,066	151,439
Other income and gains	3	72,919	57,026
Selling and distribution costs		(127,883)	(99,640)
Administrative expenses		(39,103)	(30,633)
Other expenses		(11,203)	(3,838)
Finance costs		<u>(7,595)</u>	<u>(3,478)</u>
<b>Profit before tax</b>		85,201	70,876
Tax	4	<u>(30,360)</u>	<u>(26,188)</u>
<b>Profit for the period</b>		<u><u>54,841</u></u>	<u><u>44,688</u></u>
Attributable to:			
Equity holders of the parent		43,298	36,308
Minority interests		<u>11,543</u>	<u>8,380</u>
		<u><u>54,841</u></u>	<u><u>44,688</u></u>
<b>Earnings per share-basic</b>	6	<u><u>RMB11.3 cents</u></u>	<u><u>RMB14.7 cents</u></u>

## NOTES:

**1. CORPORATE INFORMATION**

The Company was established in the People's Republic of China (the "PRC") as a limited liability company on 20 May 2002 and was transformed into a joint stock limited company in accordance with the PRC Company Law on 1 November 2004. The H shares of the Company were listed on GEM of the Stock Exchange on 25 September 2006.

The Group is principally engaged in the retail and wholesale distribution of daily consumer products in the region covering Beijing city and certain parts of its periphery (the "Greater Beijing Region").

**2. BASIS OF PRESENTATION**

The Group's unaudited financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules. They have been prepared on a historical cost convention, except for the available-for-sale investments, which have been measured at fair value. These unaudited financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and methods of computation used in the preparation of the Group's unaudited financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2006, except in relation to the following new and revised HKFRSs that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economics</i>
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of these new and revised HKFRSs, has had no material impact on the accounting policies and methods of computation in the Group's unaudited financial statements.

The Group has not applied the following new and revised HKFRSs, that have been issued, in the unaudited financial statements:

HKFRS 8	Operating Segments
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

HK(IFRIC)-Int 11, HK(IFRIC)-Int 12 and HKFRS 8 shall be applied for annual periods beginning on or after 1 March 2007, 1 January 2008 and 1 January 2009, respectively.

### 3. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts. An analysis of the Group's revenue, other income and gains for the Reporting Period is as follows:

	<b>For the three months ended 31 March</b>	
	<b>2007</b> <i>RMB'000</i> (Unaudited)	<b>2006</b> <i>RMB'000</i> (Unaudited)
<b>Revenue</b>		
Sales of merchandise and produce		
Retailing	782,488	655,628
Wholesaling	<u>782,367</u>	<u>615,850</u>
	1,564,855	1,271,478
Others	<u>735</u>	<u>1,018</u>
Total revenue	<u><u>1,565,590</u></u>	<u><u>1,272,496</u></u>
<b>Other income and gains</b>		
Income from suppliers	57,740	42,698
Gross rental income	9,408	10,897
Net compensation on demolished properties	–	15
Interest income	2,594	1,501
Gain on sale of wastes	942	779
Others	<u>2,235</u>	<u>1,136</u>
Total other income and gains	<u><u>72,919</u></u>	<u><u>57,026</u></u>

### 4. TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The Group is not liable for income tax in Hong Kong as it did not have assessable income currently arising in Hong Kong. Under the prevailing PRC income tax law, the Group and its associates are subject to corporate income tax ("CIT") at a rate of 33% on their respective taxable income. The determination of the CIT in the consolidated income statement of the Group for the Reporting Period is as follows:

	<b>For the three months ended 31 March</b>	
	<b>2007</b> <i>RMB'000</i> (Unaudited)	<b>2006</b> <i>RMB'000</i> (Unaudited)
Current CIT – PRC	29,758	25,468
Deferred CIT	<u>602</u>	<u>720</u>
Total CIT charged for the period	<u><u>30,360</u></u>	<u><u>26,188</u></u>

A reconciliation of the CIT applicable to the unaudited profit before tax at the statutory rate to the CIT charged at the Group's effective rate for the Reporting Period is as follows:

	<b>For the three months ended 31 March</b>	
	<b>2007</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Profit before tax	85,201	70,876
CIT at statutory CIT rate (33%)	28,116	23,389
Expenses not deductible for tax	2,244	2,799
	<u>30,360</u>	<u>26,188</u>
CIT charged at the Group's effective rate for the period	<u>30,360</u>	<u>26,188</u>

## 5. DIVIDENDS

The Board does not recommend the payment of any dividend for the Reporting Period (first quarter of 2006: Nil).

The Board has recommended the payment of a final dividend of RMB0.15 per share (inclusive of tax) for the financial year ended 31 December 2006, pending approval at the annual general meeting.

## 6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the unaudited profit attributable to ordinary equity holders of the parent for the Reporting Period of approximately RMB43,298,000 (first quarter of 2006: RMB36,308,000) and on the weighted average number of 384,620,000 ordinary shares in issue during the Reporting Period (first quarter of 2006: 246,620,000 ordinary shares).

Diluted earnings per share for the Reporting Period and the last corresponding period have not been presented because no diluting events existed during these two periods.

## 7. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The changes in consolidated equity during the Reporting Period are as follows:

	<b>For the three months ended 31 March</b>										
	<b>2007</b>										<b>2006</b>
	Issued capital	Share premium account	Capital reserve	Available- for-sale investment reserve	Statutory surplus reserve	Proposed final dividend	Retained profits	Subtotal	Minority interests	Total	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January	384,620	442,230	5,121	2,749	43,049	57,693	49,511	984,973	89,672	1,074,645	432,704
Profit for the period	-	-	-	-	-	-	43,298	43,298	11,543	54,841	44,688
At 31 March	<u>384,620</u>	<u>442,230</u>	<u>5,121</u>	<u>2,749</u>	<u>43,049</u>	<u>57,693</u>	<u>92,809</u>	<u>1,028,271</u>	<u>101,215</u>	<u>1,129,486</u>	<u>477,392</u>

**8. BORROWINGS**

As at 31 March 2007, the Group had outstanding borrowings of approximately RMB894.9 million, comprising bank loans of approximately RMB584.9 million and borrowings from Beijing International Trust and Investment Company Limited (“BITIC”) of RMB310 million (the “BITIC Loans”).

**BITIC Loans and Employee Investments**

To rationalize the Group’s financing arrangement, the Company obtains BITIC Loans from June 2004.

BITIC has offered and may continue to offer investment proposal to those interested employees of the Group to invest in its trust loan programme for the Group. The investments made by the said employees (the “Employee Investments”) have been used to fund the BITIC Loans provided by BITIC to the Group from time to time.

As at 31 March 2007 and the date of this report, both the total accrued Employee Investments and total sum of BITIC Loans amounted to RMB310 million. As at the same dates, both the total number of participating employees was 1,995.

**An analysis of the BITIC Loans and Employee Investments incurred during the period from 1 January 2007 to the date of this report is as follows:**

Both the RMB50 million Employee Investments and the related BITIC Loans with due date on 16 February 2007 have been extended respectively to 31 March 2008. The number of employees participated was reduced to 760 when such Employee Investments were renewed.

*The following is the text of a letter, a summary of valuation and valuation certificates, prepared for the purpose of incorporation in the document dated 29 June 2007 issued by the Company, received from Vigers Appraisal & Consulting Limited, an independent property valuer, in connection with its valuation on the property interests as at 31 March 2007.*

**Vigers Appraisal & Consulting Limited**  
**International Property Consultants**

10/F The Grande Building  
398 Kwun Tong Road  
Kowloon  
Hong Kong



29 June 2007

The Directors  
Beijing Jingkelong Company Limited  
No. 45 Xinyuan Street,  
Chaoyang District,  
Beijing, The PRC

Dear Sirs,

In accordance with your instructions for us to value the property interests of Beijing Jingkelong Company Limited (the “Company”) and its subsidiaries (together referred to as the “Group”) in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of such property interests for the purpose of incorporation in this document as at 31 March 2007 (“the Date of Valuation”).

Our valuation is our opinion of the market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

For property interests in Group I which are owned and occupied by the Group in the PRC, we have valued them on a market basis assuming sale with benefit of vacant possession by reference to comparable market transactions and with reference to depreciated replacement cost approach. Depreciated replacement cost approach means a combination of assessing the market value of the lands portions of the properties and replacement cost of the buildings and structures erected on the land respectively. Hence, the sum of the two results represents the market value of the property as a whole. In the valuation of the land portions, reference has been made to the standard land prices in Beijing and Hebei Province and the sales comparable in the locality. As the nature of the buildings and structures cannot be valued on the basis of market basis, they have therefore been valued on the basis of their depreciated replacement costs. Depreciated replacement cost is defined as “the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimisation”. Our opinion of value for each individual property does not necessarily represent the amount that might be realised in the market from the disposal of



that particular property. However, the depreciated replacement cost approach generally furnished the most reliable indication of value for property in the absence of a known market based on comparable sales. This approach is subject to adequate potential profitability of the business.

For property interests in Group II which are held under construction for future occupation use in the PRC, we have valued each of the property interest on the basis that the property will be developed and completed in accordance with the Group's latest development proposals provided to us. We have assumed that approvals for the proposals will be granted without onerous conditions. In arriving at our opinion of value, we have valued using the Direct Comparison Approach by making reference to comparable transactions in the locality and have also taken into account the construction costs that will be expended to complete the development to reflect the quality of the completed development. The "Capital value when completed" represents our opinion of the aggregate selling prices of property assuming that it would have been completed as at the date of valuation.

For property interests in Group III which are rented by the Group in the PRC, we have assigned no commercial value to them mainly due to the prohibition against assignment, the lack of substantial profit rents or the short term nature of such interests.

In undertaking our valuation of the property interests, we have relied on the legal opinion provided by the Group's PRC legal adviser, Jun Ze Jun Law Offices (the "PRC Legal Opinion"). Based on the PRC Legal Opinion, details of the current status of titles, grant of major approvals, licenses and documents of the property interests are set out in the valuation certificates.

In the course of our valuation, we have not caused title searches to be made for the property interests at the relevant government bureau. However, we have been provided with extracts from title documents relating to the property interests. We have not, however, searched the original documents to verify ownership or to verify the existence of any lease amendments which do not appear on the copies handed to us. All documents and leases have been used for reference only. All dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by you and therefore are only approximations.

In the course of our valuation, we have assumed that all consents, approvals and licences from relevant PRC government authorities for development of the property interests will be granted without any onerous conditions or undue delay.

We have relied to a considerable extent on information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas. We have also been advised by the Group that no material factors had been concealed or omitted in the information provided to us and we have not independently verified the information so provided.

Our valuation has been made on the assumption that the owner sells the property interests on the market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the values of the property interests. Furthermore, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interests and no forced sale situation in any manner is assumed in our valuation.

In valuing the property interests, we have assumed free and uninterrupted rights to use, occupy or assign the properties for the whole of the unexpired term as granted.

We have inspected the exterior of the properties and, where possible, the interior of the premises. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or any structural defects, though in the course of our inspections we did not note any serious defects. No tests were carried out on any of the services.

We have not carried out investigations on site to determine the suitability of ground conditions and services etc. for any future development, nor have we undertaken any ecological or environmental surveys. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during construction period.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the property interests, we have complied with all the requirements set out in Chapter Eight to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited. In addition, our valuations are prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors (HKIS).

Unless otherwise stated, all monetary amounts stated are in Hong Kong Dollar. The exchange rate used in valuing the property interests in the PRC on 31 March 2007 was HK\$1.0125 = RMB1.0. There has been no significant fluctuation in the exchange rates for Renminbi against Hong Kong Dollars between the date of valuation and this letter.

We enclosed herewith our summary of valuation and valuation certificates.

Yours faithfully, For and on behalf of  
**Vigers Appraisal & Consulting Limited**  
**Raymond Ho Kai Kwong**  
*Registered Professional Surveyor*  
*MRICS MHKIS MSc (e-com)*  
*Executive Director*

*Note:* Raymond K. K. Ho, Chartered Surveyor, MRICS, MHKIS, MSc (e-com) has 20 years experience in undertaking valuation of properties in Hong Kong and has over 12 years' experience in the valuation of properties in the PRC.

## SUMMARY OF VALUATION

Property	Market Value as at 31 Mar 2007	Interest attributable to the Group	Capital Value attributable to the Group as at 31 Mar 2007	
<b>Group I – Property interests owned and occupied by the Group in the PRC</b>				
1	Jing Ke Long Hypermarket – Jing Ke Long (Langfang) located at the Fifth Avenue Supermarket Xinshiji Pedestrian Area, Langfang City, Hebei Province, the PRC	RMB56,800,000 (equivalent to HK\$57,510,000)	100%	RMB56,800,000 (equivalent to HK\$57,510,000)
2	Jing Ke Long Hypermarket – Tian Shui Yuan branch located at Block 16 Tian Shui Yuan Bei Li, Chaoyang District, Beijing, the PRC	RMB94,600,000 (equivalent to HK\$95,780,000)	100%	RMB94,600,000 (equivalent to HK\$95,780,000)
3	Jing Ke Long Supermarket – Jinsong branch located at No. 58 Dong San Huan South Road, Chaoyang District, Beijing, the PRC	RMB51,500,000 (equivalent to HK\$52,140,000)	100%	RMB51,500,000 (equivalent to HK\$52,140,000)
4	Jing Ke Long – Main Office Complex located at No. 45 Xinyuan Street, Chaoyang District, Beijing, the PRC	RMB55,800,000 (equivalent to HK\$56,500,000)	100%	RMB55,800,000 (equivalent to HK\$56,500,000)
5	Jing Ke Long – Storage Facilities located at No. 1108 Ping Fang Village, Chaoyang District, Beijing, the PRC	RMB10,200,000 (equivalent to HK\$10,330,000)	100%	RMB10,200,000 (equivalent to HK\$10,330,000)
6	Jing Ke Long – Maintenance Facilities located at No. Jia 1 Liu Fang Nan Li, Chaoyang District, Beijing, the PRC	RMB7,630,000 (equivalent to HK\$7,730,000)	100%	RMB7,630,000 (equivalent to HK\$7,730,000)

Property	Market Value as at 31 Mar 2007	Interest attributable to the Group	Capital Value attributable to the Group as at 31 Mar 2007
7 Convenience Store No. 5, Level 1, Block 22, Jing Ao Jia Yuan, Dongba Zhong Road, Chaoyang District, Beijing, the PRC	RMB2,300,000 (equivalent to HK\$2,330,000)	100%	RMB2,300,000 (equivalent to HK\$2,330,000)
8 Convenience Store No. 38, Room 101 on Level 1 of Block 2, located at No. 12, Shuangqiao Road East, Chaoyang District, Beijing, the PRC	No commercial value	100%	No commercial value
9 Convenience Store No. 40, Unit 12 on Level 1 of Block 127 in Jiangfujiayuan Bei Lane Tuofangying, Jiangtai County, Chaoyang District, Beijing, the PRC	No commercial value	100%	No commercial value
	<b>Sub-total:</b>		
	<b>RMB278,830,000</b> (equivalent to <b>HK\$282,320,000</b> )		<b>RMB278,830,000</b> (equivalent to <b>HK\$282,320,000</b> )

**Group II – Property interests held under development by the Group in the PRC**

10 Jing Ke Long Jiuxianqiao branch located at Jiuxianqiao, Chaoyang, District, Beijing, the PRC	RMB408,800,000 (equivalent to HK\$413,910,000)	100%	RMB408,800,000 (equivalent to HK\$413,910,000)
11 Jing Ke Long Hypermarket – Changping branch located at Xiguan Huandao East, Changping District, Beijing, the PRC	RMB54,800,000 (equivalent to HK\$55,490,000)	100%	RMB54,800,000 (equivalent to HK\$55,490,000)
	<b>Sub-total:</b>		
	<b>RMB463,600,000</b> (equivalent to <b>HK\$469,400,000</b> )		<b>RMB463,600,000</b> (equivalent to <b>HK\$469,400,000</b> )

Property	Market Value as at 31 Mar 2007	Interest attributable to the Group	Capital Value attributable to the Group as at 31 Mar 2007
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**Group III – Property interests rented and occupied by the Group in the PRC**

**Hypermarket**

12	Jing Ke Long Huilongguan Shopping Arcade A parcel of land together with various buildings erected thereon located at the eastern side of Erbozi Jingchang Highway, Changping District, Beijing, the PRC	No commercial value	100%	Nil
13	Jing Ke Long Wangjing Shop The whole of Block No. 211 and ancillary buildings, Nanhu Zhongyuan, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
14	Jingkelong Jiugong Shop, Level 2 of No. 1 Jiugong Road West, Jiugong Town, Daxing District, Beijing, the PRC	No commercial Value	100%	Nil

**Supermarket**

15	Jing Ke Long Dashanzi Shopping Arcade, the west portion of Block No. 8, Dashanzi North Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
16	Jing Ke Long Fatou Shopping Arcade, Nos. 11 and 17 FatouWest Lane and No. 4 FatouWest Lane Zone 3, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
17	Jing Ke Long Guanzhuang Shopping Arcade, No. 49 Guanzhuang East Street, No. 49 Guanzhuang East Lane East, Guanzhuang East Lane and No. 49 Guanzhuang East Street East, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil

Property	Market Value as at 31 Mar 2007	Interest attributable to the Group	Capital Value attributable to the Group as at 31 Mar 2007
18 Jing Ke Long Huaan Shopping Arcade, Block 12, Anhua West Lane 1st Zone, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
19 Jing Ke Long Huawei Non-staple Food Shopping Arcade, No. 40 Huawei West Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
20 Jing Ke Long Capital Airport Shopping Arcade, No. 1 Capital Airport South Road, and Capital Airport South Road, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
21 Jing Ke Long Chaoyang Jingyuan Shopping Arcade, No. 24 Sanyuanli Street, Zuojiashuang, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
22 Jing Ke Long Chaoyang Jingyuan Shopping Arcade Godown, No. 5 Sanyuanli street, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
23 Jing Ke Long Sanlitun Shopping Arcade, No. 27 North Sanlitun Road South and no. 11 Gongti Road North, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
24 Jing Ke Long Songyu Lane Shopping Arcade, No. 28 Songyu Lane and No. 15 Wusheng West Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
25 Jing Ke Long Tuanjie Lake Shopping Arcade, the courtyard of No. 8 Tuanjie Lake Road, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
26 Jing Ke Long Tuanjie Lake Shopping Arcade, No. 8 Tuanjie Lake Road, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil

Property	Market Value as at 31 Mar 2007	Interest attributable to the Group	Capital Value attributable to the Group as at 31 Mar 2007
27 Jing Ke Long Tuanjie Lake Shopping Arcade, No. 7 Tuanjie Lake Road, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
28 Jing Ke Long Xibahe Non-staple Food Shopping Arcade, Blocks 83 and 85, Xibahe East Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
29 Jing Ke Long Zaoying Road Shopping Arcade, No. 10 Zaoying South Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
30 Jing Ke Long Zhenzhi Road Non-staple Food Shopping Arcade, Block No. Jia 2 Hujialou Street North, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
31 Jing Ke Long Zhenzhi Road Non-staple Food Shopping Arcade Godown, Block No. 3, Shuiduizi Road, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
32 Jing Ke Long Kangjing Lane Shopping Arcade, No. 19 and 20 Kangjing Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
33 Jing Ke Long Shuanglong Shopping Arcade, Block No. 204, Shuanglong South Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
34 Jing Ke Long Ganluyuan Non-staple Food Shopping Arcade, Block No. 18 Ganluyuan South Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil

Property	Market Value as at 31 Mar 2007	Interest attributable to the Group	Capital Value attributable to the Group as at 31 Mar 2007
35 Jing Ke Long Dongba Shop Various buildings together with facilities located on No. 1 Hongsong Garden, Dongba Village, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
36 Jing Ke Long Miyun Shop, Levels one to three and ancillary facilities, No. 21 Xinnan Road, Miyun County, Beijing, the PRC	No commercial value	100%	Nil
37 Jing Ke Long (Lang Fang) Yanjiao Shop, Levels one to two and ancillary facilities on the junction between the South-east of Yingbin Road and Jingha Road, North Yanjiao Development Zone, Sanhe City, Hebei Province, the PRC	No commercial value	80%	Nil
38 Jing Ke Long Jinsong Shop, No. 401 Jinsong 4th Zone, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
39 Jing Ke Long Baiziyuan Shop, Level 1, the basement and ancillary facilities of the club house B, on No. 16 Baiziwan Road, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
40 Jing Ke Long Louzizhuang Shop, the eastern side on the junction between Donggao Road and Louzizhuang Central Road, Jinzhao Village, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
41 Jing Ke Long Tianzhu Shop, Units 105, 106 and 107, Level 1, Tianyun Court, Tianzhu Garden, Shunyi District, Beijing, the PRC	No commercial value	100%	Nil



Property	Market Value as at 31 Mar 2007	Interest attributable to the Group	Capital Value attributable to the Group as at 31 Mar 2007
42 Jing Ke Long Tian Cun Shop, Portion of Level 1 and the basement level 1, No. 1 Yuefujiayuan Commercial Building, No. Yiyi Yongding Road, Haidian District Beijing, the PRC	No commercial value	100%	Nil
43 Jing Ke Long Xidan Shop, Basement Level 1, No. 109 Xidan Main Street North, Xicheng District, Beijing, the PRC	No commercial value	100%	Nil
44 Jing Ke Long Heping Lane Shop, Level 1 and basement level 1, South portion of Block No. 8, Zone 6 of Heping Lane, Dongcheng District, Beijing, the PRC	No commercial value	100%	Nil
45 Jing Ke Long Yuqiao Shop Levels 1-2 and portion of Level 3, Commercial Building, No. 15 Yuqiao Zhong Road, Tongzhou District, Beijing, the PRC	No commercial value	100%	Nil
46 Jing Ke Long Jiukeshu Shop Levels 1 and 2, Commercial Building, No. 29 Jiukeshu Road East, Tongzhou District, Beijing, the PRC	No commercial value	100%	Nil
47 Jing Ke Long Yuqiao Road West Shop Level 1, No. 66 Yuqiao Road West, Tongzhou District, Beijing, the PRC	No commercial value	100%	Nil
48 Jing Ke Long Beiguan Shop Level 1 and basement level 1 of the Commercial Building together with ancillary facilities, Block 15, Wanfujiayuan Yongshun Town, Tongzhou District, Beijing, the PRC	No commercial value	100%	Nil

Property	Market Value as at 31 Mar 2007	Interest attributable to the Group	Capital Value attributable to the Group as at 31 Mar 2007
49 Jing Ke Long Yudaihe Shop Levels 1 to 2, Commercial Building, No. Jia 4, No. 48 Yudaihe Main Street , and No. 7 Yudaihe Main Street, Tongzhou District, Beijing, the PRC	No commercial value	100%	Nil
50 Jing Ke Long Xinhua Main Street Shop No. 256 Xinhua Main Street, Tongzhou District, Beijing, the PRC	No commercial value	100%	Nil
51 Jing Ke Long Qiaozhuang Shop Block 34, No. 2, Zone East, Qiaozhuang, Tongzhou District, Beijing, the PRC	No commercial value	100%	Nil
52 Jing Ke Long Longwang Village Shop The Commercial Building in front of Geng Zhuang Residential Block, on the north of Jingha Highway, Tongzhou District, Beijing, the PRC	No commercial value	100%	Nil
53 Jingkelong Mingguangcun Shop Level 1 and Basement Level 1, No. 3 Honglian Village North, Haidian District, Beijing, the PRC	No commercial Value	100%	Nil
54 Jingkelong Changying Shop, Level 1 and basement Level 1, Block 13, Minzu Jiayuan, Changying Village, Chaoyang District, Beijing, the PRC	No commercial Value	100%	Nil
55 Jingkelong Yongan Road Shop, Basement level 1 and 2 and portion of Level 1, No. 5 Renshou Road, Xuanwu District, Beijing, the PRC	No commercial Value	100%	Nil
56 Jingkelong Wanliu Shop, Basement Level 1, No. 29 Wanliu Zhong Road, Haidian District, Beijing, the PRC	No commercial Value	100%	Nil
57 Jingkelong Hongsong Garden Shop, No. 16 Hongsong Garden North Lane Chaoyung District Beijing, the PRC	No commercial Value	100%	Nil

Property	Market Value as at 31 Mar 2007	Interest attributable to the Group	Capital Value attributable to the Group as at 31 Mar 2007
58 Jingkelong Xizhaosi, Basement level 1 of Block 4, Huacheng Estate located at No.16 Xizhaosi Street, Chongwen District, Beijing, the PRC	No commercial value	100%	Nil
59 Jingkelong Zonglvquan Shop, Portions of Levels 1 & 2 and the whole of basement levels 1 and 2 of Plam Arcade located at No. 8 Gongyuan Road South, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
60 Jingkelong Yanqing Shop, Portion of Level 1, the whole of levels 2, 3 and basement level 1 of Lyun Commercial Arcade located at No.58 Gaota Street, Yanqing County, Beijing, the PRC	No commercial value	100%	Nil
61 Portion of Block 12 located at Shifoying Xi Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
<b>Convenience Store</b>			
62 Convenience Store No. 1, Block No. 13 Gongrentiyuchang Road East, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
63 Convenience Store No. 2, No. 1 Zuojiashuang Sanjiaodi, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
64 Convenience Store No. 3, Block No. 4 Hongmiao North Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil

Property	Market Value as at 31 Mar 2007	Interest attributable to the Group	Capital Value attributable to the Group as at 31 Mar 2007
65 Convenience Store No. 4, No. 8 Fangcaodi Street West, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
66 Convenience Store No. 4 Godown, The East of No. 8 Fangcaodi Street West, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
67 Convenience Store No. 6, The west portion of No. 9 Guandongdian Street North, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
68 Convenience Store No. 7, the west portion of Block No. 5 Gongrentiyuchang Road South, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
69 Convenience Store No. 8, Tiyuchang Road East, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
70 Tiyuchang Road East, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
71 Convenience Store No. 9, Non-staple Food Shop in Sanlitun North, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
72 Convenience Store No. 10, the west portion of Block No. 22, Dongzhimenwai Main Street, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
73 Convenience Store No. 11, No. 21 Xingfuer Village, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
74 Convenience Store No. 12, Block No. 3 Shuiduizi Road East and a single-storey Block, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil

Property	Market Value as at 31 Mar 2007	Interest attributable to the Group	Capital Value attributable to the Group as at 31 Mar 2007
75 Convenience Store No. 13, Block No. Jia 306 Balizhuang North Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
76 Convenience Store No. 14, No. 7 Guanghui Lane, Jianwai Main Street, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
77 Convenience Store No. 15, Portion of Block No. 9 Huajiadi South Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
78 Convenience Store No. 16, Zone 3, Gaojiayuan, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
79 Convenience Store No. 17, No. 14, Zone 2, Gaojiayuan, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
80 Convenience Store No. 18, Block No. 16 Xinjiedayuan, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
81 Convenience Store No. 19, No. 817 Jinsong 8th Zone, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
82 Convenience Store No. 20, No. 9 Fatou North Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
83 Convenience Store No. 21, No. 518 to 521 Jinsong 5th Zone, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
84 Convenience Store No. 22, No. 111 Jinsong 1st Zone, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
85 Convenience Store No. 23, No. 203 Jinsong 2nd Zone, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil

Property	Market Value as at 31 Mar 2007	Interest attributable to the Group	Capital Value attributable to the Group as at 31 Mar 2007
86 Convenience Store No. 24, Block No. 8 Chuiyangliu West Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
87 Convenience Store No. 25, Block No. 19, Zone 2, Anzhen West Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
88 Convenience Store No. 26, Block No. 16, Zone 1, Anzhen West Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
89 Convenience Store No. 27, No.304 Huizhong Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
90 Convenience Store No. 28, Block No. 1 Yinghua Street East, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
91 Convenience Store No. 29, No. 18 Sijiefang, Jiuxianqiao, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
92 Convenience Store No. 30, The east portion of Block No. 16 Shiyijiefang, Jiuxianqiao, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
93 Convenience Store No. 31, The north-east portion of No. 3 Fangyuan Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
94 Convenience Store No. 32, Block No. 34 Zaoying North Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
95 Convenience Store No. 33, Block No. 12 Dongjunzhuang, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
96 Convenience Store No. 34, Block No. 1 Jintaibei Street, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil

Property	Market Value as at 31 Mar 2007	Interest attributable to the Group	Capital Value attributable to the Group as at 31 Mar 2007
97 Convenience Store No. 35, No. 22 and the South of No. 22 Nongguang Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
98 Convenience Store No. 36, Level 1 of Block 5 and 6 located at Shuguang Xi Lane No. Jia Liu, Chaoyang District, Beijing, the PRC	No commercial Value	100%	Nil
99 Convenience Store No. 37, A commercial building located at Yunjingli Zone Liyuan Town Tongzhou District, Beijing, the PRC	No commercial value	100%	Nil
100 Convenience Store No. 39, Wusheng External Trading Market, Nanmofang, Chaoyang District, Beijing, the PRC	No commercial Value	100%	Nil
<b>Other leased properties of the Company</b>			
101 Jing Ke Long Training Centre, Block No. 4 Hongmiao North Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
102 Jing Ke Long Live and Fresh Produce Logistics Centre, Yaojia Garden West Kou, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
103 Jing Ke Long Dry Product Logistics Centre, Shuangqiao Zhong Road, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
104 Block No. 301 Jinsong 3rd Zone, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
105 No. 19 Jianwaierdaojie, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil

Property	Market Value as at 31 Mar 2007	Interest attributable to the Group	Capital Value attributable to the Group as at 31 Mar 2007
<b>Leased properties of Beijing Chaopi Trading Company Limited</b>			
106	Yaojiayuan Road, Chaoyang District, Beijing, the PRC	No commercial value	76.42%  Nil
107	The South portion of No. Jia 1 Tianshuiyuan, Chaoyang District, Beijing, the PRC	No commercial value	76.42%  Nil
108	Dongbahongsong Garden, Chaoyang District, Beijing, the PRC	No commercial value	76.42%  Nil
109	No. 25 Jintai Lane, Chaoyang District, Beijing, the PRC	No commercial value	76.42%  Nil
110	No. 204 Shuanglong South Lane, Chaoyang District, Beijing, the PRC	No commercial value	76.42%  Nil
111	Laojuntang Village and No. 8 Laojuntang Village, Shibali Shop, Chaoyang District, Beijing, the PRC	No commercial value	76.42%  Nil
112	The west portion of Liuanzhuang Village, Beichen District, Tianjin, the PRC	No commercial value	76.42%  Nil
	<b>Sub-total:</b>	<u>Nil</u>	<u>Nil</u>
<b>Leased properties of subsidiaries of Beijing Chaopi Trading Company Limited</b>			
113	Portion of a warehouse Building(namely Block 6) located at No.36 Cangxing Street, Shijiazhuang, Hebei Province, the PRC	No commercial value	76.42%  Nil
114	Warehouse Blocks Nos. 1and 3 and an office building located at No. 18 Dasha Road, Sifang District Qingdao, Shandong Province, the PRC	No commercial value	76.42%  Nil
	<b>Sub-total:</b>	<u>Nil</u>	<u>Nil</u>



Property	Market Value as at 31 Mar 2007	Interest attributable to the Group	Capital Value attributable to the Group as at 31 Mar 2007
<b>Leased properties of Beijing Xinyang Tongli Commercial Facilities Company Limited</b>			
115 Tuofangying, Chaoyang District, Beijing, the PRC	No commercial value  _____	52.03%	Nil  _____
	<b>Sub-total:</b> _____	<b>Nil</b>	_____ <b>Nil</b>
	<b>Grant-total: RMB742,430,000</b> (equivalent to <u><b>HK\$751,720,000</b></u> )		<b>RMB742,430,000</b> (equivalent to <u><b>HK\$751,720,000</b></u> )

## VALUATION CERTIFICATE

## Group I – Property interests owned and occupied by the Group in the PRC

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2007
1	Jing Ke Long Hypermarket – Jing Ke Long (Langfang) (referred hereinafter as the “Property”) comprises the whole 3-storey (portion 4-storey) building erected over a parcel of land with a total site area of approximately 6,207.76 sq.m. situated at the western side in middle section of Fifth Avenue amid Xinshiji Pedestrian Area in Langfang City.	The property is currently occupied by the Group for commercial uses as hypermarket.	RMB56,800,000 (equivalent to HK\$57,510,000)
			<b>Interest attributable to the Group</b>
			100%
			<b>Capital Value attributable to the Group as at 31 March 2007</b>
	The building is of reinforced concrete construction completed in 2000 for commercial uses. The total gross floor area is approximately 12,550.69 sq.m.		RMB56,800,000 (equivalent to HK\$57,510,000)
	The land use rights to the Property have been granted for a term expiring on 9 November 2038 for commercial and services uses.		

## Notes:

- Pursuant to a State-owned Land Use Right Certificate (Document No.: Lang Guo Yong (2005) No. 00820) issued by the People’s Government of Langfang City on 4 March 2005, the Property with lot number 01-01-07-0033-4, which has a total site area of approximately 6,207.76 sq.m. with the term of land use rights expiring on 9 November 2038 for commercial and services uses, is vested in 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited, referred hereinafter as “the Company”).
- Pursuant to a Building Ownership Certificate (Document No.: Lang Fang Shi Fang Quan Zheng Zi No. 03551) dated 4 March 2005 issued by Langfang City Building Ownership and Census Registration Management Bureau, the ownership of the building having a total gross floor area of approximately 12,550.69 sq.m. is vested in the Company for commercial use.

3. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the Property are as follows:–
- |     |  |     |
|-----|--|-----|
| (a) | State-owned Land Use Right Certificate | Yes |
| (b) | Building Ownership Certificate         | Yes |
4. We have been provided with a PRC legal opinion on the title to the Property interest issued by Jun Ze Jun Law Offices, the PRC legal adviser, which contains, inter alias, the following information:
- (a) The Company has obtained the Building Ownership Certificate and the State-owned Land Use Rights Certificate for the building and the land for which the building is erected thereon.
- (b) During the remaining term of the land use rights, the Company has the rights to use, lease, mortgage and transfer the land use rights and building ownership of the Property.
- (c) The Property is subject to a mortgage in favour of China Construction Bank Corporation (Beijing Chaoyang Branch) dated 5 June 2006 as securities to a mortgage loan of RMB45,000,000 for a term expiring on 4 June 2007. The mortgage has been duly registered in the Land Management Bureau of Langfang City and Property ownership and Title Supervisory and Management Bureau of Langfang City.
5. The Company is a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company.

## VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2007	
2	Jing Ke Long Hypermarket Tian Shui Yuan branch located at Block 16 Tian Shui Yuan Bei Li, Chaoyang District, Beijing, The PRC	Jing Ke Long Hypermarket – Tian Shui Yuan branch (referred hereinafter as the “Property”) comprises a 4-storey commercial building (portion 1-storey) plus a basement level underneath erected over a parcel of land with a total site area of approximately 4,916.92 sq.m. situated at the area named Block 16 Tian Shui Yuan Bei Li amid Chaoyang District in Beijing.	The Property is currently occupied and operated by the Group for commercial uses as hypermarket.	RMB94,600,000 (equivalent to HK\$95,780,000)
			<b>Interest attributable to the Group</b>	
			100%	
			<b>Capital Value attributable to the Group as at 31 March 2007</b>	
			RMB94,600,000 (equivalent to HK\$95,780,000)	
	The building is of reinforced concrete construction completed in 1996 for commercial uses. The total gross floor area of the Property is approximately 17,361.80 sq.m.			
	The land use rights of the Property have been granted for a term of 40 years expiring on 18 August 2044 for commercial uses.			

## Notes:

- Pursuant to a State-owned Land Use Right Certificate (Document No.: Jing Chao Guo Yong (2004 Chu) No. 0614) issued by Beijing State-owned Land Resources Bureau on 16 November 2004, the Property, which has a total site area of approximately 4,916.92 sq.m. with a term of land use rights expiring on 18 August 2044 for commercial uses, is vested in 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited, referred hereinafter as “the Company”).
- Pursuant to a Contract for Grant of State-owned Land Use Rights (Document No.: (2004) 0617) entered into between 北京京客隆超市連鎖集團有限公司 (Beijing Jingkelong Supermarket Chain Group Company Limited, referred hereinafter as “Jingkelong Supermarket”) and Beijing State-owned Land Resources Bureau on 19 August 2004, the Property, which has a total site area of approximately 4,916.92 sq.m. has been granted to Jingkelong Supermarket for a term of 40 years expiring on 18 August 2044 for commercial uses at a total consideration of RMB17,496,875.
- Pursuant to a Building Ownership Certificate (Document No.: Jing Fang Quan Zheng Chao Gu 05 Zi No. 00177) dated 24 March 2005 issue by Beijing Chaoyang District State-owned Land Resources and Building Administration Bureau, the ownership to the building having a total gross floor area of approximately 17,361.80 sq.m. is vested in the Company for commercial use.

4. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the Property are as follows:-
- |     |   |     |
|-----|---|-----|
| (a) | State-owned Land Use Rights Certificate           | Yes |
| (b) | Building Ownership Certificate                    | Yes |
| (c) | Contract for Grant of State Owned Land Use Rights | Yes |
5. We have been provided with a PRC legal opinion on the title to the Property interest issued by Jun Ze Jun Law Offices, the PRC legal adviser, which contains, inter alias, the following information:
- (a) The Company has obtained the Building Ownership Certificate and the State-owned Land Use Rights Certificate for the building and the land for which the building is erected thereon.
- (b) During the remaining term of the land use rights, the Company has the rights to use, lease, mortgage and transfer the land use rights and building ownership of the Property.
- (c) The Property is subject to a mortgage in favour of Bank of Communications (Beijing Dongdan Branch) dated 26 October 2005 as securities to a mortgage loan with maximum loan amount of RMB170,000,000 for a term expiring on 13 September 2010.
6. The Company is a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company.
7. Jingkelong Supermarket is a State-owned holding enterprise incorporated in the PRC whose establishment in the PRC was approved by Beijing Administration for Industry and Commerce on 20 May 2002 and the predecessor of the Company. Prior to 6 December 2002, the name of Jingkelong Supermarket was Beijing Jingkelong Supermarket Chain Company Limited.

## VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2007
3	Jing Ke Long Supermarket – Jinsong branch located at No. 58 Dong San Huan South Road, Chaoyang District, Beijing, The PRC	The Property is currently occupied and operated by the Group for commercial uses as supermarket.	RMB51,500,000 (equivalent to HK\$52,140,000)
			<b>Interest attributable to the Group</b>
			100%
	The building is of reinforced concrete construction completed in 2004 for commercial uses. The total gross floor area of the Property is approximately 6,429.90 sq.m. Detail breakdown of the floor area is listed as follows:		<b>Capital Value attributable to the Group as at 31 March 2007</b>
			RMB51,500,000 (equivalent to HK\$52,140,000)
	<b>Use</b>	<b>GFA (sq.m.)</b>	
	<i>Block 2</i>		
	Level 1	805.97	
	Basement Level 1	<u>5,623.93</u>	
	Total:	<u><u>6,429.90</u></u>	
	The land use rights of the Property have been granted for a term of 40 years expiring on 8 October 2042 for commercial uses.		

## Notes:

- Pursuant to a transfer agreement (Document No.: 00182) entered into between 北京昆泰嘉業房地產開發有限公司 (Beijing Kuntai Jiaye Real Estate Development Company Limited, referred hereinafter as “Beijing Kuntai”) and 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited, referred hereinafter as “the Company”) dated 1 April 2005, Beijing Kuntai agreed to transfer the ownership of the Property with a total gross floor area of approximately 6,429.90 sq.m. to the Company.
- Pursuant to a Building Ownership Certificate (Document No.: Jing Fang Quan Zheng Chao Gu 05 Zi No. 00182) the ownership to the building having a total gross floor area of approximately 6,429.90 sq.m. is vested in the Company for commercial use.

3. Pursuant to a State-owned Land Use Right Certificate (Document No.: Jing Chao Guo Yong (2005 chu) No. 0427) dated 19 July 2005, the ownership to the Property having apportioned site area of approximately 899.11 sq.m. with the term of land use rights expiring on 8 October 2042.
4. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the Property are as follows:-
- |     |  |     |
|-----|--|-----|
| (a) | Building Ownership Certificate         | Yes |
| (b) | Transfer Agreement                     | Yes |
| (c) | State-owned Land Use Right Certificate | Yes |
5. We have been provided with a PRC legal opinion on the title to the Property interest issued by Jun Ze Jun Law Offices, the PRC legal adviser, which contains, inter alia, the following information:
- (a) The Company has obtained the Building Ownership Certificate and the State-owned Land Use Rights Certificate for the building and the land for which the building is erected thereon.
- (b) During the remaining term of the land use rights, the Company has the rights to use, lease, mortgage and transfer the land use rights and building ownership of the Property.
- (c) Units 102 and B102 of Block 2 together with the land portion of the Property are subject to a mortgage in favour of China Construction Bank Corporation (Beijing Chaoyang Branch) dated 5 June 2006 as securities to a mortgage loan of RMB32,000,000 for terms all expiring on 4 June 2007. The mortgage has been duly registered in the Construction Committee of Chaoyang District, Beijing and the State-owned Land Resources Bureau of Beijing.
6. The Company is a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company.

## VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2007								
4	<p>Jing Ke Long – Main Office Complex located at No. 45 Xinyuan Street, Chaoyang District, Beijing, The PRC</p> <p>Jing Ke Long Main Office Complex (referred hereinafter as the “Property”) comprises three one to four-storey office/ ancillary buildings erected over a parcel of land with a total site area of approximately 2,243.99 sq.m. situated at No. 45 Xinyuan Street amid Chaoyang District in Beijing.</p> <p>These buildings mainly include two main office towers and two ancillary buildings of reinforced concrete/brick &amp; concrete construction completed during the period 1980 to 1997 for office uses. The total gross floor area is approximately 6,933.82 sq.m. Details of the breakdown according to their uses are listed as follows:</p> <table border="1"> <thead> <tr> <th>Use</th> <th>GFA (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Main Office Buildings</td> <td>6,803.52</td> </tr> <tr> <td>Ancillary</td> <td><u>130.30</u></td> </tr> <tr> <td>Total:</td> <td><u><u>6,933.82</u></u></td> </tr> </tbody> </table> <p>The land use rights of the Property have been granted for a term of 40 years expiring on 17 August 2044 for commercial uses.</p>	Use	GFA (sq.m.)	Main Office Buildings	6,803.52	Ancillary	<u>130.30</u>	Total:	<u><u>6,933.82</u></u>	<p>Portion of the Property is subject to tenancy and at present occupied by the tenant for commercial use and the remaining portion of the Property is occupied by the Group for office use.</p>	<p>RMB55,800,000 (equivalent to HK\$56,500,000)</p> <p><b>Interest attributable to the Group</b></p> <p>100%</p> <p><b>Capital Value attributable to the Group as at 31 March 2007</b></p> <p>RMB55,800,000 (equivalent to HK\$56,500,000)</p>
Use	GFA (sq.m.)										
Main Office Buildings	6,803.52										
Ancillary	<u>130.30</u>										
Total:	<u><u>6,933.82</u></u>										

## Notes:

- Pursuant to a State-owned Land Use Right Certificate (Document No.: Jing Chao Guo Yong (2004 Chu) No. 0613) issued by the Beijing State-owned Land Resources Bureau on 20 November 2004, the Property, which has a total site area of approximately 2,243.99 sq.m. with a term of land use rights expiring on 17 August 2044 for commercial uses, is vested in 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited, referred hereinafter as “the Company”).
- Pursuant to a Contract for Grant of State-owned Land Use Rights (Document No.: (2004) 0616) entered into between 北京京客隆超市連鎖集團有限公司 (Beijing Jingkelong Supermarket Chain Group Company Limited, referred hereinafter as “Jingkelong Supermarket”) and Beijing State-owned Land Resources Bureau dated 18 August 2004, the Property, which has a total site area of approximately 2,243.99 sq.m. has been granted to Jingkelong Supermarket for a term of 40 years expiring on 17 August 2044 for commercial uses at a total consideration of RMB10,747,421.



3. Pursuant to a Building Ownership Certificate (Document No.: Jing Fang Quan Zheng Chao Gu 05 Zi No. 00175), the ownership to the buildings of the Property having a total gross floor area of approximately 6,933.82 sq.m. is vested in the Company for commercial use.
4. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the Property are as follows:-
- |     |   |     |
|-----|---|-----|
| (a) | State-owned Land Use Right Certificate            | Yes |
| (b) | Building Ownership Certificate                    | Yes |
| (c) | Contract for Grant of State Owned Land Use Rights | Yes |
5. According to a Tenancy Agreement entered into between Beijing Chaoyang Auxillary Food Company (Party A) and 沈陽市和平區星期九餐飲娛樂中心 (Shenyang Heping District Xing Qi Jiu Beverage and Entertainment Centre) (Party B) dated 7 September 1999, portion of the Property having a gross floor area of approximately 3,087 sq.m. is leased to Party B (an independent third party) for a term of ten years commencing from 1 September 1999.
- According to a Statement issued by Party A, Party B and 北京勝華麗餐飲娛樂有限責任公司 (Beijing Sheng Hua Li Beverage and Entertainment Company Limited) (Party C) dated 27 August 2001, the tenant has been changed from Party B to Party C.
- Pursuant to a Supplementary Agreement entered into between Party A and Party C dated 27 December 2002, the lessor of the Property has been changed from Party A to the Company under the same terms stated in the Tenancy Agreement.
6. We have been provided with a PRC legal opinion on the title to the Property interest issued by Jun Ze Jun Law Offices, the PRC legal adviser, which contains, inter alia, the following information:
- The Company has obtained the Building Ownership Certificate and the State-owned Land Use Rights Certificate for the building and the land for which the building is erected thereon.
  - During the remaining term of the land use rights, the Company has the rights to use, lease, mortgage and transfer the land use rights and building ownership of the Property.
  - The Company leased the property to Beijing Sheng Hua Li Beverage and Entertainment Company Limited is legally effective.
  - The Property is subject to a mortgage in favour of the Bank of Communication (Beijing Dongdan Branch) dated 26 October 2005 as securities to a mortgage loan of at an amount RMB170,000,000 for a term expiring on 13 September 2010.
7. The Company is a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company.
8. Jingkelong Supermarket is a State-owned holding enterprise incorporated in the PRC whose establishment in the PRC was approved by Beijing Administration for Industry and Commerce on 20 May 2002 and the predecessor of the Company. Prior to 6 December 2002, the name of Jingkelong Supermarket was Beijing Jingkelong Supermarket Chain Company Limited.

## VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2007																
5 Jing Ke Long – Storage Facilities located at No. 1108 Ping Fang Village, Chaoyang District, Beijing, The PRC	<p>Jing Ke Long – Storage Facilities (referred hereinafter as the “Property”) comprises six one to 2- storey warehouse/ancillary buildings erected over a parcel of land with a total site area of approximately 13,331.81 sq.m. situated at No. 1108 Ping Fang Village amid Chaoyang District in Beijing.</p> <p>These buildings are mainly of brick and concrete construction completed during the period 1960 to 1985 as warehouse for storage uses. The total gross floor area of the Property is approximately 6,188.22 sq.m. Details of the breakdown according to their uses are listed as follows:</p> <table border="1"> <thead> <tr> <th>Use</th> <th>GFA (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Ancillary Office</td> <td>301.32</td> </tr> <tr> <td>Warehouse 1</td> <td>3,533.43</td> </tr> <tr> <td>Warehouse 2</td> <td>83.40</td> </tr> <tr> <td>Warehouse 3</td> <td>156.61</td> </tr> <tr> <td>Warehouse 4</td> <td>2,021.68</td> </tr> <tr> <td>Warehouse 5</td> <td><u>91.78</u></td> </tr> <tr> <td><b>Total:</b></td> <td><b><u>6,188.22</u></b></td> </tr> </tbody> </table> <p>The land use rights of the Property have been granted for a term of 50 years expiring on 29 June 2054 for industrial uses.</p>	Use	GFA (sq.m.)	Ancillary Office	301.32	Warehouse 1	3,533.43	Warehouse 2	83.40	Warehouse 3	156.61	Warehouse 4	2,021.68	Warehouse 5	<u>91.78</u>	<b>Total:</b>	<b><u>6,188.22</u></b>	The Property is currently occupied by the Group for warehouse/storage uses.	<p>RMB10,200,000 (equivalent to HK\$10,330,000)</p> <p><b>Interest attributable to the Group</b></p> <p>100%</p> <p><b>Capital Value attributable to the Group as at 31 March 2007</b></p> <p>RMB10,200,000 (equivalent to HK\$10,330,000)</p>
Use	GFA (sq.m.)																		
Ancillary Office	301.32																		
Warehouse 1	3,533.43																		
Warehouse 2	83.40																		
Warehouse 3	156.61																		
Warehouse 4	2,021.68																		
Warehouse 5	<u>91.78</u>																		
<b>Total:</b>	<b><u>6,188.22</u></b>																		

## Notes:

- Pursuant to a State-owned Land Use Right Certificate (Document No. Jing Chao Guo Yong (2004 Chu) No. 0543) issued by Beijing State-owned Land Resources Bureau on 13 October 2004, the Property, which has a total site area of approximately 13,331.81 sq.m. with a term of land tenure expiring on 29 June 2054 for industrial use, is vested in 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited, referred hereinafter as “the Company”).

2. Pursuant to a Contract for Grant of State-owned Land Use Rights (Document No.: (2004)0578) entered into between 北京京客隆超市連鎖集團有限公司 (Beijing Jingkelong Supermarket Chain Group Company Limited, referred hereinafter as “Jingkelong Supermarket”) and Beijing State-owned Land Resources and Building Administration Bureau dated 30 June 2004, the Property, which has a total site area of approximately 13,331.81 sq.m. has been granted to Jingkelong Supermarket for a term of 50 years expiring on 29 June 2054 for industrial use at a total consideration of RMB1,466,499.
3. Pursuant to a Building Ownership Certificate (Document No.: Jing Fang Quan Zheng Chao Gu 05 Zi No. 00176), the ownership to the buildings of the Property having a total gross floor area of approximately 6,188.22 sq.m. is vested in the Company for industrial use.
4. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the Property are as follows:–
- |     |   |     |
|-----|---|-----|
| (a) | State-owned Land Use Rights Certificate           | Yes |
| (b) | Building Ownership Certificate                    | Yes |
| (c) | Contract for Grant of State Owned Land Use Rights | Yes |
5. We have been provided with a PRC legal opinion on the title to the Property interest issued by Jun Ze Jun Law Offices, the PRC legal adviser, which contains, inter alias, the following information:
- (a) The Company has obtained the Building Ownership Certificate and the State-owned Land Use Rights Certificate for the building and the land for which the building is erected thereon.
- (b) During the remaining term of the land use rights, the Company has the rights to use, lease, mortgage and transfer the land use rights and building ownership of the Property.
- (c) The land and the building portions of the Property is free from any mortgage and legal charges.
6. The Company is a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company.
7. Jingkelong Supermarket is a State-owned holding enterprise incorporated in the PRC whose establishment in the PRC was approved by Beijing Administration for Industry and Commerce on 20 May 2002 and the predecessor of the Company. Prior to 6 December 2002, the name of Jingkelong Supermarket was Beijing Jingkelong Supermarket Chain Company Limited.

## VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2007
6 Jing Ke Long – Maintenance Facilities located at No. Jia 1 Liu Fang Nan Li Chaoyang District, Beijing, The PRC	<p>Jing Ke Long – Maintenance Facilities (referred hereinafter as the “Property”) comprises a 2-storey composite building erected over a parcel of land with a total site area of approximately 1,171.60 sq.m. situated at No. Jia 1 Liu Fang Nan Li amid Chaoyang District in Beijing.</p> <p>These buildings are mainly of brick and concrete construction completed in 1987 for composite use. The total gross floor area of the Property is approximately 1,219.30 sq.m.</p> <p>The land use rights of the Property have been granted for a term of 40 years expiring on 29 June 2044 for commercial uses.</p>	The Property is currently occupied and operated by the Group for composite uses and maintenance workshop.	<p>RMB7,630,000 (equivalent to HK\$7,730,000)</p> <p><b>Interest attributable to the Group</b></p> <p>100%</p> <p><b>Capital Value attributable to the Group as at 31 March 2007</b></p> <p>RMB7,630,000 (equivalent to HK\$7,730,000)</p>

*Notes:*

- Pursuant to a State-owned Land Use Right Certificate (Document No.: Jing Chao Guo Yong (2004 Chu) No. 0542) issued by Beijing State-owned Land Resources Bureau on 13 October 2004, the Property, which has a total site area of approximately 1,171.60 sq.m. with a term of land use rights expiring on 29 June 2044 for commercial use, is vested in 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited, referred hereinafter as “the Company”).
- Pursuant to a Contract for Grant of State-owned Land Use Rights (Document No.: (2004) 0573) entered into between 北京京客隆超市連鎖集團有限公司 (Beijing Jingkelong Supermarket Chain Group Company Limited, referred hereinafter as “Jingkelong Supermarket”) and Beijing State-owned Land Resources and Building Administration Bureau dated 30 June 2004, the Property, which has a total site area of approximately 1,219.30 sq.m. has been granted to Jingkelong Supermarket for a term of 40 years expiring on 29 June 2044 for commercial use at a total consideration of RMB1,585,090.
- Pursuant to a Building Ownership Certificate (Document No. Jing Fang Quan Zheng Chao Gu 05 Zi No. 00174), the ownership to the building of the Property having a total gross floor area of approximately 1,219.30 sq.m. is vested in the Company for commercial use.

4. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the Property are as follows:-
- |     |   |     |
|-----|---|-----|
| (a) | State-owned Land Use Rights Certificate           | Yes |
| (b) | Building Ownership Certificate                    | Yes |
| (c) | Contract for Grant of State Owned Land Use Rights | Yes |
5. We have been provided with a PRC legal opinion on the title to the Property interest issued by Jun Ze Jun Law Offices, the PRC legal adviser, which contains, inter alias, the following information:
- (a) The Company has obtained the Building Ownership Certificate and the State-owned Land Use Rights Certificate for the building and the land for which the building is erected thereon.
- (b) During the remaining term of the land use rights, the Company has the rights to use, lease, mortgage and transfer the land use rights and building ownership of the Property.
- (c) Units 1-2 and 1-5 together with the land portion of the Property are subject to a mortgage in favour of China Construction Bank Corporation (Beijing Chaoyang Branch) dated 5 June 2006 as securities to a mortgage loan of RMB8,000,000 for a term expiring on 4 June 2007. The mortgage has been duly registered in the Construction Committee of Chaoyang District, Beijing and the State-owned Land Resources Bureau of Beijing.
6. The Company is a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company.
7. Jingkelong Supermarket is a State-owned holding enterprise incorporated in the PRC whose establishment in the PRC was approved by Beijing Administration for Industry and Commerce on 20 May 2002 and the predecessor of the Company. Prior to 6 December 2002, the name of Jingkelong Supermarket was Beijing Jingkelong Supermarket Chain Company Limited.

## VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2007
7 Convenience Store No. 5, Level 1, Block 22, Jing Ao Jia Yuan, Dongba Zhong Road, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole on level 1 of a single-storey building completed in 2005.</p> <p>The property has a total gross floor area of approximately 260.98 sq.m.</p> <p>According to a State-owned Land Use Right Certificate, the land use right of the property has been granted for a term of 70 years for residential use, 50 years for carparking use and 40 years for ancillary use since 8 September 2003.</p>	The property at present is occupied by the Group as convenience store.	<p>RMB2,300,000 (equivalent to HK\$2,330,000)</p> <p><b>Interest attributable to the Group</b></p> <p>100%</p> <p><b>Capital Value attributable to the Group as at 31 March 2007</b></p> <p>RMB2,300,000 (equivalent to HK\$2,330,000)</p>

## Notes:

- According to a Sale and Purchase Agreement (Document No.: 701183) entered into between 北京奥林匹克置業投資有限公司 (Beijing Olympic Property Investment Company Limited, referred hereinafter as the "Landlord") and Beijing Jingkelong Company Limited (referred hereinafter as "the Company") dated 23 November 2005, the Landlord agreed to sell the building ownership of the property having a total gross floor area of approximately 260.98 sq.m. to the Company at a consideration of RMB2,271,408.
- According to a State-owned Land Use Right Certificate issued by the Beijing State-owned Land Resources and Housing Management Bureau dated 6th November 2003 (Document No.: Jing Di Chu (He) Zi (03) No. 777), the land use rights to Phase I of Jing Ao, Jia Yuan with a site area of approximately 72,453.31 sq.m. has been granted to the Landlord for a term of 70 years for residential use, 50 years for carparking use and 40 years for ancillary use since 8 September 2003.
- According to a Building Ownership Certificate (Document No. Jing Fang Quan Zheng Chao Gu 06 Zi No. 00215), the building ownership of the property having a gross floor area of approximately 260.98 sq.m. is vested in the Company.
- Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals licences and documents of the Property are as follows:
  - Sale and Purchase Agreement Yes
  - State-owned Land Use Right Certificate (For Phase I of Jing Ao Jia Yuan) Yes
  - Building Ownership Certificate Yes

5. We have been provided with a PRC legal opinion on the title to the Property interest issued by Jun Ze Jun Law Offices, the PRC legal adviser, which contains, inter alias, the following information:
- (a) The building ownership to the Property is wholly vested in the Company.
  - (b) During the remaining term of the land use rights, the Company has the rights to use, lease, mortgage and transfer the building.
  - (c) The Company has the rights to use, lease, mortgage and transfer the building ownership of the Property.
6. The Company is a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company.

## VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2007
8 Convenience Store No. 38, Unit 101 on Level 1 of Block 2 located at No. 12 Shuangqiao Road East, Chaoyang District, Beijing, The PRC	<p>Convenience Store No. 38 (referred hereinafter as the "Property") comprises a retail unit located on Level 1 of a 5-storey (plus 1 basement level) low-rise building erected over a parcel of land with a total site area of approximately 54,919.38 sq.m. situated at Shuangqiao Road East amid Chaoyang District.</p> <p>The building is of reinforced concrete construction completed in or about 2006 for commercial uses. The gross floor area of the Property is approximately 514 sq.m.</p> <p>The land use rights to the Property have been granted for a term expiring on 15 May 2043 for ancillary uses.</p>	The property is currently occupied by the Group for commercial uses as convenience store.	<p>No commercial value</p> <p><b>Interest attributable to the Group</b></p> <p>100%</p> <p><b>Capital Value attributable to the Group as at 31 March 2007</b></p> <p>No commercial value</p>

*Notes:*

- Pursuant to a Sale and Purchase Agreement (Document No.: XF31958) entered into between an independent third party 北京金時代置業有限公司 (Vendor) and 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited, referred hereinafter as the "Company") on November 2006, the Company agreed to purchase the Property with a total gross floor area of approximately 514 sq.m. from the Vendor at a consideration of RMB7,130,000. Other detail information contains in the contract include, inter alia, as follows:

Location	:	Unit 101 on Level 1 of Block 2 amid East Zone of Phase I, Kangquan City 康泉新城一期(東區), No. 12 Shuangqiao Road East, Chaoyang District, Beijing
Land Use Term	:	commencing from 16 May 2003 and expiring on 15 May 2043
State-owned Land Use Right Certificate	:	Jing Chao Guo Yong (2003Chu) No. 0353
Building Ownership Certificate	:	Jing Fang Quan Zheng Chao Qi 06 Zi No. 001692 Gross Floor Area : 514 sq.m.
Permitted Land Use	:	Ancillary Use
Permitted Building Use	:	Commercial



2. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the Property are as follows:–
- (a) Sale and Purchase Agreement Yes
3. We have been provided with a PRC legal opinion on the title to the Property interest issued by Jun Ze Jun Law Offices, the PRC legal adviser, which contains, inter alias, the following information:
- (a) The Company is in the process of applying for the individual Building Ownership Certificate and the State-owned Land Use Rights Certificate of the Property.
- (b) Upon obtaining the title certificates mentioned in note 3a above and during the remaining term of the land use rights, the Company has the rights to use, lease, mortgage and transfer the land use rights and building ownership of the Property.
- (c) The Company has fully settled the purchase price set out in the Sale and Purchase Agreement mentioned in Note 1 above.
- (d) The property is not subject to any mortgage or seizure by court order.

## VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2007
9. Convenience Store No. 40, Unit 12 on Level 1 of Block 127 in Jiangfujiayuan Bei Lane, Tuofangying Jiangtai County, Chaoyang District, Beijing, The PRC	<p>Convenience Store No. 40 (referred hereinafter as the "Property") comprises a retail shop located on Level 1 of a 10-storey (including one basement level) medium-rise building, namely Block 127 amid Jiangfujiayuan.</p> <p>The building is of reinforced concrete construction completed in or about 2006 for composite use. The gross floor area of the Property is approximately 120.53 sq.m.</p> <p>The land use rights to the Property have been granted for a term expiring on 15 November 2043 for commercial use.</p>	The property is currently occupied by the Group for commercial uses as convenience store.	<p>No commercial value</p> <p><b>Interest attributable to the Group</b></p> <p>100%</p> <p><b>Capital Value attributable to the Group as at 31 March 2007</b></p> <p>No commercial value</p>

## Notes:

1. Pursuant to a Sale and Purchase Agreement (Document No.: XF51656) entered into between 北京永同昌京都房地產開發有限公司 (as the Vendor) and 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited, referred hereinafter as the "Company") on 28 April 2007, the Company agreed to purchase the Property with a total gross floor area of approximately 120.53 sq.m. from the Vendor at a consideration of RMB2,038,162. Other detail information contains in the contract include, inter alia, as follows:

Location	:	Unit 12 on Level 1 of Block 127 amid Jiangfujiayuan Bei Lane 將府家園北里, Tuofangying, Jiangtai County, Chaoyang District, Beijing
Land Use Term	:	expiring on 15 November 2043
State-owned Land Use Right Certificate	:	Jing Chao Guo Yong (2004Chu) No. 0068
Building Ownership Certificate	:	Jing Fang Quan Zheng Chao Qi 06 Zi No. 001923
Gross Floor Area	:	120.53 sq.m.
Permitted Land Use	:	Commercial Use
Permitted Building Use	:	Commercial

2. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the Property are as follows:-
- (a) Sale and Purchase Agreement Yes
3. We have been provided with a PRC legal opinion on the title to the Property interest issued by Jun Ze Jun Law Offices, the PRC legal adviser, which contains, inter alias, the following information:
- (a) The Company is in the process of applying for the individual Building Ownership Certificate and the State-owned Land Use Rights Certificate of the Property.
- (b) Upon obtaining the title certificates mentioned in note 3a above and during the remaining term of the land use rights, the Company has the rights to use, lease, mortgage and transfer the land use rights and building ownership of the Property.
- (c) The Company has fully settled the purchase price set out in the Sale and Purchase Agreement mentioned in Note 1 above.
- (d) The property is not subject to any mortgage or seizure by court orders.

## VALUATION CERTIFICATE

## Group II – Property Interests held under development by the Group in the PRC

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2007
10 Jing Ke Long Jiuxianqiao branch located at Jiuxianqiao Chaoyang District, Beijing, The PRC	<p>Jing Ke Long Jiuxianqiao branch (referred hereinafter as the “Property”) comprises a parcel of land with a total site area of approximately 23,910.18 sq.m. situated at the area named Jiuxianqiao amid Chaoyang District in Beijing.</p> <p>The Property will be developed into a comprehensive commercial complex with the provision of car parking facilities. The total gross floor area of the Property scheduled to be built is approximately 59,339.47 sq.m.. According to the information given by the Group, the construction of the superstructure of the Property was completed in September 2006.</p> <p>The land use rights of the Property have been granted for a term of 40 and 50 years expiring on 15 July 2044 and 15 July 2054 for commercial and car parking uses respectively.</p>	The Property is currently under internal decorations and will launch its opening in the fourth quarter of 2007.	<p>RMB408,800,000 (equivalent to HK\$413,910,000)</p> <p><b>Interest attributable to the Group</b></p> <p>100%</p> <p><b>Capital Value attributable to the Group as at 31 March 2007</b></p> <p>RMB408,800,000 (equivalent to HK\$413,910,000)</p>

## Notes:

- Pursuant to a State-owned Land Use Right Certificate (Document No. Jing Chao Guo Yong (2004 Chu) No. 0544) issued by Beijing State-owned Land Resources Bureau on 13 October 2004, the Property, which has a total site area of approximately 23,910.18 sq.m. with a term of land use rights expiring on 15 July 2044 and 15 July 2054 for commercial use and car parking use respectively, is vested in 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited, referred hereinafter as “the Company”).
- Pursuant to a Contract for Grant of State-owned Land Use Rights (Document No.: Jing Di Chu He Zi (2004) 0751) entered into between 北京京客隆超市連鎖集團有限公司 (Beijing Jingkelong Supermarket Chain Group Company Limited, referred hereinafter as “Jingkelong Supermarket”) and Beijing State-owned Land Resources Bureau dated 16 July 2004, the Property, which has a total site area of approximately 23,910.18 sq.m. has been granted to Jingkelong Supermarket for a term of 40 and 50 years expiring on 15 July 2044 and 15 July 2054 for commercial and car parking uses respectively at a total consideration of RMB40,026,430.
- According to a Construction Land Planning Permit (Document No.: 2004 Gui Di Zi No. 0211) dated 28 December 2004, the permission towards the planning of the development of the Property with a site area of approximately 23,910.18 sq.m. is granted to Jingkelong Supermarket under the project name “Jingkelong Jiu Xian Qiao Shopping Arcade”.

4. Pursuant to a Construction Work Planning Permit (Document No.: 2004 Gui Jian Zi No. 0567) issued by Beijing Municipal Commission of Urban Planning on 30 December 2004 in favor of Jingkelong Supermarket, the development scale of the Property is permitted to comprise a single block of commercial building with a total gross floor area of approximately 59,339.47 sq.m..
5. Pursuant to a Construction Commencement Permit (Document No.: 00 Jian (2005) 0301) issued by Beijing Construction Commission on 6 February 2005 in favor of Jingkelong Supermarket, which granted the permission for Jingkelong Supermarket is permitted to commence the construction work of the above mentioned building.
6. Pursuant to a Construction Work Planning Permit (Document No.: 2006 Gui Jian Zi No. 0344) issued by Beijing Municipal Commission of Urban Planning on 4 July 2006 in favor of the Company, the development scale of the Property is permitted to comprise a single block of commercial building with a total gross floor area of approximately 12,056.54 sq.m..
7. Pursuant to a Construction Commencement Permit (Document No.: (2006) Shi Jian Zi 1979) issued by Beijing Construction Commission on 12 October 2006 in favor of the Company, which granted the permission for the Company is permitted to commence the construction work of the above mentioned building.
8. As advised by the Group, the total development costs (including construction costs) expended as at the date of valuation was approximately RMB397,600,000 and the outstanding development cost estimated to complete the development is approximately RMB112,400,000.
9. The “Capital value when completed” of the proposed development is approximately RMB510,000,000 (equivalent to HK\$516,375,000).
10. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the Property are as follows:–
 

(a)	State-owned Land Use Rights Certificate	Yes
(b)	Contract for Grant of State Owned Land Use Rights	Yes
(c)	Construction Land Planning Permit	Yes
(d)	Construction Work Planning Permits	Yes
(e)	Construction Commencement Permit	Yes
11. We have been provided with a PRC legal opinion on the title to the Property interest issued by Jun Ze Jun Law Offices, the PRC legal adviser, which contains, inter alia, the following information:
  - (a) The Company has obtained the State-owned Land Use Rights Certificate for the land portion of the Property.
  - (b) During the remaining term of the land use rights, the Company has the rights to use, lease, mortgage and transfer the land use rights of the Property.
  - (c) The land use right of the Property is subject to a mortgage in favour of Bank of Beijing (Jiulongshan Branch) dated 10 October 2006 as securities to a mortgage loan of RMB200,000,000 for a term expiring on 25 October 2008. The mortgage has been duly registered in State-owned Resources Bureau of Beijing.
12. The Company is a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company.
13. Jingkelong Supermarket is a State-owned holding enterprise incorporated in the PRC whose establishment in the PRC was approved by Beijing Administration for Industry and Commerce on 20 May 2002 and the predecessor of the Company. Prior to 6 December 2002, the name of Jingkelong Supermarket was Beijing Jingkelong Supermarket Chain Company Limited.

## VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2007
11 Jing Ke Long Hypermarket – Changping branch located at Xiguan Huandao East, Changping District, Beijing, The PRC	<p>Jing Ke Long Hypermarket – Changping branch (referred hereinafter as the “Property”) comprises a parcel of land with a total site area of approximately 19,730.65 sq.m. situated at the area named Xiguan Huandao East amid Changping District in Beijing.</p> <p>The Property will be developed into a comprehensive 4-storey plus one basement level commercial complex with the provision of car parking facilities. The total gross floor area of the Property scheduled to be built is approximately 44,626 sq.m.. According to the information given by the Group, the Property is scheduled to complete in May 2008.</p> <p>The land use rights of the Property have been granted for a term of 40 years expiring on 23 July 2043 for commercial uses.</p>	The Property is currently a vacant land.	<p>RMB54,800,000 (equivalent to HK\$55,490,000)</p> <p><b>Interest attributable to the Group</b></p> <p>100%</p> <p><b>Capital Value attributable to the Group as at 31 March 2007</b></p> <p>RMB54,800,000 (equivalent to HK\$55,490,000)</p>

*Notes:*

- Pursuant to a State-owned Land Use Right Certificate (Document No. Jing Chang Guo Yong (2005 Chu Bian) No. 036) issued Beijing Changping District Land and Housing Management Bureau on 15 March 2005, the Property, which has a total site area of approximately 19,730.65 sq.m. with a term of land use rights expiring on 23 July 2043 for commercial use, is vested in 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited, referred hereinafter as “the Company”).
- Pursuant to a Contract for Grant of State-owned Land Use Rights (Document No.: Jing Chang Di Chu (He) Zi (2003) No. 073) entered into between 北京京客隆超市連鎖集團有限公司 (Beijing Jingkelong Supermarket Chain Group Company Limited, referred hereinafter as “Jingkelong Supermarket”) and Beijing Changping District State-owned Land Resources and Building Administration Bureau on 24 July 2003, the Property, which has a total site area of approximately 19,730.65 sq.m. has been granted to Jingkelong Supermarket for a term of 40 years expiring on 23 July 2043 for commercial uses at a total consideration of RMB15,342,710.
- According to two Construction Land Planning Permits (Document No. 2003 Chang Gui Di Zi 0053 and 2003 Gui (Chang) Di Zi 0082), the permission toward the planning of the development of the Property with a site area of approximately 19,730.65 sq.m. is granted to Jingkelong Supermarket for commercial and car parking uses.

4. Pursuant to a Construction Work Planning Permit (Document No. 2003-Gui Chang Jian Zi-0142) issued by Beijing Town Planning Bureau on 21 August 2003 in favor of Jingkelong Supermarket, the development scale of the Property is permitted to comprise a single block of supermarket building with a total gross floor area of approximately 44,626 sq.m..
5. Pursuant to a co-operation agreement entered into between the Company and 北京盛世原華房地產開發有限公司 (referred hereinafter as “Shengshi Yuanhua”) on 8 February 2007, the Company and Shengshi Yuanhua will co-develop the Property.
6. As advised by the Group the total development costs (including construction costs) expended as at the date of valuation was approximately RMB44,470,000 and the outstanding development cost estimated to complete the development is approximately RMB259,500,000.
7. The “Capital value when completed” of the proposed development is approximately RMB304,000,000 (equivalent to HK\$307,800,000).
8. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the Property are as follows:–
 

(a)	State-owned Land Use Rights Certificate	Yes
(b)	Contract for Grant of State Owned Land Use Rights	Yes
(c)	Construction Land Planning Permits	Yes
(d)	Construction Work Planning Permits	Yes
(e)	Co-operation Agreement	Yes
9. We have been provided with a PRC legal opinion on the title to the Property interest issued by Jun Ze Jun Law Offices, the PRC legal adviser, which contains, inter alias, the following information:
  - (a) The Company has obtained the State-owned Land Use Rights Certificate for the land portion of the Property.
  - (b) During the remaining term of the land use rights, the Company has the rights to use, lease, mortgage and transfer the land use rights of the Property.
  - (c) The land portion of the Property is free from any mortgage and legal charges.
10. The Company is a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company.
11. Jingkelong Supermarket is a State-owned holding enterprise incorporated in the PRC whose establishment in the PRC was approved by Beijing Administration for Industry and Commerce on 20 May 2002 and the predecessor of the Company. Prior to 6 December 2002, the name of Jingkelong Supermarket was Beijing Jingkelong Supermarket Chain Company Limited.

## VALUATION CERTIFICATE

## Group III – Property interests rented and occupied by the Group in the PRC

## Hypermarket

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
12 Jing Ke Long Huilongguan Shopping Arcade A parcel of land together with various buildings erected thereon located at the eastern side of Erbozi Jingchang Highway, Changping District, Beijing, the PRC	<p>The property comprises two factory buildings and 81 residential blocks together with a parcel of land, the buildings were single storey and completed in or about 1985.</p> <p>The property has a total gross floor area of approximately 10,313 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 20 years commencing from 1 July 2000 to 30 June 2020 at an annual rental of RMB3,500,000 from the 1st year to the 4th year exclusive of management fee and other charges. The annual rental will be RMB3,475,000 from the 5th year to the 8th year, RMB4,044,600 from the 9th year to the 12th year, RMB4,408,614 from the 13th year to the 16th year and RMB4,849,475.4 from the 17th year to the 20th year.</p> <p>The property is currently occupied by the Company as hypermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
13 Jing Ke Long Wangjing Shop The whole of Block No. 211 and ancillary buildings, Nanhu Zhongyuan, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole block of a 5-storey building which was completed in 2000.</p> <p>The property has a total gross floor area of approximately 14,494.6 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB1,760,000 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as hypermarket.</p>	No commercial value



Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
14 Jingkelong Jiugong Shop, Level 2, No. 1 Jiugong Road West, Jiugong Town, Daxing District, Beijing, the PRC	<p>The property comprises the whole on Level 2 of a 3-storey building completed in or about 2006.</p> <p>The property has a total gross floor area of approximately 9,187 sq.m.</p>	<p>The property is leased to the Company from an independent third party for a term of 15 years commencing from 1 August 2006 at a daily rent of RMB1.8 per sq.m. for the first three years and the rental will be increased by 3% every three years.</p> <p>The property at present is occupied by the Company as hypermarket.</p>	No commercial value

### Supermarket

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
15 Jing Ke Long Dashanzi Shopping Arcade, the west portion of Block No. 8, Dashanzi North Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 3-storey commercial building which was completed in or about 1979.</p> <p>The property has a total lettable area of approximately 3,294.31 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB43,964.535 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
16 Jing Ke Long Fatou Shopping Arcade, Nos. 11 and 17 Fatou West Lane and No. 4 Fatou West Lane Zone 3, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 3-storey commercial building and a single-storey building which were completed from 1961 to 1990.</p> <p>The property has a total lettable area of approximately 2,680.6 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB401,327.78 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
17 Jing Ke Long Guanzhuang Shopping Arcade, No. 49 Guanzhuang East Street, No. 49 Guanzhuang East Lane East, Guanzhuang East Lane and No. 49 Guanzhuang East Street East, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 2-storey commercial building which was completed in 1988.</p> <p>The property has a total lettable area of approximately 4,986.3 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB474,727.78 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
18 Jing Ke Long Huaan Shopping Arcade, Block 12, Anhua West Lane 1st Zone, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 3-storey commercial building which was completed from 1990 to 1994.</p> <p>The property has a total lettable area of approximately 3,917.88 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB300,173.14 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
19 Jing Ke Long Huawei Non-staple Food Shopping Arcade, No. 40 Huawei West Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 2-storey commercial building which was completed in 1993.</p> <p>The property has a total lettable area of approximately 1,771.4 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB135,977.5 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
20 Jing Ke Long Capital Airport Shopping Arcade, No. 1 Capital Airport South Road and Capital Airport South Road, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 3-storey commercial building and a single-storey building which were completed from 1975 to 1991.</p> <p>The property has a total lettable area of approximately 4,803.5 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB375,678.31 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
21 Jing Ke Long Chaoyang Jingyuan Shopping Arcade, No. 24 Sanyuanli Street, Zuojiashuang, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 2-storey commercial building and a single-storey building which were completed in 1983.</p> <p>The property has a total lettable area of approximately 3,353.8 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB278,972.26 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
22 Jing Ke Long Chaoyang Jingyuan Shopping Arcade Godown, No. 5 Sanyuanli Street, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 5-storey building which was completed in 1995.</p> <p>The property has a total gross floor area of approximately 484.2 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB76,342.08 exclusive of management fee and other charges.</p> <p>The property is currently occupied by the Company as the godown for the supermarket.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
23 Jing Ke Long Sanlitun Shopping Arcade, No. 27 North Sanlitun Road South and No. 11 Gongti Road North, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a single-storey building which was completed in 1973.</p> <p>The property has a total lettable area of approximately 3,691.81 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB827,183.68 exclusive of management fee and other charges.</p> <p>The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
24 Jing Ke Long Songyu Lane Shopping Arcade, No. 28 Songyu Lane and No. 15 Wusheng West Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 3-storey commercial building which was completed in 1992.</p> <p>The property has a total gross floor area of approximately 3,831.03 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB225,715.28 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
25 Jing Ke Long Tuanjie Lake Shopping Arcade, the courtyard of No. 8 Tuanjie Lake Road, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 5-storey commercial building which was completed in or about 1980.</p> <p>The property has a lettable floor area of approximately 310.6 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB21,577.22 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
26 Jing Ke Long Tuanjie Lake Shopping Arcade No. 8 Tuanjie Lake Road, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 5-storey building which was completed in or about 1980.</p> <p>The property has a total gross floor area of approximately 2,177.6 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB505,433.28 exclusive of management fee and other charges.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
27 Jing Ke Long Tuanjie Lake Shopping Arcade No. 7 Tuanjie Lake Road, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 4-storey building which was completed from 1980 to 1992.</p> <p>The property has a total gross floor area of approximately 4,659.2 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB1,238,097.6 exclusive of management fee and other charges.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
28 Jing Ke Long Xibahe Non-staple Food Shopping Arcade, Blocks 83 and 85, Xibahe East Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a single-storey commercial building which was completed in 1985.</p> <p>The property has a total lettable area of approximately 1,782.98 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB157,284.02 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
29 Jing Ke Long Zaoying Road Shopping Arcade, No. 10 Zaoying South Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 2-storey commercial building which was completed in or about 1986.</p> <p>The property has a total lettable area of approximately 2,685.8 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB83,683.535 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value



Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
30 Jing Ke Long Zhenzhi Road Non-staple Food Shopping Arcade, Block No. Jia 2 Hujialou Street North, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 2-storey commercial building which was completed in or about 1990.  The property has a total lettable area of approximately 1,824.2 sq.m.	The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB360,163.57 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.  The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
31 Jing Ke Long Zhenzhi Road Non-staple Food Shopping Arcade Godown, Block No. 3 Shuiduizi Road, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 5-storey building which was completed in or about 1950.  The property has a total gross floor area of approximately 472.1 sq.m.	The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB37,503.84 exclusive of management fee and other charges.  The property is currently occupied by the Company as the godown for supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
32 Jing Ke Long Kangjing Lane Shopping Arcade, Nos. 19 and 20 Kangjing Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 6-storey commercial building and a single-storey building which were completed in 1994.</p> <p>The property has a total lettable area of approximately 1,264 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB292,521.46 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
33 Jing Ke Long Shuanglong Shopping Arcade, Block No. 204 Shuanglong South Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 4-storey commercial building which was completed in 1996.</p> <p>The property has a total lettable area of approximately 7,868.09 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB774,163.61 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
34 Jing Ke Long Ganluyuan Non-staple Food Shopping Arcade, Block No. 18 Ganluyuan South Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 3-storey commercial building which was completed in or about 1988.</p> <p>The property has a total lettable area of approximately 645.1 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB37,432.455 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
35 Jing Ke Long Dongba Shop Various buildings together with facilities located on No. 1 Hongsong Garden, Dongba Village, Chaoyang District, Beijing, the PRC	<p>The property comprises a parcel of land together with various single and 2-storey buildings, the buildings were completed from 1986 to 1988.</p> <p>The property has a total gross floor area of approximately 1,921.18 sq.m. and the facilities has a site area of approximately 1,412.46 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 10 years commencing from 1 June 2002 to 31 May 2012 at an annual rental of RMB522,000 for the period from 1 June 2002 to 31 May 2004 and the rental will be increased by 4% annually since 1 June 2004.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
36 Jing Ke Long Miyun Shop, Levels one to three and ancillary facilities, No. 21 Xinnan Road, Miyun County, Beijing, the PRC	<p>The property comprises three levels of a 3- storey building which was completed in or about 2001.</p> <p>The property has a total gross floor area of approximately 5,942.52 sq.m. and the facilities has a site area of approximately 3,010 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 20 years commencing from 1 October 2003 to 30 September 2023 at an annual rental of RMB1,000,000 for the period from 1 October 2003 to 30 September 2005, RMB1,200,000 for the period from 1 October 2005 to 30 September 2007, RMB1,300,000 for the period from 1 October 2007 to 30 September 2009, RMB1,500,000 for the period from 1 October 2009 to 30 September 2013, RMB1,800,000 for the period from 1 October 2013 to 30 September 2018 and RMB2,000,000 for the period from 1 October 2018 to 30 September 2023.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
37 Jing Ke Long (Lang Fang) Yanjiao Shop, Levels one to two and ancillary facilities on the junction between the South-east of Yingbin Road and Jingha Road North, Yanjiao Development Zone, Sanhe City, Hebei Province, the PRC	<p>The property comprises the whole on Level one and two and ancillary facilities of a 9-storey building which was completed in or about 2003.</p> <p>The property has a total gross floor area of approximately 3,466 sq.m.</p>	<p>The property is leased to Jingkelong Langfang (the “Lessee”) from an independent third party (the “Lessor”) for a term of 20 years commencing from 16 May 2003 to 15 May 2023 at a total rental of RMB32,662,000.</p> <p>The property is currently occupied by JingKelong Langfang as supermarket.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
38 Jing Ke Long Jinsong Shop, No. 401 Jinsong 4th Zone, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 3-storey building which was completed in 1982.</p> <p>The property has a total gross floor area of approximately 5,019.7 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at a total rental of RMB1,255,326.72.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
39 Jing Ke Long Baiziyuan Shop, Level 1, the basement and ancillary facilities of the club house B, on No. 16 Baiziwang Road, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole on Level 1, basement level 1 and ancillary facilities of a 3-storey building which was completed in 2004.</p> <p>The property has a total gross floor area of approximately 2,667 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 20 years commencing from 1 February 2005 to 31 January 2025 at an annual rental of RMB973,455 for the period from 1 February 2005 to 31 January 2008 and the rental will be increased by 2% annually since 1 February 2008.</p> <p>The property is currently occupied by the Company as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
40 Jing Ke Long Louzizhuang Shop, the eastern side on the junction between Donggao Road and Louzizhuang Central Road, Jinzhan Village, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a commercial building together with a warehouse, two offices, temporary structures and carparking spaces in front of the commercial building.</p> <p>The property was completed in 2005.</p> <p>The building portion has a total gross floor area of approximately 2,358 sq.m., and the carparking spaces have a total site area of approximately 1,165 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 20 years commencing from the date the rent free period completed whilst a 1.5-month rent free period was offered by the Lessor since the property is properly handover to the Lessee. The annual rental payable is RMB500,000 from the 1st to 3rd year, the rental will be increased by RMB50,000 every three years.</p> <p>The property at present is occupied by the Company as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
41 Jing Ke Long Tianzhu Shop, Units 105, 106 and 107, Level 1, Tianyun Court, Tianzhu Garden, Shunyi District, Beijing, the PRC	<p>The property comprises 3 units on Level 1 of a 15-storey (inclusive of basement) composite building completed in 2001.</p> <p>The property has a total gross floor area of approximately 1,500 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 12 years commencing on 24 November 2005 at an annual rental of RMB820,000 from the 1st to 3rd year and the rental will be increased by 5% every 3 years.</p> <p>The property at present is occupied by the Company as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
42 Jing Ke Long Tian Cun Shop, Portion of Level 1 and the basement level 1, No. 1 Yuefujiayuan Commercial Building, No. Yiyi Yongding Road, Haidian District, Beijing, the PRC	<p>The property comprises portion on Level 1 and the basement level 1 of a 6-storey building (exclusive of 2-storey basement) completed in or about 2005.</p> <p>The property has a total gross floor area of approximately 4,169.37 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party for a term of 12 years commencing from 22 January 2006 at a daily rent of RMB4.2 per sq.m. and the rental will be increased by RMB0.2 every 3 years.</p> <p>The property at present is occupied by the Company as supermarket.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
43 Jing Ke Long Xidan Shop, Basement Level 1, No. 109 Xidan Main Street North, Xicheng District, Beijing, the PRC	<p>The property comprises the whole on basement level 1 of a 11-storey building (exclusive of 3-storey basement) completed in or about 2005.</p> <p>The property has a total gross floor area of approximately 2,778 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party for a term from 16 December 2005 to 31 December 2014 at an annual rent of RMB2,740,000 for the first three years and the rental will be increased by 5% every three years.</p> <p>The property at present is occupied by the Company as supermarket.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
44 Jing Ke Long Heping Lane Shop, Level 1 and basement level 1, South portion of Block No. 8, Zone 6 of Heping Lane, Dongcheng District, Beijing, the PRC	<p>The property comprises the whole on Level 1 and basement Level 1 of a 3-storey building (exclusive of a single-storey basement) completed in or about 1999.</p> <p>The property has a total gross floor area of approximately 2,382 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party for a term of 11 years commencing from 1 March 2006 to 31 December 2016 at an annual rent of RMB1,200,000 for the 1st and 2nd years, RMB1,300,000 for the 3rd and 4th years and the rental will be increased by 3% every two years.</p> <p>The property at present is occupied by the Company as supermarket.</p>	No commercial value



Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
45 Jing Ke Long Yuqiao Shop, Levels 1-2 and portion of Level 3, Commercial Building, No. 15 Yuqiao Zhong Road, Tongzhou District, Beijing, the PRC	<p>The property comprises the whole on levels 1 to 2 and portion of level 3 of a 3-storey building completed in or about 1988.</p> <p>The property has a total gross floor area of approximately 4,100 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 15 years commencing from 10 June 2006 to 9 June 2021 at a total rent of RMB30,229,300.</p> <p>The property is currently occupied by the Group as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
46 Jing Ke Long Jiukeshu Shop, Levels 1 and 2, Commercial Building, No. 29 Jiukeshu Road East, Tongzhou District, Beijing, the PRC	<p>The property comprises the whole on Levels 1 and 2 of a 6-storey building completed in or about 2000.</p> <p>The property has a total leased area of approximately 2,253.94 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party for a term of 15 years commencing from 15 June 2006 to 14 June 2021 at an annual rent of RMB1.35 per sq.m. and the rental will be increased by RMB0.15 per sq.m. every five years.</p> <p>The property is currently occupied by the Group as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
47 Jing Ke Long Yuqiao Road West Shop, Level 1, No. 66 Yuqiao Road West, Tongzhou District, Beijing, the PRC	<p>The property comprises the whole on Level 1 of a 6-storey building completed in or about 2001.</p> <p>The property has a total gross floor area of approximately 638.09 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party for a term of 9 years and 7 months commencing from 15 June 2006 to 14 January 2016 at an annual rent of RMB295,468.</p> <p>The property is currently occupied by the Group as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
48 Jing Ke Long Beiguan Shop, Level 1 and basement level 1 of the Commercial Building together with ancillary facilities, Block 15, Wanfujiayuan, Yongshun Town, Tongzhou District, Beijing, the PRC	<p>The property comprises Level 1 and basement level 1 of a 3-storey building (exclusive of a single-storey basement) completed in or about 2001.</p> <p>The property has a total gross floor area of approximately 1,700 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party for a term expiring on 31 December 2017 at an annual rent of RMB375,000 until 31 December 2007, RMB412,500 for the period from 1 January 2008 to 31 December 2012 and RMB453,750 for the period from 1 January 2013 to 31 December 2017.</p> <p>The property is currently occupied by the Group as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
49 Jing Ke Long Yudaihe Shop, Levels 1 to 2, Commercial Building No. Jia 4, No. 48 Yudaihe Main Street and No. 7 Yudaihe Main Street, Tongzhou District, Beijing, the PRC	<p>The property comprises levels 1 and 2 of a 7-storey building completed in or about 1995.</p> <p>The property has a total gross floor area of approximately 1,259.02 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party for a term of 15 years commencing from the first day after the rent free period at an annual rent of RMB412,035 for the first five years and the rental will be increased by RMB0.15 per sq.m. per day every five years. The rental of the last five years will be RMB663,866.</p> <p>The property is currently occupied by the Group as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
50 Jing Ke Long Xinhua Main Street Shop, No. 256 Xinhua Main Street, Tongzhou District, Beijing, the PRC	<p>The property comprises the whole of a single-storey building completed in or about 1991.</p> <p>The property has a total gross floor area of approximately 2,211.29 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party for a term of 5 years commencing from 9 June 2006 to 8 June 2011 at an annual rent of RMB1,000,000 for the first year, RMB1,050,000 for the second year, RMB1,150,000 for the third year, RMB1,250,000 for the fourth year and RMB1,350,000 for the fifth year.</p> <p>The property is currently occupied by the Group as supermarket.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
51 Jing Ke Long Qiaozhuang Shop, Block 34, No. 2, Zone East Qiaozhuang, Tongzhou District, Beijing, the PRC	<p>The property comprises Level 1 of a 6-storey building (exclusive of a single-storey basement) completed in or about 2002.</p> <p>The property has a total gross floor area of approximately 2,293 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party for a term expiring on 31 December 2013 at an annual rent of RMB694,664.</p> <p>The property is currently occupied by the Group as supermarket.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
52 Jing Ke Long Longwang Village Shop, The Commercial Building in front of Geng Zhuang Residential Block, on the north of Jingha Highway, Tongzhou District, Beijing, the PRC	<p>The property comprises the whole of a 4-storey building completed in or about 2003.</p> <p>The property has a total gross floor area of approximately 6,428 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party for a term on the day after the rent free period to 31 May 2024 at an annual rent of RMB1,000,000 for the period from 16 June 2006 to 31 May 2009 and RMB1,400,000 for the period from 1 June 2009 to 31 May 2024.</p> <p>The property is currently occupied by the Group as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
53 Jingkelong Mingguangcun Shop, Level 1 and Basement Level 1, No. 3 Honglian Village North, Haidian District, Beijing, the PRC	<p>The property comprises the whole on Level 1 and basement Level 1 of a 3-storey (excluding the basement level) building completed in or about 2004.</p> <p>Level 1 and Basement Level 1 of the property have a gross floor area of approximately 859.3 sq.m. and 1,448.26 sq.m. respectively.</p>	<p>The property is leased to the Company from an independent third party for a term of 15 years commencing from 1 October 2006 at an annual rent of RMB1,484,136 for the first three years and the rental will be increased by 3% every three years.</p> <p>The property at present is occupied by the Company as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
54 Jingkelong Changying Shop, Level 1 and basement Level 1, Block 13, Minzu Jiayuan, Changying Village, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole on Level 1 and basement Level 1 of a 3-storey (excluding the basement Level) building completed in or about 2004.</p> <p>Level 1 and the basement Level 1 of the property have gross floor area of approximately 502.78 sq.m. and 914.2 sq.m. respectively.</p>	<p>The property is leased to the Company from an independent third party for a term commencing from 1 October 2006 to 31 December 2025 at a daily rent of RMB0.9 per sq.m. for the period from 1 October 2006 to 30 September 2011, RMB0.99 per sq.m. from 1 October 2011 to 30 September 2016, RMB1.09 per sq.m. from 1 October 2016 to 30 September 2021 and RMB1.2 per sq.m. from 1 October 2021 to 31 December 2025.</p> <p>The property at present is occupied by the Company as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
55 Jingkelong Yongan Road Shop, Basement level 1 and 2 and portion of Level 1, No. 5 Renshou Road, Xuanwu District, Beijing, the PRC	<p>The property comprises the whole on basement levels 1 and 2 and Level 1 of a 3-storey (excluding the basement level) building completed in or about 2006.</p> <p>Basement Level 1 and Level 2 have a total gross floor area of approximately 3,393 sq.m. and Level 1 of the property has a gross floor area of approximately 188 sq.m.</p>	<p>The property is leased to the Company from an independent third party for a term of 15 years commencing from 1 February 2007 at an annual rent of RMB2,500,000 for the first three years and the rent will be increased by 3% every three years.</p> <p>The property at present is occupied by the Company as supermarket.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
56 Jingkelong Wanliu Shop, Basement Level 1, No. 29 Wanliu Zhong Road, Haidian District, Beijing, the PRC	<p>The property comprises the whole on basement level 1 of a 13-storey (excluding the basement level) building completed in or about 2002.</p> <p>The property has a lettable area of approximately 3,500 sq.m.</p>	<p>The property is leased to the Company from an independent third party for a term commencing from 25 November 2006 to 24 December 2021 at a daily rent of RMB1.93 per sq.m. for the period from 25 November 2006 to 24 December 2009, RMB2 per sq.m. from 25 December 2009 to 24 December 2012, RMB1.86 per sq.m. from 25 December 2012 to 24 December 2018 and RMB2 per sq.m. from 25 December 2018 to 24 December 2021.</p> <p>The property at present is occupied by the Company as supermarket.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
57 Jingkelong Hongsong Garden Shop, No. 16 Hongsong Garden North Lane Chaoyang District Beijing, the PRC	<p>The property comprises the whole of a single-storey building completed in or about 2004.</p> <p>The property has a gross floor area of approximately 6,374.19 sq.m.</p>	<p>The property is leased to the Company from an independent third party for a term of 15 years commencing from 1 March 2007 to 28 February 2022 at an annual rent of RMB1,297,197.77 for the period from 1 March 2007 to 28 February 2010, RMB1,703,263.74 from 1 March 2010 to 28 February 2013, RMB2,115,108.69 from 1 March 2013 to 29 February 2016 and RMB2,515,395.68 from 1 March 2016 to 28 February 2022.</p> <p>The property at present is occupied by the Company as supermarket.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
58 Jingkelong Xizhaosi Shop, Basement level 1 of Block 4 of Huacheng Estate located at No. 16 Xizhaosi Street, Chongwen District, Beijing, the PRC	<p>The Property comprises the whole of basement level 1 of a high-rise composite building completed in or about 2006 amid Huacheng Estate.</p> <p>The Property has a gross floor area of approximately 3,186.01 sq.m.</p>	<p>As at the report date, the property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 15 years commencing from 12 July 2007 at a daily rent of RMB2.21 per sq.m. as supermarket. The daily rent will be increased by 5% every three years commencing from the forth year.</p> <p>The property will be handed over for occupancy as supermarket by the Company.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
59 Jingkelong Zonglvquan Shop, Portions of Levels 1 & 2 and the whole of basement Levels 1 and 2 of Plam Arcade located at No. 8 Gongyuan Road South, Chaoyang District, Beijing, the PRC	<p>The Property comprises portion of levels 1 to 3 and the whole of basement levels 1 and 2 of a commercial blocks completed in the 2004.</p> <p>The Property has a total gross floor area of approximately 4,556 sq.m.</p>	<p>As at the report date, the property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term commencing from 1 April 2007 and expiring on 30 September 2007 at a total rent of RMB2,172,063.6.</p> <p>The property is occupied by the Company as retail use.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
60 Jingkelong Yanqing Shop, Portion of Level 1, the whole of Levels 2, 3 and Basement Level 1 of Lvyun Commercial Arcade located at No. 58 Gaota Street, Yanqing County, Beijing, the PRC	<p>The Property comprises portion of level 1 and the whole of levels 2, 3 and the basement level 1 of a high-rise commercial building completed in or about 2005 amid Yanqing County.</p> <p>The Property has a gross floor area of approximately 5,231 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 20 years commencing from 1 July 2006. The total rent for the first three year is RMB1,274,414.</p> <p>For the period commencing from 1 July 2009 to 30 June 2016, the total annual rent is RMB785,176 whilst for the remaining lease term, the annual rent is RMB969,745.</p> <p>The property is occupied by the Company as supermarket.</p>	No commercial value



Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
61 Portion of Block 12 located at Shifoying Xi Lane, Chaoyang District, Beijing, the PRC	<p>The Property comprises portion of Level 1 of a 13-storey commercial building (including one basement level) completed in or about 1997 in Shifoying.</p> <p>The Property has a gross floor area of approximately 1,580 sq.m.</p>	<p>The Property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term commencing from 6 June 2007 and expiring on 5 August 2019 at an annual rent of RMB1,050,000 for retail use. The annual rent is increased every 3 years by 5%.</p> <p>The Property is subject to a rent free period for a term of two months commencing from 6 June 2007.</p> <p>The Property is occupied by the Company as supermarket.</p>	No commercial value

## Convenience Store

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
62 Convenience Store No. 1, Block No. 13 Gongrentiyuchang Road East, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 14-storey commercial building which was completed in or about 1973.</p> <p>The property has a total gross floor area of approximately 1,828.7 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB4,120.75 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
63 Convenience Store No. 2, No. 1 Zuojiashuang Sanjiaodi, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a single-storey commercial building which was completed in or about 1981.</p> <p>The property has a total gross floor area of approximately 194 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 18.5 years commencing from 1 July 2005 to 31 December 2023 at an annual rental of RMB1,140.84 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years since 2009.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
64 Convenience Store No. 3, Block No. 4 Hongmiao North Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 4-storey commercial building which was completed in or about 1988.</p> <p>The property has a total gross floor area of approximately 890 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB40,254.225 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
65 Convenience Store No. 4 No. 8 Fangcaodi Street West, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 5-storey building which was completed in 1970.</p> <p>The property has a total gross floor area of approximately 538.3 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent party (the “Lessor”) for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB85,524.96 exclusive of management fee and other charges.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
66 Convenience Store No. 4 Godown, the East of No. 8 Fangcaodi Street West, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a single-storey commercial building which was completed from 1955 to 1979.</p> <p>The property has a total gross floor area of approximately 425 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023. According to the information provided by the Group, no rental is required to pay for the property during the remaining lease term.</p> <p>The property is currently occupied by the Company as the godown for convenience store.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
67 Convenience Store No. 6, The west portion of No. 9 Guandongdian Street North, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 3-storey building which was completed in 1978.</p> <p>The property has a total gross floor area of approximately 528.7 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB84,000 exclusive of management fee and other charges.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
68 Convenience Store No. 7, the west portion of Block No. 5 Gongrentiyuchang Road South, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 5-storey commercial building which was completed from 1975 to 1990.</p> <p>The property has a total gross floor area of approximately 353.3 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB337.73 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
69 Convenience Store No. 8, Tiyuchang Road East, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 2-storey commercial building which was completed in 1989.</p> <p>The property has a total gross floor area of approximately 388.75 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB14,663.05 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
70 Tiyuchang Road East, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 2-storey commercial building which was completed in 1989.</p> <p>The property has a total gross floor area of approximately 230 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB4,520.225 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as retail use.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
71 Convenience Store No. 9, Non-staple Food Shop in Sanlitun North, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 4-storey commercial building and a single-storey building which were completed from 1970 to 1980.</p> <p>The property has a total gross floor area of approximately 2,129.1 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB9,307.51 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
72 Convenience Store No. 10, the west portion of Block No. 22 Dongzhimenwai Main Street, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 2-storey commercial building and a single-storey building which were completed from 1988 to 1992.</p> <p>The property has a total gross floor area of approximately 1,490.5 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB1,719.15 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
73 Convenience Store No. 11, No. 21 Xingfuer Village, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a single-storey commercial building which was completed from 1988 to 1992.</p> <p>The property has a total gross floor area of approximately 461.7 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB9,808.7 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
74 Convenience Store No. 12, No. 3 Shuiduizi Road East and a single-storey block, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 6-storey building and a single-storey building which were completed in or about 1981.</p> <p>The property has a total gross floor area of approximately 784.1 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB159,947.04 exclusive of management fee and other charges.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
75 Convenience Store No. 13, Block No. Jia 306 Balizhuang North Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 2-storey commercial building which was completed in or about 1990.</p> <p>The property has a total gross floor area of approximately 890.47 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB21,938.41 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value



Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
76 Convenience Store No. 14, No. 7 Guanghui Lane, Jianwai Main Street, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 3-storey commercial building which was completed in 1979.</p> <p>The property has a total gross floor area of approximately 288.84 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB6,581.2 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
77 Convenience Store No. 15, Portion of Block No. 9 Huajiadi South Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises portion of a 2-storey commercial building which was completed in 1992.</p> <p>The property has a total gross floor area of approximately 562.4 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of five years commencing from 15 June 2004 to 14 June 2009 at an annual rental of RMB250,000 exclusive of management fee and other charges.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
78 Convenience Store No. 16, Zone 3, Gaojiayuan, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a single-storey commercial building which was completed in or about 1986.</p> <p>The property has a total gross floor area of approximately 782.4 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB7,704.65 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
79 Convenience Store No. 17, No. 14, Zone 2, Gaojiayuan, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 4-storey commercial building which was completed in or about 1988.</p> <p>The property has a total gross floor area of approximately 796 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB16,503.31 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
80 Convenience Store No. 18, Block No. 16 Xinjiedayuan, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 2-storey commercial building which was completed in or about 1990.</p> <p>The property has a total gross floor area of approximately 1,016.6 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023. According to the information provided by the Group, no rental is required to pay for the property during the remaining lease term.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
81 Convenience Store No. 19, No. 817 Jinsong 8th Zone, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a single-storey building which was completed in or about 1981.</p> <p>The property has a total gross floor area of approximately 769.7 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB158,396.16 exclusive of management fee and other charges.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
82 Convenience Store No. 20, No. 9 Fatou North Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 5-storey commercial building which was completed in or about 1987.</p> <p>The property has a total gross floor area of approximately 1,510.40 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB43,784.78 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
83 Convenience Store No. 21, No. 518 to 521 Jinsong 5th Zone, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 2-storey building which was completed in or about 1980.</p> <p>The property has a total gross floor area of approximately 654.9 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB104,050.56 exclusive of management fee and other charges.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
84 Convenience Store No. 22, No. 111 Jinsong 1st Zone, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 12-storey building which was completed in or about 1980.</p> <p>The property has a total gross floor area of approximately 1,235.8 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB295,241.28 exclusive of management fee and other charges.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
85 Convenience Store No. 23, No. 203 Jinsong 2nd Zone, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a single-storey building which was completed in or about 1981.</p> <p>The property has a total gross floor area of approximately 269.5 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB42,818.4 exclusive of management fee and other charges.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
86 Convenience Store No. 24, Block No. 8 Chuiyangliu West Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a four storey building which was completed from 1959 to 1978.</p> <p>The property has a total gross floor area of approximately 413.24 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB2,258.44 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
87 Convenience Store No. 25, Block No. 19, Zone 2, Anzhen West Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 2-storey commercial building which was completed in or about 1988.</p> <p>The property has a total gross floor area of approximately 1,289.96 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB18,946.08 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
88 Convenience Store No. 26, Block No. 16, Zone 1, Anzhen West Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 6-storey commercial building which was completed in 1985.</p> <p>The property has a total gross floor area of approximately 942.32 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB22,348.96 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
89 Convenience Store No. 27, No.304 Huizhong Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 6-storey commercial building which was completed in or about 1991.</p> <p>The property has a total gross floor area of approximately 2,134.1 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB69,067.64 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
90 Convenience Store No. 28, Block No. 1 Yinghua Street East, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 2-storey commercial building which was completed in 1987.</p> <p>The property has a total gross floor area of approximately 862.62 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB24,173.62 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
91 Convenience Store No. 29, No. 18 Sijiefang, Jiuxianqiao, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a single-storey commercial building which was completed in 1980.</p> <p>The property has a total gross floor area of approximately 819.62 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB3,635.29 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value



<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
92 Convenience Store No. 30, the east portion of Block No. 16 Shiyijiefang, Jiuxianqiao, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 2-storey commercial building which was completed in 1982.</p> <p>The property has a total gross floor area of approximately 496.1 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB6,353.48 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
93 Convenience Store No. 31, the north-east portion of No. 3 Fangyuan Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a single-storey commercial building which was completed in or about 1983.</p> <p>The property has a total gross floor area of approximately 296.5 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB3,138.87 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
94 Convenience Store No. 32, Block No. 34 Zaoying North Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 4-storey commercial building which was completed in 1994.</p> <p>The property has a total gross floor area of approximately 1,599.3 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB54,196.96 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
95 Convenience Store No. 33, Block No. 12 Dongjunzhuang, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 6-storey commercial building which was completed in 1984.</p> <p>The property has a total gross floor area of approximately 481.77 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB684.82 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
96 Convenience Store No. 34, Block No. 1 Jintaibei Street, Chaoyang District, Beijing, the PRC	<p>The property comprises level one of a 16-storey commercial building which was completed in or about 1989.</p> <p>The property has a total gross floor area of approximately 262.72 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB6,906.8 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
97 Convenience Store No. 35, No. 22 and the South of No. 22 Nongguang Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 5-storey commercial building which was completed in or about 1976.</p> <p>The property has a total gross floor area of approximately 347.52 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB945.42 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
98 Convenience Store No. 36, Level 1 of Block 5 and 6 located at Shuguang Xi Lane No. Jia Liu, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole on Level 1 of a 12-storey building completed in or about 2005.</p> <p>The property has a total gross floor area of approximately 400 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 10 years commencing from 1 July 2006 to 30 June 2016 at an annual rent of RMB182,500 for the period from 1 July 2006 to 30 June 2010 and RMB219,000 for the period from 1 July 2010 to 30 June 2016.</p> <p>Furthermore, a rent-free period from 1 April 2006 to 30 June 2006 is provided by the lessor. The property is currently occupied by the Company as convenience store.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
99 Convenience Store No. 37, A commercial building located at Yunjingli Zone, Liyuan Town, Tongzhou District, Beijing, the PRC	<p>The property comprises the whole of a single-storey building completed in 2000.</p> <p>The property has a total gross floor area of approximately 205 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of ten year commencing from 30 June 2006 to 29 June 2016 at an annual rent of RMB90,000.</p> <p>The property at present is occupied by the Company as convenience store.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
100 Convenience Store No. 39, Wusheng External Trading Market, Nanmofang, Beijing, the PRC	<p>The property comprises the whole on Level 1 of a 2-storey building completed in or about 2005.</p> <p>The property has a gross floor area of approximately 355 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) by an independent third party (the “Lessor”) for a term of 5 years commencing from 1 January 2007 to 31 December 2011 at a daily rent of RMB1.5 per sq.m. and the rent will be increased by 5% every year.</p> <p>The property at present is occupied by the Company as convenience store.</p>	No commercial value

#### Other leased properties of the Company

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
101 Jing Ke Long Training Centre, Block No. 4 Hongmiao North Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 4-storey commercial building which was completed in or about 1988.</p> <p>The property has a total gross floor area of approximately 1,100 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB54,824.23 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as training centre.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
102Jing Ke Long Live and Fresh Produce Logistics Centre, Yaojia Garden West Kou, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a single-storey commercial building which was completed from 1984 to 1994.</p> <p>The property has a total lettable area of approximately 12,293.26 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB1,285,637.17 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as live and fresh produce logistics centre.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
103Jing Ke Long dry product Logistics Centre, Shuangqiao Zhong Road, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of various single and 2-storey buildings and ancillary facilities which were completed in or about 1986.</p> <p>The property has a total gross floor area of approximately 13,325 sq.m. and has a site area of approximately 33,333.5 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 20 years commencing from 1 May 2000 to 30 April 2020 at an annual rental of RMB1,300,000 from the 1st year to 5th year exclusive of management fee and other charges. The annual rental will be RMB1,365,000 from the 6th year to the 10th year, RMB1,430,000 from the 11th year to the 15th year and RMB1,495,000 from the 16th year to the 20th year.</p> <p>The property is currently occupied by the Company as dry product logistics centre.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
104Block No. 301 Jinsong 3rd Zone, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a single-storey building which was completed in or about 1983.</p> <p>The property has a total gross floor area of approximately 362.8 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from an independent third party (the “Lessor”) for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB98,859.84 exclusive of management fee and other charges.</p> <p>The property is currently occupied for retail use.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
105No. 19 Jianwaierdaojie, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a single-storey commercial building which was completed in or about 1989.</p> <p>The property has a total lettable area of approximately 639.8 sq.m.</p>	<p>The property is leased to the Company (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB4,656.23 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by the Company as hostel.</p>	No commercial value

## Leased properties of Beijing Chaopi Trading Company Limited

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
106 Yaojiayuan Road, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 2-storey commercial building which was completed from 1980 to 1991.</p> <p>The property has a total gross floor area of approximately 8,552.07 sq.m.</p>	<p>The property is leased to Chaopi Trading (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB153,359.94 exclusive of management fee and other charges and the annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by Chaopi Trading as godown.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
107 The South portion of No. Jia 1 Tianshuiyuan, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a single-storey commercial building which was completed in 1978.</p> <p>The property has a total gross floor area of approximately 2,628.44 sq.m.</p>	<p>The property is leased to Chaopi Trading (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB36,824.86 exclusive of management fee and other charges the annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by Chaopi Trading as godown.</p>	No commercial value



Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
108 Dongbahongsong Garden, Chaoyang District, Beijing, the PRC	<p>The property comprises Portion of a 6-storey building which was completed from 1982 to 1986.</p> <p>The property has a total gross floor area of approximately 559 sq.m.</p>	<p>The property is leased to Chaopi Trading (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB21,230.82 exclusive of management fee and other charges the annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by Chaopi Trading as office.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
109 No. 25 Jintai Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises a unit of a 15-storey commercial building which was completed in 1991.</p> <p>The property has a total gross floor area of approximately 32 sq.m.</p>	<p>The property is leased to Chaopi Trading (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB3,038.4 exclusive of management fee and other charges the annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by Chaopi Trading as office.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
110No. 204 Shuanglong South Lane, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a 4-storey commercial building which was completed in or about 1996.</p> <p>The property has a total gross floor area of approximately 9,051.6 sq.m.</p>	<p>The property is leased to Chaopi Trading (the “Lessee”) from a connected party (the “Lessor”) for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB884,172.11 exclusive of management fee and other charges the annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by Chaopi Trading as office.</p>	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 31 March 2007
111 Laojuntang Village and No. 8 Laojuntang Village, Shibali Shop, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of nine warehouses, 1 single-storey office building, 1 two-storey office building and ancillary facilities, the buildings were completed from 2001 to 2005.</p> <p>The property has a total gross floor area of approximately 85,382 sq.m.</p>	<p>The property is leased to Chaopi Trading (the “Lessee”) from independent third parties (the “Lessors”), particulars of the tenancies are summarised in Note 4.</p> <p>The property is currently occupied by Chaopi Trading as distribution centre.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
112 The west portion of Liuanzhuang Village, Beichen District, Tianjin, the PRC	<p>The property comprises the whole of 2-storey building which was completed in or about 1998.</p> <p>The property has a total gross floor area of approximately 5,098 sq.m.</p>	<p>The property is leased to Chaopi Trading (the “Lessee”) from an independent third party (the “Lessor”) for a term of five years commencing from 1 November 2003 to 31 October 2008 at an annual rental of RMB446,584.8 and the annual rental will be increased by 4% every two years.</p> <p>The property is currently occupied by Chaopi Trading as distribution centre.</p>	No commercial value

#### **Leased properties of subsidiaries of Beijing Chaopi Trading Company Limited**

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
113 Portion of a warehouse building (namely Block 6) located at No. 36 Cangxing Street, Shijiazhuang, Hebei Province, the PRC	<p>The Property comprises portion of a single-storey warehouse building completed in the 90’s in Shijiazhuang.</p> <p>The Property has a gross floor area of approximately 500 sq.m.</p>	<p>The property is leased to Chaopi Shijiazhuang (the “Lessee”) from an independent third party (the “Lessor”) for a term of 1 year commencing from 15 August 2006 and expiring on 14 August 2007 at an annual rent of RMB41,975 for warehouse use.</p>	No commercial value

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
114 Warehouse Blocks No. 1 and 3 and an office building located at No. 18 Dasha Road Sifang District, Qingdao, Shandong Province, the PRC	<p>The Property comprises 2 blocks of warehouse building and an office block completed in the 90's in Qingdao.</p> <p>The Property has a total gross floor area of approximately 714 sq.m.</p>	<p>The property is leased to Chaopi Qingdao (the "Lessee") from an independent third party (the "Lessor") for a term of 1 year commencing from 1 January 2006 and expiring on 31 December 2007 at an annual rent of RMB81,783 for storage and ancillary office uses.</p>	No commercial value

**Leased properties of Beijing Xinyang Tongli Commercial Facilities Company Limited**

<b>Property</b>	<b>Description of the property</b>	<b>Particulars of occupancy</b>	<b>Market Value as at 31 March 2007</b>
115 Tuofangying, Chaoyang District, Beijing, the PRC	<p>The property comprises the whole of a single storey building which was completed in or about 1985.</p> <p>The property has a total gross floor area of approximately 1,361.8 sq.m.</p>	<p>The property is leased to Xinyang Tongli (the "Lessee") from a connected party (the "Lessor") for a term of 20 year commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB16,257 and the annual rental will be increased by 5% every five years.</p> <p>The property is currently occupied by Xinyang Tongli as office, factory and godown.</p>	No commercial value

*Notes for properties No. 12 to 115:*

1. The lessors of the properties No. 12-14, 22, 26-27, 31, 35-61, 65, 67, 74, 77, 81, 83-85, 99-100, 103-104 and 111-114 are independent third parties, which are not connected with and are independent of, any of the directors, or any of their respective associates of the Group.
2. The PRC legal opinion states that:
  - (a) Except for properties no. 14, 40, 43-44, 46-48, 52, 54-60, 63, 98-100, 111 and 113 all properties rented by the Group have obtained the relevant Building Ownership Certificates (For property No. 48, please refer to Note 2(i));
  - (b) Except for properties no. 14, 37, 40, 42-44, 47-48, 51-52, 54-59, 61, 63, 98-100 and 111, all properties rented by the Group have been duly registered in the relevant government organisation;
  - (c) Except for properties no. 59, all properties rented by the Group are free from any mortgages, order and encumbrances which may cause adversely effect to the titles of the properties;
  - (d) The tenancy agreements of properties no. 12-13, 15-39, 41-42, 45, 50-51, 53, 60-62, 64-97, 101-110, 112, 114 and 115 are valid and effective legally;
  - (e) The tenancy agreements of properties nos. 14, 40, 43-44, 46-49, 52, 54-59, 63, 98-100, 111 and 113 are valid and effective legally if the lessors are the current registered owners of the properties and are entitled to lease the properties to the Company. If the lessors cannot obtain the relevant titleship certificates, the Company would not be entitled to enjoy her right on the properties under the tenancy agreements against the independent third parties and the tenancies may be terminated;
  - (f) Lands of Properties nos. 14, 40, 48, 52, 54, 57, 99-100 and 111 are owned by rural collectives.
  - (g) According to a statement issued by State-owned Asset Supervision and Administration of Xicheng District People's Government Beijing (the "landlord"), the current registered owner of the property no. 43 is the landlord and has authorised Beijing Xixiyouyi Shopping City Company Limited (the "lessor") to lease the property.

However, the tenancy agreement of property no. 43 is valid and effective legally if the landlord is the current registered owner of the property. If the landlord cannot obtain the relevant titleship certificate, the Company would not be entitled to enjoy her right on the property under the tenancy agreement against the independent third parties and the tenancy may be terminated;
  - (h) According to a statement issued by Slum Renewal Office of the Central Government (the "landlord"), the current registered owner of the property no. 44 is the landlord and has authorised Beijing Guotian Property Management Development Company Limited (the "lessor") to lease the property.

Pursuant to another statement issued by the lessor, Beijing Kaiyuan Heping Commercial City Company Limited (the "sub-lessor") is entitled to sub-lease the property no. 44 to the Company.

However, the tenancy agreement of property no. 44 is valid and effective legally if the landlord is the current registered owner of the property and the sub-lessor is entitled to sub-lease the property to the Company. If the landlord cannot obtain the relevant titleship certificate, the Company would not be entitled to enjoy her right on the property under the tenancy agreement against the independent third parties and the tenancy may be terminated;
  - (i) The tenancy agreements of properties no. 51, which are sub-lease agreements, are valid and effective legally. The Lessor has the right to sub-let the properties to the Company and the obligation to complete lease registration in relevant government organization.
  - (j) The property No. 49 comprises two portions, No. 48 Yudaihe Main Street (Portion A) and No. 7 Yudaihe Main Street (Portion B). According to a Building Ownership Certificate (Document No.: Jing Fang Quan Zheng Tong Si Zi No. 0401761), the current registered owner of the Portion A is Wang Qi. Pursuant to a statement issued by Wang Qi dated 11 May 2006, Wang Qi has agreed Beijing Fulande Chain Supermarket to sub-lease

the property No. 49 to the Company for a term of 15 years. Wang Qi is entitled to lease the Portion A of the property No. 49 to the Company.

However, Portion B of the property No. 49 has not obtained Building Ownership Certificate. Thus, the tenancy of the Portion B is valid if the Beijing Fulande Chain Supermarket is the current registered owner of the Portion B and entitled to lease Portion B to the Company. If Beijing Fulande Chain Supermarket cannot obtain the relevant title certificate, the Company would not be entitled to enjoy her right on Portion B of property No. 49 under the terms of the tenancy agreement against independent third parties and hence, the tenancy may be terminated.

3. According to the information provided by the Group, the rental of Properties Nos. 66 and 80 are exempted during the remaining lease term due to the annual rentals were calculated in accordance with the annual depreciated amount of the property. The depreciated amounts have come to zero, thus, the annual rentals of these two properties have been exempted during the remaining lease term.
4. Property No. 111 is leased to Chaopi Trading under four tenancy agreements, the particulars of these tenancies are summarised as follows:

Unit	Gross Floor Area (sq.m.)	Lease Term	Rental
Laojuntang Village, Shibali Shop, Chaoyang District, Beijing,	30,472	1 May 2004 to 30 April 2009	RMB0.45 per sq.m. daily
Laojuntang Village, Shibali Shop, Chaoyang District, Beijing,	28,512	15 September 2004 to 15 September 2014	RMB0.45 per sq.m. daily
Laojuntang Village, Shibali Shop, Chaoyang District, Beijing	12,790	1 August 2006 to 31 July 2021	RMB2,212,200 per annum
Laojuntang Village, Shibali Shop, Chaoyang District, Beijing	13,608	15 August 2005 to 15 August 2014	RMB2,202,264 per annum
<b>Total</b>	<b><u>85,382</u></b>		

5. Beijing Jingkelong Company Limited (“the Company”) is a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company.
6. Beijing Chaopi Trading Company Limited (“Chaopi Trading”) is a limited liability company incorporated in the PRC on 31 May 2002 and an approximately 76.42% subsidiary of the Company.
7. Beijing Xinyang Tongli Commercial Facilities Company Limited (“Xinyang Tongli”) is a limited liability company incorporated in the PRC on 31 May 2002 and an approximately 52.03% subsidiary of the Company.
8. Beijing Jingkelong (Langfang) Company Limited is a limited liability company incorporated in the PRC on 26 April 2000 and a 80% subsidiary of the Company.
9. Shijiazhuang Chaopi Xinlong Trading Company Limited (“Chaopi Shijiazhuang”) is a limited liability company incorporated in the PRC on 12 September 2005 and a wholly owned subsidiary of Chaopi Trading.
10. Qingdao Chaopi Jinlong Trading Company Limited (“Chaopi Qingdao”) is a limited liability Company incorporated in the PRC on 28 September 2005 and a wholly owned subsidiary of Chaopi Trading.

This Appendix sets out summaries of (1) certain aspects of the PRC legal and judicial system, arbitration system and company and securities regulations; (2) certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company laws, certain requirements of the Main Board Listing Rules; and (3) principal provisions of the Articles of Association which include additional provisions required by the Stock Exchange for inclusion in the articles of association of PRC issuers. As it is in form of a summary, it does not contain all information that may be important for all potential investors.

## 1. PRC LAWS AND REGULATIONS

### (a) Legal system

The PRC legal system is based on the PRC constitution and is made up of written laws, regulations, directives and local laws and regulations. Decided court cases do not constitute binding precedents, although they are used for the purposes of judicial reference and guidance. The National People's Congress of the PRC (the "NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing State organs, civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC. The State Council is the highest organ of State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue regulations within the jurisdiction of their respective departments. All administrative rules and regulations, promulgated by the State Council and its ministries and commissions must not conflict with the PRC Constitution and the national laws enacted by the NPC. In the event that any conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules and regulations. The People's Congress of provinces, autonomous regions, municipalities and larger cities and their respective standing committees may enact local, autonomous and specific statutes and the People's Governments may promulgate administrative rules applicable to their own administrative areas. These local rules and regulations cannot be in conflict with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council. Rules, regulations or directives may be enacted or issued at the provincial or municipal level or by the State Council or its ministries and commissions for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level. The power to interpret laws is vested by the PRC Constitution in the Standing Committee of the NPC. According to 全國人民代表大會常務委員會關於加強法律解釋工作的決議 (the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws) passed on 10 June 1981, the Supreme People's Court has the power to give general interpretation on application of laws in judicial proceedings in addition to its power to issue specific interpretation for specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the statutes and administrative regulations which they have promulgated. At the regional level, the power to give interpretations of the regional laws is vested in the regional legislative and administration organs which promulgate such laws and regulations.

**(b) Judicial system**

The people's courts are the judicial organs of the PRC. Under 中華人民共和國憲法 (the PRC Constitution Law) and 中華人民共和國法院組織法 (the Law of Organisation of the People's Courts of the PRC), the people's courts are made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further divided into civil, criminal, economic and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and other special divisions (such as the intellectual property division) in accordance with needs.

The judicial work of people's courts at lower levels is subject to supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and the lower level. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts at all levels. The people's courts adopt a two-tier final appeal system. A party may, before the taking effect of a judgement or order, appeal against the judgement or order of the first instance of a people's court to the people's court at the next higher level. Judgements or orders of the second instance of the same level and at the next higher level are final and binding. Judgements or orders of the first instance of the Supreme People's Court are also final and binding. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgement which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgement which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The PRC civil procedures are governed by 中華人民共和國民事訴訟法 (the Civil Procedure Law of the PRC) (the "Civil Procedure Law") adopted on 9 April 1991 which prescribes the provisions for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action, the judicial procedures, and the procedures for enforcement of a civil judgement or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement amongst the parties to a contract provided that the people's court having the jurisdiction is located at the plaintiff's or the defendant's place of domicile, the place of execution or implementation of the contract or the object of the action but it must not violate the regulations in respect of hierarchy and jurisdiction of the courts as stated in the Civil Procedure Law. A foreign national or foreign enterprise is given the same litigation rights and obligations as a citizen or legal person of the PRC. Should a court of a foreign country limit the litigation rights of PRC citizens and enterprises, the PRC courts shall apply the same limitations to the citizens and enterprises of that foreign country. If any party to a civil action refuses to comply with a judgement or order made by a people's court or an award made by an arbitration organ in the PRC, the aggrieved party may apply to the people's court to enforce the judgement, order or award. Specific time limits are imposed on the right to apply for such enforcement. If at least one of the parties to the dispute or arbitration is an individual, the time limit is one year. If both parties to the dispute or arbitration are legal persons or other entities, the time limit is six months. If a person fails to satisfy a judgement which the court has granted approval to enforce within the stipulated time, the court will, upon application of either party, mandatorily enforce the judgement.



A party seeking to enforce a judgement or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgement or order. If the PRC has entered into an international treaty with the relevant foreign country or which is acceded to by the PRC which provides for such recognition or enforcement, a foreign judgement or ruling may also be recognised and enforced according to PRC enforcement procedures by the people's court in accordance with the judicial procedures of the PRC unless the people's court considers that the recognition or enforcement of a judgement or ruling will violate the basic legal principles of the PRC or its sovereignty or national security, or for reasons of social and public interest.

**(c) Arbitration and enforcement of arbitral awards**

中華人民共和國仲裁法 (the Arbitration Law of the People's Republic of China) (the "Arbitration Law") was passed by the Standing Committee of the NPC on 31 August 1994 and came into effect on 1 September 1995. It is applicable to, among other matters, economic disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the people's court will refuse to handle the case if one party institutes legal proceedings in a people's court.

The Main Board Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, in the case of the Main Board Listing Rules, also in a contract between the company and each director or supervisor, to the effect that whenever any dispute or claim arises from any rights or obligations provided in the articles of association, the Company Law or other relevant laws and administrative regulations concerning the affairs of a company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and the directors, supervisors, manager or other officers of the company; or (iii) a holder of overseas listed foreign shares and a holder of domestic shares, such parties shall submit that dispute or claim for arbitration before either the China International Economic and Trade Arbitration Commission ("CIETAC") or the Hong Kong International Arbitration Centre ("HKIAC") for arbitration.

If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC. CIETAC is a foreign affairs arbitration organ in the PRC located in Beijing with branch offices in Shenzhen and Shanghai.

Under the Arbitration Law and PRC Civil Procedure Law, an arbitral award is final and binding on the parties as from the date of award. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural or membership irregularity specified by laws or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (“New York Convention”) adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (1) the PRC will only recognise and enforce foreign arbitral awards on the principle of reciprocity; and (2) the PRC will only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations. However, following the resumption of sovereignty over Hong Kong by the PRC on 1 July 1997, the New York Convention no longer applies to the enforcement of Hong Kong arbitral awards in the PRC. A Memorandum of Understanding on the arrangement for reciprocal enforcement of arbitral awards between Hong Kong and China was signed on 21 June 1999. The new arrangement is made in accordance with the spirit of the New York Convention. To meet present day’s needs, it will allow awards made by over 100 China arbitral authorities with relevant experience to be enforced in Hong Kong. Under the agreed arrangement, Hong Kong arbitral awards will also be enforceable in China. This new arrangement has been approved by the Hong Kong Legislative Council and the Supreme People’s Court of the PRC and became effective on 1 February 2000.

**(d) Taxation**

*(a) Taxes applicable to joint stock limited companies*

*(i) Corporate income tax*

From 1 January 1994, income taxes applicable to joint stock limited companies are governed by 中華人民共和國企業所得稅暫行條例 (the Interim Regulations of the Enterprise Income Tax of the PRC) (the “Tax Regulations”) promulgated by the State Council. The Tax Regulations provide that State-owned enterprises, collective enterprises, private enterprises, joint ventures and joint stock limited enterprises engaged in production or operation and other income producing enterprises are liable to pay income tax at the rate of 33% on their taxable incomes except that where, in relation to particular categories of enterprises, existing laws, administration rules and regulations provide for tax privilege and tax reduction policy.

中華人民共和國企業所得稅法 (Enterprise Income Tax Law of the PRC) (the “New Income Tax Law”) was promulgated on 16 March 2007 and will become effective on 1 January 2008. According to the New Income Tax Law, the enterprise income tax is to be fixed at a rate of 25%. For enterprises established before promulgation of the New Income Tax Law and enjoyed preferential tax rates under the then existing tax laws and administrative regulations, the tax rates applicable

to them will gradually changed to the new tax rate within five years from the implementation of the New Income Tax Law. For enterprises enjoyed fixed-term preferential tax treatment, according to the regulations of the State Council, they will continue to enjoy the preferential tax treatment until expiry of the relevant fixed term. For enterprises not yet enjoyed preferential tax treatment as profits have not yet been realised, the relevant term for enjoying preferential tax treatment shall be calculated commencing from the year in which the New Income Tax Law is implemented.

(ii) Value-added tax

Pursuant to 中華人民共和國增值稅暫行條例 (the Interim Regulations of the PRC on Value-added tax) effective from 1 January 1994 and the Implementing Rules of the Interim Regulations of the PRC on Value-added tax effective from 1 January 1994, value-added tax is imposed on goods sold in or imported into the PRC or on processing, repair and replacement services provided within the PRC.

(iii) Business tax

Pursuant to 中華人民共和國營業稅暫行條例及其實施細則 (Provisional Regulations of the PRC on Business Tax and Detailed Rules for the Implementation of the Interim Regulations of the PRC on Business Tax), which became effective on 1 January 1994, business tax is imposed on provision of specific services, transfer of intangible assets or sale of immovable property within the territory of the PRC.

(b) *Taxation of shareholders*

(i) Tax on dividends

Pursuant to the prevailing 中華人民共和國個人所得稅法 (Individual Income Tax Law of the PRC), which was amended on 31 October 1993 and amended on 30 August 1999, and further amended on 27 October 2005, dividends paid by PRC companies to individuals are normally subject to a withholding tax of 20%. On 21 July 1993, the State Tax Bureau by 關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知 (the Notice Relating to Taxes Applicable to Foreign Enterprises and Foreign Nationals in Relation to Dividends and Gains obtained from Holding and Transferring of Shares) (the "Tax Notice") confirmed that dividends received by foreign investors from PRC listed domestic special shares ("B shares"), and overseas listed shares such as H shares were exempt from withholding tax, which would otherwise have been applicable. Since 1 January 2000, on the basis of 國務院關於外國企業來源於我國境內的利息等所得減徵所得稅問題的通知 (the State Council Notice Regarding Income Tax reduction to Interest and Other Income that Foreign Enterprise Derive from the PRC), the rate applicable to interest, rental, licence fees and other income by foreign enterprises without agents or establishment in the PRC has been reduced to 10% from 20%. However, if the reduction as aforescribed does not apply or is not renewed, a foreign enterprise shareholder may be subject to a 20% withholding tax on capital gains, unless reduced by the applicable double taxation treaty.

關於修改《中華人民共和國個人所得稅法》的決定 (the latest Amendments to the Income Tax Law Applicable to Individuals of the PRC) (the “Amendments”) were promulgated and took effect on 27 October 2005. The Amendments stipulate that all previously promulgated tax laws and regulations which contradict the Amendments shall become invalidated. Under the Amendments, any foreign national who is not a resident in the PRC will be subject to a withholding tax at a rate of 20% on dividends received from H shares. On 26 July 1994, the State Tax Bureau issued a letter titled 國家稅務總局關於外籍個人持有中國境內上市公司股份所得的股息有關稅務問題的函件 (the State Tax Bureau Letter on Relevant Tax Problems Regarding Foreign Individuals’ Dividends Obtained from Holding Shares of Listed Companies Within China) (“the Letter”) the State Tax Bureau reiterated the temporary tax exemption stated in the Tax Notice on dividends received from a PRC company listed overseas. To date, the relevant tax authority has not been collecting any withholding tax on dividend payments with respect to foreign shares.

Accordingly, under current PRC laws and regulations, withholding tax is not payable in respect of dividends or other distributions on H shares held by any foreign enterprise or foreign national. If, however, the Tax Notice is withdrawn, a 20% withholdings tax may be applicable on such dividends or distributions, subject to any tax reductions pursuant to any applicable avoidance of double taxation treaty.

(ii) Tax on transfer of shares

Although 中華人民共和國個人所得稅法實施條例 (the Implementing Rules of Individual Income Tax Law of the PRC) (the “Implementing Rules”), issued on 28 January 1994, stipulate that gains realised on the sale of equity securities by an individual and amended on 19 December 2005 having taken effect from 1 January 2006 would be subject to income tax at the rate of 20%, the Tax Notice exempt holders of H shares from income tax on gains arising from the transfer of H shares. On 1 February 1994, the Ministry of Finance and the State Tax Bureau jointly issued 關於股票轉讓所得暫不徵收個人所得稅的通知 (the Notice on the Temporary Non-Levy of Individual Income Tax on Gains from Share Transfers), which exempt individuals from the payment of individual income tax on gains from the transfer of shares for the years 1994 and 1995. On 30 March 1998, the Ministry of Finance and the State Tax Bureau jointly issued 關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知 (the Notice on Continuing the Temporary Non-levy of Individual Income Tax On Gains from Share Transfers), which exempt individuals from the payment of individual income tax on gains from the transfer of shares since 1997. If, however, the Tax Notice is withdrawn, a 20% income tax may be applicable on gains from transfer of H shares, subject to any tax reductions pursuant to any applicable avoidance of double taxation treaty.

## (iii) Tax treaties

In the event that withholding tax is payable as referred to in (i) or (ii) above, foreign enterprises without an establishment or office in the PRC and non-PRC individual investors residing in countries which have entered into double taxation treaties with the PRC may be entitled to a reduction of withholding tax imposed on the payment of dividends to such investors. The PRC is currently a party to the avoidance of double taxation treaties with a number of countries which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

## (iv) Stamp duty

By virtue of 中華人民共和國印花稅暫行條例 (the Interim Regulations of the PRC Concerning Stamp Duty) which was promulgated on 6 August 1988 and became effective on 1 October 1988, PRC stamp duty is imposed on the transfer of PRC listed domestic shares. However, transfer of H shares outside the PRC are exempt from payment of PRC stamp duty.

## (v) Estate or inheritance tax

The PRC does not currently have estate or inheritance tax.

**(e) Foreign exchange control**

Major reforms have been introduced to the foreign exchange control system of the PRC since 1993.

On 28 December 1993, the PBOC, with the authorisation of the State Council, issued 中華人民共和國關於進一步改革外匯管理體制的公告 (the Notice on Further Reform of the Foreign Exchange Control System) which came into effect on 1 January 1994. Other new regulations and implementation measures include 結匯、售匯及付匯管理規定 (the Regulations on the Foreign Exchange Settlement, Sale and Payments) which were promulgated on 20 June 1996 and took effect on 1 July 1996 and which contain detailed provisions regulating the holding, sale and purchase of foreign exchange by enterprises, individuals, foreign organisations and visitors in the PRC. Under these new regulations, the previous dual exchange rate system for Renminbi was abolished and a unified floating and managed exchange rate system based largely on supply and demand was introduced. The PBOC publishes the Renminbi exchange rate against the U.S. dollar daily. Such rate is to be set by reference to the Renminbi/U.S. dollar trading price on the previous day on the inter-bank foreign exchange market. Further reforms were implemented by the PBOC by a notice issued on 21 July 2005 that with effect from the date of the notice, a more flexible managed float exchange rate system against a basket of currencies is introduced and the Renminbi exchange rate is no longer solely pegged to US dollars.

The foreign exchange earnings of all PRC enterprises, other than those either derived by foreign investment enterprises or specifically exempted under the relevant regulations, are to be sold to designated banks. Foreign exchange earnings obtained from borrowings from foreign institutions or issues of shares or bonds denominated in foreign currency need not

be sold to designated banks, but may need to be kept in foreign exchange bank accounts of designated banks. At present, control of purchase of foreign exchange is relaxed. Enterprises within the PRC which require foreign exchange for their ordinary trading and non-trading activities, import activities and repayment of foreign debts may purchase foreign exchange from designated banks if the application is supported by relevant documents. Furthermore, foreign investment enterprises may distribute profit to their foreign investors with funds in their foreign exchange bank accounts kept with designated banks. Should such foreign exchange be insufficient, foreign investment enterprises may apply to the relevant governmental department for permission to purchase foreign exchange from designated banks. When conducting foreign exchange transactions, the designated banks may, based on the exchange rate published by the POBC and subject to certain limits, freely determine the applicable exchange rate.

The China Foreign Exchange Trading Centre (“CFETC”) was formally established and came into operation on 1 January 1994. CFETC has set up a computerised network with sub-centres in several major cities, thereby forming an interbank market in which designated PRC banks can conduct foreign exchange transactions and settle their foreign exchange liabilities.

關於境外上市企業外匯管理有關問題的通知 (The Notice Concerning Some Issues Relating to Exchange Control of Overseas Listed Enterprises) was jointly issued by CSRC and SAFE on 13 January 1994. The Notice provides that:

- upon the approval of SAFE, an overseas listed enterprise may open a foreign currency account at a bank within the PRC to retain foreign currency proceeds received from overseas share offers;
- within 10 days after receiving the foreign currency proceeds of the share offer, the enterprise should transfer such proceeds into the PRC and deposit into any authorised foreign currency account with a bank account;
- upon approval of SAFE, the enterprise may remit abroad the foreign exchange from its foreign currency bank account to foreign investors outside the PRC for the purpose of payment of dividends or other profit distributions; and
- if 25% or more of the share capital of the enterprise is held by foreign investors, such enterprise may apply to MOC for Sino-foreign joint venture enterprises status, and upon approval of MOC, the foreign exchange matters of such enterprises shall be handled in accordance with foreign exchange regulations governing foreign investment enterprises.

On 5 August 2002, SAFE and CSRC jointly announced 關於進一步完善境外上市外匯管理有關問題的通知 (the Notice Concerning Issues Relating to Further Enhancement of Foreign Exchange Management on Overseas Listing) (the “Notice”) which became effective on 1 September 2002). The notice stipulates that:

- Entities holding domestic equity interests of overseas listed foreign share company and overseas listed PRC holding companies shall, upon receiving CSRC approval in respect of foreign share issue and listing, submit relevant materials to SAFE for registration of foreign exchange of overseas listed shares.



- Foreign currency funds raised by share issue of overseas listed foreign share company shall be repatriated to the PRC and are not allowed to remain offshore without SAFE approval. Foreign currency funds so repatriated can be retained by opening a number of accounts with SAFE approval, or settled.
- Foreign currency funds obtained by entities holding domestic equity interests of overseas listed foreign share company and overseas listed PRC holding companies through reduction in holding of shares in or disposal of assets (or equity) of the listed company shall, within 30 days of receipt, be repatriated to the PRC and settled with SAFE approval.
- Prior to foreign currency funds raised by share issue as mentioned above being repatriated to the PRC, overseas specific foreign currency accounts may be opened for temporary deposits of the said funds subject to SAFE approval for a maximum period of three months from the date of accounts opening.
- Any overseas listed foreign share company intending to repurchase its own circulated overseas listed shares shall, upon receiving CSRC approval, submit to SAFE for changes in foreign exchange registration of overseas listed shares and related approval for opening offshore account and remittances of funds.

On 9 September 2003, pursuant to the Notice on 5 August 2002, SAFE announced 關於完善境外上市外匯管理有關問題的通知 (Notice on Relevant Issues in Perfecting Foreign Exchange Control of Overseas Listing) which confirmed the related issues in the Notice dated 5 August 2002. On 1 February 2005, SAFE announced 關於境外上市外匯管理有關問題的通知 (Notice on Relevant Issues of Foreign Exchange Control of Overseas Listing) which amended and supplemented the aforesaid notices.

- The time limit for the repatriation of funds by entities holding domestic equity interests in overseas listed foreign share companies and overseas listed companies controlled by PRC entity has been extended to “within six months of receipt of funds raised” and the time limit for overseas specific foreign currency accounts has been extended to “within two years of accounts opening”.

#### **(f) Company law**

On 29 December 1993, the Standing Committee of the Eighth NPC adopted the Company Law, which came into effect on 1 July 1994 and was amended on 28 August 2004. On 27 October 2005, the Eighteenth Standing Committee Meeting of the Tenth NPC further amended the Company Law. The revised Company Law came into effect on 1 January 2006.

On 4 July 1994, the Special Regulations were passed at the Second Standing Committee Meeting of the State Council, and they were promulgated and implemented on 4 August 1994. The Special Regulations are formulated according to the Company Law in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions were issued jointly by the Securities Commission and the State Restructuring Commission on 27 August 1994, prescribing provisions which must be incorporated in the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions

have been incorporated in the Articles of Association. References to a “company” are to a joint stock limited company established under the Company Law with overseas listed foreign invested shares.

Set out below is a summary of the major provisions of the Company Law as amended on 27 October 2005, the Special Regulations and the Mandatory Provisions.

#### *General*

A “joint stock limited company” is a corporate legal person incorporated under the Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the Shares held by them, and the liability of the company is limited to the full amount of all the assets owned by it.

A company must conduct its business in accordance with the laws and commercial ethics. A company may invest in other enterprises. However, it shall not become the contribution party which accepts joint and several liabilities of the obligations of the invested enterprise.

#### *Incorporation*

A company may be incorporated by promotion or public subscription.

A company may be incorporated by a minimum of 2 promoters within maximum of 200 promoters, but at least half of the promoters must reside within the PRC. According to the Special Regulations, State-owned enterprises or enterprises with the majority of their assets owned by the PRC Government can be restructured in accordance with the relevant regulations to become joint stock limited companies which may issue shares to overseas investors. These companies, if incorporated by public subscription, may have less than 2 subscribers and can issue new shares once incorporated.

Companies incorporated by promotion are companies the entire registered capital of which is subscribed for by the promoters. Where companies are incorporated by public subscription, not less than 35% of their total shares must be subscribed for by the promoters and the remainder of their shares shall be offered.

For the company incorporated by promotion, its registered capital shall be the total capital subscribed by all promoters where the first paid up amount shall be no less than 20% of its registered capital, the outstanding amount shall be paid up within 2 years upon establishment of the company while that of investment company shall be paid up within 5 years upon establishment of the company, however, the company shall raise no more share subscription before the paid up. For the company incorporated by public subscription, the registered capital of a company is the amount of its total paid up capital as registered with the relevant administration bureau for industry and commerce. The minimum registered capital of a company is RMB5 million.



The promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and shall give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting may be convened only with the presence of subscribers holding shares representing more than 50% of the voting rights in the company. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with at least half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company. A company is formally established and has the status of a legal person after the approval of registration has been given by the relevant administration bureau for industry and commerce and a business license has been issued.

A company's promoter shall individually and collectively be liable for (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription moneys to the subscribers together with interest at bank rates for a deposit for the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company. According to the Provisional Regulations Concerning the Issue and Trading of Shares promulgated by the State Council on 22 April 1993 (which is only applicable to issue and trading of shares in the PRC and their related activities), if a company is established by means of subscription, the promoters of such company are required to assume joint responsibility for the accuracy of the contents of the prospectus and to ensure that the prospectus does not contain any misleading statement or omit any material information.

#### *Share capital*

The promoter may make capital contribution in currencies, or in kind or by way of injection of assets, industrial property rights, non-patented technology or land use rights based on their appraised value. The amount of currency contribution shall not less than 30% of the registered capital of the company.

If a capital contribution is made other than in cash, a valuation and verification of the property contributed must be carried out and converted into shares.

A company may issue registered or bearer share certificates. However, shares issued to promoters and legal persons shall be in the form of registered share certificates, and may not be registered under a different name or in the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued under the name(s) of such promoter(s) or legal person(s) to foreign investors and listed overseas be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed in Hong Kong are classified as H shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic shares. In accordance with PRC regulations and rules, qualified foreign institutional investors approved by the CSRC may hold listed domestic shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Special measures shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The share offering price may be equal to or greater than the par value, but may not be less than the par value.

The transfer by a shareholder of its shares must be carried out through a lawfully established stock exchange or through other means of transfer as permitted by the State Council. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by a law or by administrative regulations. Bearer share certificates are transferred by delivery of the certificates to the transferee.

Shares held by a promoter of a company may not be transferred within 1 year after the company's establishment. Shares which were issued prior to the public offer of shares of the company may not be transferred within 1 year from the listing of the shares of the company on a stock exchange. Directors, supervisors and the manager of the company shall not, each year, transfer more than 25% of the shares they hold in the company during their term of office and such shares of the company shall not be transferred within 1 year from the date of the company's listing. There is no restriction under the Company Law as to the percentage of shareholding a single shareholder may hold in a company.

Transfers of shares may not be entered in the register of shareholders within 20 days before the date of a shareholders' meeting or with 5 days before the record date set for the purpose of distribution of dividends.

#### *Increase in capital*

Under the Company Law, an increase in capital in a company by means of a public issue of new shares must be approved by shareholders in general meeting and meet the following conditions stipulated under the Securities Law:

- (i) the company has a sound and good organisation;
- (ii) the company has sustainable profitability and stable financial condition;

- (iii) there has been no false reporting in the company's financial and accounting documents during the last 3 years and no other material breach of law;

Public offers require the approval of the securities administration department of the State Council.

After payment in full for the new shares issued, the company must change its registration with the relevant administration for industry and commerce and issue a public notice accordingly.

#### *Reduction of share capital*

Subject to the minimum registered capital requirements, a company may reduce its registered capital in accordance with the following procedures prescribed by the Company Law:

- (i) the company shall prepare a balance sheet and a list of assets;
- (ii) the reduction of registered capital must be approved by shareholders in general meeting;
- (iii) the company shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and
- (v) the company must apply to the relevant administration bureau for industry and commerce for registration of the reduction in registered capital.

#### *Repurchase of shares*

A company may not purchase its own shares other than for one of the following purposes:

- (i) to reduce its registered share capital;
- (ii) to merge with another company that holds its shares;
- (iii) to grant shares to its employees as incentives; and
- (iv) to purchase its own shares from its shareholders who vote against the resolution on regarding the merger and demerger with other company in a general meeting.

The Mandatory Provisions provide that upon obtaining approvals in accordance with the articles of association of the company and from the relevant supervisory authorities, the company may repurchase its issued shares for the foregoing purposes by way of a general offer to the shareholders of the company or purchase on the stock exchange or an off-market agreement.

Under the Company Law, within a stipulated period following the purchase of the company's own shares, a company must in accordance with applicable law and administrative regulations cancel or transfer the repurchased portion of its shares, change its registration and issue a public notice.

#### *Transfer of shares*

Shares may be transferred in accordance with the relevant laws and regulations.

A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with law or by other way as required by the State Council. Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by applicable laws and regulations.

Shares held by a promoter may not be transferred within 1 year after the company's establishment. Shares which were issued prior to the public offer of shares of the company may not be transferred within 1 year from the listing of the shares of the company on a stock exchange. Directors, supervisors and the manager of the company shall not, each year, transfer more than 25% of the shares they hold in the company during their term of office and such shares of the company shall not be transferred within 1 year from the date of the company's listing. There is no restriction under the Company Law as to the percentage shareholding of a single shareholder of a company.

#### *Shareholders*

Shareholders have such rights and obligations as set forth in the articles of association of the company. The articles of association of a company are binding on each shareholder.

Under the Company Law, the rights of a shareholder include:

- (i) to attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held;
- (ii) to transfer his shares at a legally established stock exchange or through other means of transfer as permitted by the State Council in accordance with the Company Law and the articles of association of the company;
- (iii) to inspect the company's articles of association, minutes of shareholders' general meetings and financial and accounting reports and to make proposals or enquiries in respect of the company's operations;

- (iv) if a resolution adopted by a shareholders' general meeting or the board of directors violates any law or administrative regulation or infringes the lawful rights and interests of shareholders, to institute an action in People's Court demanding that the illegal infringing action be stopped;
- (v) to receive dividends in respect of the number of shares held;
- (vi) to receive surplus assets of the company upon its termination in proportion to his or her shareholding; and
- (vii) any other shareholders' rights specified in the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription moneys in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription moneys agreed to be paid in respect of the shares taken up by him and any other shareholders' obligation specified in the company's articles of association.

#### *General meetings*

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the Company Law.

The shareholders' general meeting exercises the following powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect or remove the directors and supervisors who are not representatives of the company's employees, and decide on matters relating to the remuneration of directors and supervisors;
- (iii) to examine and approve reports of the board of directors;
- (iv) to examine and approve reports of the supervisory committee;
- (v) to examine and approve the company's proposed annual financial budget and final accounts;
- (vi) to examine and approve the company's proposals for profit distribution plans and recovery of losses;
- (vii) to decide on any increase or reduction of the company's registered capital;
- (viii) to decide on the issue of bonds by the company;
- (ix) to decide on issues such as merger, division, change to the form of the company dissolution and liquidation of the company and other matters;

- (x) to amend the company's articles of association; and
- (xi) other terms of reference provided in the Articles of Association.

Shareholders' general meetings are required to be held once every year. An extraordinary shareholders' general meeting is required to be held within 2 months after the occurrence of any of the following circumstances:

- (i) the number of directors is less than the number provided for in the Company Law or less than two-thirds of the number specified in the company's articles of association;
- (ii) the aggregate losses of the company which are not made up reach one-third of the company's total share capital;
- (iii) when shareholders individually and collectively holding 10% or more of the company's issued and outstanding shares carrying voting rights request the convening of an extraordinary general meeting;
- (iv) whenever the board of directors deems necessary; or
- (v) the supervisory committee so requests.
- (vi) other circumstances as required by the articles of associations.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors.

Notice of the meeting shall be given to all shareholders 20 days before the meeting under the Company Law and 45 days under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. Under the Special Regulations and the Mandatory Provisions, shareholders wishing to attend are required to give to the company written confirmation of their attendance 20 days prior to the meeting. Under the Company Law, shareholders, individually or collectively, holding 3% or more of the company's shares are entitled to propose new resolutions and give to the board of directors written notice 10 days prior to the meeting, and the new resolutions, which if within the powers of shareholder's general meeting, are required to be added to the agenda of that meeting. Under the Special Regulations, at an annual general meeting of a company, shareholders holding 5% or more of the voting rights in the company are entitled to propose to the company in writing new resolutions to be considered at that meeting, which if within the power of a shareholder's general meeting, are required to be added to the agenda of that meeting.

Shareholders present at a shareholders' general meeting have 1 vote for each share they hold. No voting right is attached to the shares held by the company.

Resolutions of the shareholders' general meeting must be adopted by more than half of the voting rights held by shareholders present in person (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division, dissolution of a company, increase or reduction in registered capital, change to the form of the company or amendments to the articles of association, which must be adopted by more than two-thirds of the voting rights held by shareholders present in person (including those represented by proxies) at the meeting.

According to the Mandatory Provisions, the increase or reduction of share capital, the issue of bonds or debentures, and any other matters in respect of which the shareholders by ordinary resolution so decide, must be approved through special resolutions by more than two-thirds of the voting rights held by shareholders present in general meeting.

Shareholders may appoint representatives to attend shareholders' general meetings, the representatives shall submit a written appointment document to the company and exercise the voting right in the scope of authority.

There is no specific provision in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within 5 days of the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holder of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

#### *Directors*

A company shall have a board of directors, which shall consist of 5 to 19 members. Under the Company Law, each term of office of a director shall not exceed 3 years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors 10 days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the Company Law, the board of directors exercises the following powers:

- (i) to convene the shareholders' general meetings and report on its work to the shareholders' general meetings;
- (ii) to implement the resolutions passed by the shareholders in general meetings;

- (iii) to decide on the company's business plans and investment proposals;
- (iv) to formulate the company's proposed annual financial budget and final accounts;
- (v) to formulate the company's profit distribution proposals and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issuance of the corporate bonds;
- (vii) to prepare plans for the merger, division, change to the form of the company or dissolution of the company;
- (viii) to decide on the company's internal management structure;
- (ix) to decide to appoint or dismiss the company's general manager and based on the general manager's recommendation, to decide to appoint or dismiss the deputy general managers and financial officers of the company and to decide on their remuneration;
- (x) to formulate the company's basic management system; and
- (xi) other terms of reference provided in the Articles of Association.

In addition, the Mandatory Provisions provide that the board is also responsible for formulating the proposals for amendment to the articles of association of a company.

Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors.

If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the law, administrative regulations or the company's articles of association or resolution of shareholders' general meetings as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved from that liability.



Under the Company Law, the following persons may not serve as a director of a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than 5 years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than 5 years have elapsed since the date of the completion of implementation of this deprivation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated and who are personally liable for the bankruptcy of such company or enterprise, where less than 3 years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked or had been ordered with closure due to violation of the law and who are personally liable, where less than 3 years have elapsed since the date of the revocation of the business license; or
- (v) persons who have a relatively large amount of debts due and outstanding.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions which have been incorporated in the Articles of Association, a summary of which is set out in this Appendix.

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises, amongst others, the following powers:

- (i) to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;
- (ii) to check on the implementation of the resolutions of the board of directors; and
- (iii) to sign the company's share certificates and bonds.

The Special Regulations provide that a company's directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in this Appendix) contain further elaborations of such duties.

*Supervisors*

A company shall have a supervisory committee composed of not less than 3 members. Each term of office of a supervisor is 3 years and he or she may serve consecutive terms if re-elected.

The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff and workers and the percentage of the number of representatives of the company's staff and workers shall not be less than one third. Directors, managers and financial officers may not act concurrently as supervisors.

The supervisory committee exercises the following powers:

- (i) to review the company's financial position;
- (ii) to supervise the directors and senior management personnel in their performance of their duties and to propose for removal of those directors or senior management personnel who have violated laws, regulations or the articles of association or shareholders' resolution;
- (iii) when the acts of a directors and senior management personnel are in a harm to the company's interests, to require correction of these acts;
- (iv) to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' meeting, in the event that the board of directors fails to perform the duties of convening and presiding shareholders' meeting;
- (v) to propose resolution in a general meeting;
- (vi) to initiate proceedings against directors and officers;
- (vii) other powers specified in the company's articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to supervisors of a company.

The Special Regulations provide that a company's directors and supervisors shall have fiduciary duties. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit.

*Managers and officers*

A company shall have a manager who shall be decided to be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

- (i) supervise the production, business and administration of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) arrange for the implementation of the company's annual business and investment plans;
- (iii) formulate plans for the establishment of the company's internal management structure;
- (iv) formulate the basic administration system of the company;
- (v) formulate the company's internal rules;
- (vi) recommend the appointment and dismissal of deputy managers and any financial controller and decide to appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);
- (vii) attend board meetings as a non-voting delegate; and
- (viii) other powers conferred by the board of directors or the company's articles of association.

The Company Law provide that the senior management of a company includes the manager, deputy managers, the financial controller, secretary of the board of directors of a listing company and other executives as specified in the articles of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and officers of the company.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, senior management personnels of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association (a summary of which is set out in this Appendix).

*Duties of directors, supervisors, managers and officers*

Directors, supervisors, managers and officers of a company are required under the Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company. Directors, supervisors, managers and officers of a company are also under a duty of confidentiality to the company and are prohibited from divulging the secret information of the company save as permitted by the relevant laws and regulations or by the shareholders.

The controlling shareholders, actual controller, directors, supervisors, senior management personnels who cause harm to the company by mal using their related duty shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that directors, supervisors, managers and officers of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

*Finance and accounting*

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the responsible financial department of the State Council and at the end of each financial year prepare a financial report which shall be audited and verified as provided by law.

A company shall deposit its financial statements at the company for the inspection by the shareholders at least 20 days before the convening of an annual general meeting of shareholders. A company issuing shares publicly must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory common reserve fund (except where the fund has reached 50% of the company's registered capital).

When the company's statutory common reserve fund is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses before allocations are set aside for the statutory common reserve fund.

After the company has made good its losses and made allocations to its statutory common reserve fund, the remaining profits are distributed in proportion to the number of shares held by the shareholders, except that such distribution is not required to be made in proportion in accordance with the Articles of Association.

The common reserve of a company comprises the statutory common reserve, discretionary common reserve and the capital common reserve.

The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital common reserve.

The common reserve of a company shall be applied for the following purposes:

- (i) to make up the company's losses (the capital common reserve could not be used to make up the company's losses);
- (ii) to expand the business operations of the company; and
- (iii) to increase the company's capital provided that if the statutory common reserve is converted into registered capital, the balance of the statutory common reserve before such conversion shall not be less than 25% of the registered capital of the company.

#### *Appointment and retirement of international auditors*

The Special Regulations require a company to employ an independent PRC qualified firm of accountants to audit the company's annual report and review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next following annual general meeting.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders in general meeting and shall be registered with the CSRC.

#### *Distribution of profits*

The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

#### *Amendment of articles of association*

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in accordance with the Mandatory Provisions will only be effective after approval by the companies approval department authorized by the State Council and the CSRC. In relation to matters involving the company's registration, its registration with the companies registration authority must also be changed.

*Termination and liquidation*

A company may apply for the declaration of insolvency by reason of its inability to pay debts as they fall due. After the People's Court has made a declaration of the company's insolvency, the shareholders, the relevant authorities and the relevant professionals shall form a liquidation committee to conduct the liquidation of the company.

Under the Company Law, a company shall be dissolved in any of the following events:

- (i) the term of its operations set down in the company's articles of association has expired or events of dissolution specified in the company's articles of association have occurred;
- (ii) the shareholders in general meeting have resolved to dissolve the company;
- (iii) the company is dissolved by reason of its merger or demerger;
- (iv) the business licence is invalidated; or the company is closed by a closure order or is deregistered;
- (v) in the event that the company encounters substantial difficulties in operation and management and its continuous subsistence shall cause significant damage to the interest of shareholders, if such condition cannot be resolved through other means, shareholders who hold more than 10% of the total voting rights may present a petition to the People's Court for the dissolution of the company.

Where the company is dissolved in the circumstances described in (i), (ii), (iv) or (v) above, a liquidation committee must be established within 15 days from the date of occurrence of the dissolution causes. Members of the liquidation committee shall be composed of directors or persons approved by the shareholders in a general meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the People's Court for its establishment by designated persons to conduct liquidation.

The liquidation committee shall notify the company's creditors within 10 days after its establishment, and issue public notices in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification.

The liquidation committee shall exercise the following powers during the liquidation period:

- (i) to liquidate the company's assets and to prepare a balance sheet and a list of the assets;

- (ii) to notify creditors or issue public notices;
- (iii) to deal with and settle any outstanding businesses of the company;
- (iv) to pay any tax overdue and tax arising during the liquidation;
- (v) to settle the company's financial claims and liabilities;
- (vi) to handle the surplus assets of the company after its debts have been paid off; and
- (vii) to represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and social insurance expenses and statutory compensation, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them.

A company shall exist but not engage in business operations irrelevant to the liquidation during the liquidation period.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the People's Court for a declaration for bankruptcy. Following the declaration of bankruptcy by the People's Court, the liquidation committee shall hand over all affairs of the liquidation to the People's Court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the People's Court for verification. Thereafter, the report shall be submitted to the companies registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with the relevant laws. A member of the liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

#### *Overseas listing*

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue overseas listed foreign invested shares and domestic invested shares which has been approved by the Securities Commission may be implemented by the board of directors of the company by way of separate issues, within 15 months after approval is obtained from the CSRC.

*Loss of share certificates*

A shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a People's Court in the event that share certificates in registered form are either stolen, lost or destroyed, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issuance of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in this Appendix).

*Suspension and termination of listing*

The trading of shares of a company on a stock exchange may be suspended if so decided by the stock exchange under one of the following circumstances:

- (i) the registered capital or share holding distribution no longer comply with the necessary requirements for a listed company;
- (ii) the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report, which may result into possibility of misleading the investors new security law 55;
- (iii) the company has committed a major breach of the law;
- (iv) the company has incurred losses for the past three consecutive years; or
- (v) other circumstances as required by the listing rules of stock exchange. (New Security Law 55)

A listed company may have its listing determined by the stock exchange if any of the following events shall occur:

- (i) the total share capital and the distribution of share ownership have been altered to make the company no longer satisfy the requirements necessary for listing and it cannot meet the requirements for listing within the period required by the stock exchange;
- (ii) the company has failed to make public its financial situation in compliance with the legal provisions or has falsified its financial accounting statements and refused to rectify;
- (iii) the company has incurred losses for the past three consecutive years and failed to become profitable in the following year; or
- (iv) the company dissolve or is declared be bankrupted;



- (v) any other events prescribed in the listing rules of the stock exchange. (New Security Law 56)

*Merger and demerger*

The merger or demerger of a company is to be decided by the shareholders in general meetings.

Companies may merge through merger by absorption or through the merger of new shares. In the case of merger by absorption, the company which is absorbed shall be dissolved. In the case of merger by forming a new corporation, both companies will be dissolved.

A merger agreement must be signed in the case of a merging of companies and the relevant companies shall prepare their respective balance sheets and inventory of property. The companies should within 10 days of the resolution of the merger inform their respective creditors and publish a notice to the creditors in newspapers, within 30 days of the resolution to merge. Those creditors who had not received written notice may within 45 days of the notice, or within 30 days after receiving written notice, request the company to satisfy any unpaid debts or provide equivalent guarantees in cases of guarantees.

When a company demerges into 2 companies, their respective assets must be separated and separate financial accounts must be drawn up.

When a company's shareholders approve the demerger of the company, the company should notify all its creditors within 10 days of such resolution being passed and advertise the same in newspapers within 30 days. Unless otherwise agreed with a creditor, obligations in respect of the liabilities before the demerger of the company shall be jointly and severally borne by the demerged companies.

Changes in registrable particulars of the companies caused by merger or demerger must be registered in accordance with applicable laws.

**(g) Securities law and regulations**

At present, the PRC has promulgated a number of Law and regulations in relation to the issue and trading of shares and disclosure of information.

In October 1992, the Securities Commission and the CSRC were established. The Securities Commission is the supervisory authority of the State that is responsible for conducting a uniform and macro administration of the securities markets. The CSRC is the regulatory arm of the Securities Commission and is responsible for regulating the securities market in accordance with laws and regulations.

In April 1998, pursuant to the reform proposal of authorities under the State Council, the Securities Commission and the CSRC were merged to form the CSRC that is the supervisory authority of the PRC securities and futures markets.

On 22 April 1993, the State Council promulgated 股票發行與交易管理暫行條例 (the Provisional Regulations Concerning the Issue and Trading of Shares) (the “Securities Provisional Regulations”). The Securities Provisional Regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, clearing and transfer of listed equity securities, disclosure of information, investigation and penalties and dispute settlement with respect to a listed company. The Securities Provisional Regulations specifically provide that the offer of shares by a PRC company directly and indirectly outside the PRC require the approval of the Securities Commission and also provide that separate measures will be promulgated in relation to the issue of and trading in special Renminbi-denominated shares. However, (i) if a PRC joint stock limited company intends to issue Renminbi denominated ordinary shares as well as special Renminbi-denominated shares, it has to comply with the Securities Provisional Regulations; and (ii) provisions of the Securities Provisional Regulations in relation to acquisitions of listed companies and disclosure of information are expressed to apply to companies listed on a stock exchange in general without being confined to companies listed on any particular stock exchange. Such provisions may, therefore, be applicable to joint stock limited companies with shares listed on a stock exchange outside the PRC including, for instance, joint stock limited companies with shares listed on the Stock Exchange.

On 12 June 1993, the CSRC promulgated 公開發行股票公司信息披露實施細則(試行)(the Implementation Measures (Provisional) on Disclosure of Information by Companies issuing Public Offerings of Shares) pursuant to the Securities Provisional Regulations. Under these measures, the CSRC is responsible for supervising the disclosure of information by companies which have offered shares to the public in the PRC. These measures contain provisions regarding prospectuses and listing reports to be issued in connection with a public offering of shares in the PRC, publication of interim and final reports and announcement of material transactions or matters by companies which have offered shares to the public. Material transactions or matters are those the occurrence of which may have a material effect on the share price of a company. They include changes to a company’s articles of association or registered capital, removal of auditors, mortgage or disposal of major operating assets or writing down the value of such assets where the amount being written down exceeds 30% of the total value of such assets, revocation by a court of any resolution passed by the shareholders or the supervisors of a company and the merger or demerger of a company. These measures also contain disclosure provisions in relation to acquisition of listed companies which supplement the requirements contained in the Securities Provisional Regulations.

On 2 September 1993, the Securities Commission promulgated 禁止證券欺詐行為暫行辦法 (the Provisional Measures Prohibiting Fraudulent Conduct Relating to Securities). The prohibitions imposed by these measures include the use of insider information in connection with the issue of or trading in securities (insider information being defined to include undisclosed material information known to any insider, which may affect the market price of securities); the use of funds or information or through an abuse of power in creating a false or disorderly market or influencing the market price of securities or inducing investors to make investment decisions without knowledge of actual circumstances; and the making of any statement in connection with the issue of and trading in securities which is false or materially misleading or in respect of which there is any material omission. Penalties imposed for contravening any of the provisions of the measures include fines, confiscation of profits and suspension of trading. In serious cases, criminal liability may be imposed.

On 4 July 1994, the State Council promulgated the Special Regulations. These provisions deal mainly with the issue, subscription, trading, declaration of dividends and other distributions of foreign capital stock listed aboard and the disclosure of information of articles of association of joint stock limited companies having foreign capital stock listed aboard.

On 25 December 1995, the State Council promulgated 國務院關於股份有限公司境內上市外資股的規定 (the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies). These regulations deal mainly with the issue, subscription, trading, declaration of dividends and other distributions of domestic listed foreign shares and the disclosure of information of joint stock limited companies having domestic listed foreign shares.

On 29 December 1998, the Standing Committee of the NPC promulgated 中華人民共和國證券法 (the Securities Law of the PRC) which came into effect on 1 July 1999. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities such as the issuance and trading of securities in the PRC securities market. The Securities Law is applicable to the issuance and trading in the PRC of shares, company bonds and other securities designated by the State Council according to law. Where the Securities Law does not apply, the provisions of the Company Law and other applicable laws and administrative regulations will apply.

On 29 March 1999, the State Economic and Trade Commission and the CSRC promulgated 關於進一步促進境外上市公司規範運作和深化改革的意見 (the Opinion on the Further Promotion of the Regular Operation and In-Depth Reform of Companies Listed Overseas) (the “Opinion”), which is aimed at regulating the internal operation and management of PRC companies listed overseas. The Company will be subject to the Opinion upon listing of the H Shares on the Stock Exchange. The Opinion regulates, amongst others, the appointments and functions of external directors and independent directors in the board of directors; and the appointment and functions of external supervisors in the supervisory committee.

On 27 October 2005, the Standing Committee of NPC has approved the revision of the Securities Law of the PRC, which will come into effect on 1 January 2006.

## 2. HONG KONG LEGAL AND REGULATORY PROVISIONS

### (A) Hong Kong company law and its comparison with the PRC law applicable to a joint stock limited company incorporated under the Company Law

Hong Kong company law is primarily set out in the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the “Companies Ordinance”) and supplemented by common law. There are material differences between Hong Kong company law and the PRC law applicable to a joint stock limited company incorporated under the Company Law, to which the Company is and will be subject, particularly in the area of investor protection. Certain material differences between the Company Law and Hong Kong company law are summarised below. This summary, however, is not intended to be an exhaustive comparison. It should also be noted that the summary relates only to joint stock limited companies incorporated under the Company Law.

*Derivative action by minority shareholders*

Under the Companies Ordinance, a shareholder may, with the leave of court, bring proceedings on behalf of the company, or intervene in any proceedings before the court to which the company is a party, in respect of misfeasance committed against the company, or in respect of any matter where the company fails to bring proceedings in respect of such matter by reason of misfeasance committed against the company. “Misfeasance” means fraud, negligence, default in compliance with any enactment or rule of law, or breach of duty. Hong Kong law permits minority shareholders to start a derivative action on behalf of all shareholders against directors who have been guilty of a breach of their fiduciary duties to the company, if they control a majority of votes at a general meeting thereby effectively preventing a company from using the directors in breach of their duties in its own name. The PRC Civil Procedure Law does not provide for such a procedure. The Company Law provides that any shareholder who solely or jointly holds more than 1% of the shares of a joint stock company for more than 180 days consecutively shall be entitled to request the supervisory committee in writing to sue any director or senior manager who has violated any laws, administrative regulations or the articles of association of the company during the performance of his/her duties and has caused losses to the company; and shall be entitled to request the board of directors in writing to sue any supervisor who has violated any laws, administrative regulations or the articles of association of the company during the performance of his/her duties and has caused losses to the company. Where the supervisory committee or the board of directors refuses to file a lawsuit after receiving the said shareholder’s written request, or fails to file a lawsuit within 30 days from the date of the request, or under emergency circumstances where no prompt lawsuit will incur irreparable damage to the company’s interests, the said shareholder shall, for the purpose of the company’s interests, be entitled to file a lawsuit in his/her name directly with the People’s Court. Where a third party has infringed upon the legitimate rights and interests of the company and caused losses to the company, the said shareholder may file a lawsuit with the People’s Court in accordance with the aforesaid provision. The Company Law also provides that where any director or senior manager has violated any laws, administrative regulations or the articles of association of the company and has impaired the interests of the shareholders, a shareholder may file a lawsuit with the People’s Court. In addition, each of the Directors and Supervisors (as required) has given a written undertaking to the Company (acting as agent for each shareholder) to observe and comply with his obligations to shareholders stipulated in the Articles of Association. This allows minority shareholders to commence direct actions against defaulting Directors and Supervisors.

*Remedies of the Company*

Under the Company Law, if a director, supervisor or manager in carrying out his duties violates any law or administrative regulation or the articles of association of a company, resulting in damage to the company, that director, supervisor or manager shall be responsible to the company for such damages. The Company Law also provides that controlling shareholder, de facto controller, director, supervisor or senior manager of the company who, by way of his/her associated relationship deprive interests of the company, shall be liable for the losses being suffered by the company. In addition, in compliance with the Main Board Listing Rules and the Mandatory Provisions, remedies

of the Company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits made by a Director, Supervisor or senior management members) have been set out in the Articles of Association.

*Directors, senior management members and supervisors*

The Company Law provides that without the approval of shareholders in a general meeting, directors, supervisors and managers shall not enter into any business contracts or transactions with the company, or accept any benefits. The Company Law, unlike Hong Kong company law, does not contain restrictions on directors' authority in making major dispositions (but a listed company which purchases or disposes substantial assets or provide a guarantee amount of which exceeds 30% of the total assets of the company shall be subject to the approval of a general meeting and be approved by more than two-thirds of the voting rights held by the shareholders present in the general meeting.) restrictions on companies providing certain benefits such as loans to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. Neither does the Company Law contain any requirements relating to the declaration of material interests in contracts with the company as is required under Hong Kong company law, nor restrictions on interested directors being counted towards the quorum of, and voting at, a meeting of the board of directors at which a transaction in which a director is interested is being considered. However, the Mandatory Provisions and other related regulations contain certain restrictions on major dispositions and specify the circumstances under which a director is required to disclose his interest in contracts or may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in this Appendix.

Under Hong Kong company law, there is no concept of a supervisory committee for a company in addition to its board of directors, but a PRC joint stock limited company must have a supervisory committee whose main duties include ensuring compliance with laws and regulations, and the articles of association of the company, by its directors and managers.

The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he or she considers to be the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Such provisions have been incorporated in the Articles of Association.

*Minority protection*

In addition to the remedies set out in the section headed "Derivative action by minority shareholders" above, under Hong Kong laws, a shareholder who complains that the affairs of a company are conducted in a manner unfairly prejudicial to his interests may present a petition to the court to wind up the company or to make an appropriate order regulating the affairs of the company. In addition, at an application of a specified number of members, the financial secretary may appoint investigators who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong

Kong. The Company Law provides that controlling shareholder or de facto controller of the company shall not, by way of their associated relationship, deprive interests of the company. The relevant controlling shareholder or de facto controller of the company in violation of such provision shall be liable for the losses being suffered by the company. The Company, as required by the Mandatory Provisions and the Main Board Listing Rules, has adopted in the Articles of Association minority protection provisions similar to (though not as comprehensive as) those available under Hong Kong law, to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders to relieve a director or supervisor of his or her duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or of the individual rights of other shareholders.

#### *Receiving agent*

Under both PRC and Hong Kong law, dividends once declared become debts payable to shareholders, but the limitation of action period is two years in the PRC as opposed to six years in Hong Kong. The Articles of Association provide for the appointment of an agent in Hong Kong which must be a trust corporation registered under the Trustee Ordinance in Hong Kong to receive all dividends payable to H Share holders and all other monies owing by a joint stock limited company in respect of such H Shares on behalf of such shareholders as required by the Main Board Listing Rules.

#### *Financial assistance for the acquisition of shares*

The Company Law, unlike Hong Kong law, does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. Following the requirements of the Mandatory Provisions, the Articles of Association contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

#### *Variation of class rights*

The Company Law makes no specific provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other classes of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarised in this Appendix.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (1) with the approval of a special resolution of the holders of the relevant class at a separate meeting; or (2) with the consent in writing of the holders of three fourths in nominal value of the issued shares of the class in question; or (3) by agreement of all the members of the Company; or (4) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.



The Company (as required by the Main Board Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. The Mandatory Provisions contain detailed provisions (which are reflected in the Articles of Association) relating to circumstances which are deemed to constitute a variation of class rights. Holders of overseas listed foreign invested shares and domestic invested shares are defined in the Articles of Association as different classes of shareholders, except (i) where a joint stock limited company issues and allots, in any 12-month period, pursuant to a shareholders' special resolution, overseas listed foreign invested shares and domestic invested shares; and the number of overseas listed foreign invested shares and domestic invested shares proposed to issue are not more than 20% of respective class of listed shares existing as at the date of the shareholders' special resolution; or (ii) the completion by a joint stock limited company of its plan for the issue of domestic invested shares and listed foreign invested shares upon its establishment within 15 months following the date of approval by the CSRC, and, accordingly, in the circumstances referred to in (i) and (ii) aforesaid, the Company's ability to issue Domestic Shares and H Shares is not subject to a separate voting procedure by holders of H Shares.

#### *Conversion of shares*

Under the Articles of Association (as required by the Mandatory Provisions), any proposal by to vary or abrogate the rights conferred on any class of shares shall be approved by a special resolution of shareholders at a general meeting and by shareholders of that class at a meeting of shareholders of that class convened in accordance with the Articles of Association, save and except for such Shares held by domestic Shareholders which have been transferred by them to overseas investors and which are being listed and publicly traded. Circumstances considered a variation or abrogation of class rights of shareholders are discussed in the paragraph headed "Variation of class rights" in this section. Upon obtaining an approval from the regulatory body on securities under the State Council, domestic Shareholders of the Company may transfer the Company's Shares held by them to overseas investors and have the Shares listed and traded publicly. Shares transferred and listed on an overseas stock exchange shall be subject to regulations of the overseas exchange, and Shares so transferred and listed and traded on an overseas stock exchange do not need approval by voting in any extraordinary general meeting of class Shareholders.

#### *Corporate reorganisation*

Corporate reorganisation involving compromises with creditors and members in respect of Hong Kong incorporated companies are dealt with under section 166 of the Companies Ordinance and require court sanction. Corporate reorganisation involving Hong Kong incorporated companies may also be effected by the transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance. For PRC companies, such reorganisations are administratively considered and sanctioned under the Company Law.

*Share capital*

Under the Company Law for company incorporated by promotion, its registered capital shall be the total capital being subscribed by all promoters where the first paid up amount shall not be less than 20% of its registered capital, the outstanding amount shall be paid up within 2 years upon establishment of the company but within 5 years for investment company; for joint stock company incorporated by public subscription, the registered capital of the company is the amount of its total paid up capital as registered with company registration authorities. For a Hong Kong company, the authorised share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, cause the company to issue new shares. In the case of a PRC company, any increase of the registered capital must be approved by the shareholders in general meeting and the relevant PRC Government and regulatory authorities. After completion of an approved new issue, the PRC company has to register the increase in share capital with the relevant administration for industry and commerce.

The minimum registered capital of a company which has applied for the listing of its shares on a stock exchange is RMB30 million under the Company Law. Hong Kong law does not prescribe any minimum capital requirements for a Hong Kong company.

Under the Company Law, the amount of currency contribution shall not less than 30% of a joint stock limited company's registered capital. There is no such restriction under Hong Kong law on a Hong Kong company.

*Restriction on shareholding and transfer of shares*

The Company's H Shares are denominated in Renminbi and subscribed for in currency other than Renminbi, and may only be subscribed and traded by investors from Hong Kong, Macau or Taiwan or from outside the PRC (unless specific approval is obtained from the relevant PRC authorities), whereas the Company's Domestic Shares, denominated in Renminbi, can only be subscribed for in Renminbi, and may only be subscribed and traded by investors from the PRC (which, for the avoidance of doubt, as stated in this prospectus, excludes Hong Kong, Macau or Taiwan). There is no restriction under Hong Kong law on a person's ability to deal in shares in a Hong Kong company on the basis of his residence or nationality.

Under the Company Law, unless specific approval is obtained from the relevant PRC authorities, shares in a joint stock limited company held by its promoters, directors, supervisors or other senior management officers may not be transferred within certain periods of time. For example, promoter shares of a joint stock company may not be transferred within one year after the company's establishment; and shares of a joint stock company in issue before its public offer may not be transferred within one year from the date of commencement of trading of the shares on the relevant stock exchange. There is no such restriction under Hong Kong law.



*Notice of shareholders' meetings*

Under the Company Law, shareholders of a joint stock limited company must be given 20 days' notice of a general meeting, and in case of an extraordinary shareholders' general meeting, such notice should be given 15 days before the meeting, or, in the case of bearer shares, such notice should be published 30 days before the meeting. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders, and shareholders wishing to attend the meeting must reply in writing 20 days before the date of the meeting. For a Hong Kong limited company, the minimum period of notice of a general meeting where convened for the purpose of considering ordinary resolutions is 14 days and where convened for the purpose of considering special resolutions is 21 days. The notice period for an annual general meeting is also 21 days.

*Quorum for shareholders' meeting*

Under Hong Kong law, one shareholder present in person or by proxy will constitute a quorum for a general meeting if the company has only one shareholder. If the company has more than one shareholder, two shareholders present in person or by proxy will constitute a quorum for a general meeting, unless the articles of association provide otherwise. The Company Law makes no specific provision as to when a quorum is regarded as being present but the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, that the company shall within five days notify shareholders in a public announcement and the annual general meeting may be held thereafter.

*Voting*

Under Hong Kong's company law, ordinary resolutions are passed by more than one-half of the votes cast by those shareholders voting in person or by proxy at a general meeting and special resolutions are passed by not less than three-quarters of such votes. Under the Company Law, the passing of any resolution requires the passing by more than half of the votes of the shareholders attending and voting, except in cases of, for example, proposed amendment to the articles of association, increase or reduction in registered capital, merger, division, dissolution of a company, or change to the form of the Company where the approval of a special resolution (being a resolution with a two-third majority) is required. A listed company which purchases or disposes substantial assets or provide a guarantee amount of which exceeds 30% of the total assets of the company shall be subject to the approval of a general meeting and be approved by more than two thirds of the voting rights held by the shareholders present in the general meeting. In addition, any proposal by to vary or abrogate the rights conferred on any class of shares shall be approved by a special resolution of shareholders at a general meeting and by shareholders of that class at a meeting of shareholders of that class convened in accordance with the Articles of Association.

*Dividends*

The Articles of Association empower the Company to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC law, the relevant limitation period is two years.

*Financial disclosure*

A joint stock limited company is required under the Company Law to make available at its office for inspection by shareholders its annual balance sheet, statement of income, statement of changes in financial situation and other relevant annexes 20 days before the annual general meeting of shareholders. In addition, according to the Company Law, a company established by the public subscription method must publish its financial statements. The annual balance sheet has to be audited by registered accountants. The Companies Ordinance requires a Hong Kong incorporated company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report (which are to be laid in its annual general meeting) not less than 21 days before its annual general meeting.

Under the Articles of Association (as required by the Main Board Listing Rules and the Mandatory Provisions), in addition to preparing accounts according to PRC accounting standards, the Company must have its accounts prepared and audited in accordance with international accounting standards or Hong Kong accounting standards. The Company is further required to publish its interim and annual accounts within 60 days from the end of the first six months of a financial year and within 120 days from the end of a financial year, respectively.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

*Information on directors and shareholders*

The Company Law gives shareholders of a company the right to inspect its articles of association, minutes of shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (after payment of reasonable charges) certain information on shareholders and on Directors, Supervisors and managers similar to that available to shareholders of Hong Kong companies under Hong Kong law.

*Arbitration of disputes*

In Hong Kong, disputes between shareholders and their company or its directors, managers and other senior officers may be resolved through the courts. The Articles of Association provide that disputes between a holder of H Shares and the Company and its directors, managers or other senior management officers or a holder of Domestic Shares arising from the Articles of Association, the Company Law or other relevant laws or administrative regulations which concern the affairs of the Company must be submitted to arbitration at either the Hong Kong International Arbitration Centre (“HKIAC”) or the China International Economic and Trade Arbitration Commission (“CIETAC”), at the claimant’s choice. Such arbitration is final and conclusive.

*Mandatory deductions*

Under the Company Law, after-tax profits of a company are subject to deduction of contributions to the statutory common reserve fund of a company before they can be distributed to shareholders. There are prescribed limits under the Company Law for such deductions. There are no corresponding provisions under the Companies Ordinance.

*Fiduciary duties*

In Hong Kong, there is the common law concept of the fiduciary duties of directors. Under the Company Law and the Special Regulations, directors, supervisors, managers and other senior managements officers owe a fiduciary duty towards their company and are not permitted to engage in any activities, which compete with or damage the interests of their company.

*Closure of register of shareholders*

The Companies Ordinance of Hong Kong requires that the register of shareholders of a company may not be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the Articles of Association provide, as required by the Company Law, that share transfers may not be registered within 20 days before the date of a general meeting or within five days before the record date set for the purpose of distribution of dividends.

**(B) Other legal and regulatory provisions**

Upon the listing of the Company on Main Board, the provisions of the Securities and Futures Ordinance of Hong Kong, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on Main Board will apply to the Company.

**(C) Securities Arbitration Rules**

The Articles of Association provide that certain claims arising under the Articles of Association or the Company Law shall be arbitrated at either CIETAC or HKIAC in accordance with their respective rules.

The Securities Arbitration Rules of HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen, the PRC for cases involving disputes concerning the affairs of companies listed on the Stock Exchange and incorporated in the PRC (other than Hong Kong, Macau and Taiwan) so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditionally upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where any party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, the Special Administrative Region of Macau and Taiwan.

**(D) Main Board Listing Rules**

The Main Board Listing Rules contain certain provisions specifically relating to the listing of equity securities of companies incorporated or otherwise established in the PRC. Set out below is a summary of the major provisions which apply to the Company.

*Compliance Adviser*

The Company is required to retain, for the period commencing on the date of initial listing of the Company and ending on the date on which the Company complies with Rule 13.46 of the Main Board Listing Rules in respect of its financial results for the first full financial year commencing after the date of its listing on Main Board, the services of a compliance adviser (being a corporation or authorised financial institution acceptable to the Stock Exchange, licensed or registered under applicable laws to advise on corporate finance matters) to provide the Company with professional advice on, inter alia, continuous compliance with the Main Board Listing Rules.

*Accountants' reports*

An accountants' report will not normally be regarded as acceptable by the Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong, which means that it must conform with either Hong Kong or international accounting standards.

*Process agent*

The Company must appoint and retain throughout the period its securities are listed on Main Board a person authorised to accept service of process and notices on its behalf in Hong Kong and must notify the Stock Exchange of his or her appointment and any termination of his or her appointment and his or her contact particulars.

*Public shareholdings*

If at any time there are existing issued securities of the Company, listed on the Main Board, the Main Board Listing Rules require that the aggregate amount of the H Shares and other securities held by the public (on all regulated market(s) including the Stock Exchange) must constitute not less than 25% of the Company's total existing issued share capital.

*Independent non-executive Directors and Supervisors*

The independent non-executive Directors are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The Supervisors must have the character, experience and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

*Restrictions on purchase and subscription*

The Company may purchase its own Shares on the Stock Exchange in accordance with the Main Board Listing Rules. Shareholders' approval must first be obtained prior to carrying out a share repurchase, by way of special resolution of shareholders in general meeting and of the holders of Domestic Shares and the holders of the H Shares at separate class meetings, in accordance with the procedures prescribed by the Articles of Association. When seeking shareholders' approval to make purchases of its securities on the Stock Exchange or when reporting such purchases, the Company should provide information to its shareholders on the proposed or actual purchase of any or all of its equity securities, whether or not listed or traded on the Stock Exchange. There should also be a statement as to the consequences of any purchases which will arise under either or both of the Hong Kong Codes on Takeovers and Mergers and Share Repurchases and any similar applicable law of which the Directors are aware, if any. Any general mandate given to the Directors to repurchase the H Shares must not exceed 10% of the total amount of the existing issued H shares of the Company.

*Mandatory Provisions*

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the Articles of Association of a PRC company which is listed on the Stock Exchange, of the Mandatory Provisions and provisions including those relating to the change, removal and resignation of auditors, classification of shareholders and the conduct of the supervisory committee of the Company. Such provisions have been incorporated into the Articles of Association, a summary of which has been set out in this Appendix.

*Additional requirements*

The Main Board Listing Rules require the Company to comply with certain additional requirements which are summarized as follows:

(1) Pre-emptive rights

Except in the circumstances mentioned below, the Directors must obtain the approval by a special resolution of the shareholders in general meeting and the approvals by special resolutions of holders of Domestic Shares and holders of H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to:

- (a) authorizing, allotting, issuing or granting:
  - (i) shares;
  - (ii) securities convertible into shares; or
  - (iii) options, warrants or similar rights to subscribe for any shares or such convertible securities; or
- (b) a major subsidiary of the Company making any such authorization, allotment, issue or grant resulting in material dilutions to the percentage of shareholding of the Company and our shareholders in such subsidiary.

No such approval shall be required in the case of authorizing, allotting or issuing shares if, but only to the extent that, our existing shareholders have by special resolution in a general meeting given a general mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue either separately or concurrently once every 12 months, not more than 20% of the existing Domestic Shares and H Shares as at the date of the passing of the relevant special resolution or of such shares that are part of our plan at the time of the formation of the Company to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the CSRC.

(2) Supervisors

The Supervisors are required to comply with Appendix 10 of the Main Board Listing Rules relating to securities transactions by directors.

To enter into a service contract for three years or more with a Supervisor or proposed Supervisor, or a service contract which expressly requires the Company to give a period of notice of more than one year or pay compensation or make other payments equivalent to more than one year's emoluments in order

for the Company to terminate the service contract with a Supervisor or proposed Supervisor, the Company must obtain the prior approval of the Shareholders in a general meeting.

(3) Changes to Articles of Association

The Company may not at any time permit or cause any amendment to be made to the Articles of Association which would cause them to cease to comply with the Mandatory Provisions or the Main Board Listing Rules relating to the Articles of Association.

(4) Documents for inspection

The Company is required to make available at a place in Hong Kong for inspection by the public and Shareholders free of charge, and for copying by Shareholders at reasonable charges, the following:

- (a) a complete duplicate register of Shareholders;
- (b) a report showing the state of its issued share capital;
- (c) its latest audited financial statements and the reports of the Directors, auditors and (if any) Supervisors;
- (d) special resolutions;
- (e) reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for the repurchase of such securities and the maximum and minimum price paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- (f) a copy of the latest annual return filed with the SAIC or other competent PRC authorities; and
- (g) for Shareholders only, copies of the minutes of meetings of Shareholders.

(5) Appointment of receiving agents

The Company is required to appoint one or more receiving agents in Hong Kong to receive on behalf of the Shareholders dividends declared and other monies owing by the Company in respect of H Shares listed on the Stock Exchange to be held, pending payments, in trust for holders of the H Shares.

## (6) Statements to be made on acquisition of Shares

The Company is required to ensure that all its listing documents and share certificates include the statements stipulated below and to instruct and cause its share registrar not to register the subscription, purchase or transfer of any of the Shares in the name of any particular holder unless and until such holder delivers to the share registrar a signed form in respect of those shares bearing statements to the following effect, that the acquirer of shares:

- (a) agrees with the Company and each other Shareholders, and the Company agrees with each Shareholder, to observe and comply with the Company Law, the Special Regulations and the Articles of Association;
  - (b) agrees with the Company, each Shareholder, Director, Supervisor, manager and other officer, and the Company, acting for itself and for each Director, Supervisor, manager and other officer agree with each Shareholder to refer all disputes and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with the Articles of Association. Any reference to arbitration will be deemed to authorize the arbitration tribunal to conduct its hearing in open session and to publish its award. Such arbitration will be final and conclusive;
  - (c) agrees with the Company and each other Shareholders that H Shares are freely transferable by the registered holder(s) thereof; and
  - (d) authorizes the Company to enter into a contract on his behalf with each Director and officer whereby such Directors and officers undertake to observe and comply with their obligations to the Shareholders stipulated in the Articles of Association.
- (7) Compliance with the Company Law, the Special Regulations and the Articles of Association

The Company is required to observe and comply with the Company Law, the Special Regulations and the Articles of Association.

*Contract between the Company and every Director and officer*

The Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- (a) an undertaking by the Director or officer to the Company to observe and comply with the Company Law, the Special Regulations, the Articles of Association, the Takeovers Codes and an agreement that the Company will have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;



- (b) an undertaking by the Director or officer to us acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in our Articles of Association; and
- (c) an arbitration clause which provides that:
  - (i) Whenever any disputes or claims arise from the contract, the Articles of Association or any rights or obligations conferred or imposed by the laws and administrative regulations concerning affairs between (1) the Company and its Directors or officers or (2) a holder of H Shares and a Director or officer, such disputes or claims will be referred to arbitration;
  - (ii) The entire dispute or claim shall be resolved through that arbitration; all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are Shareholders, Directors, Supervisors, managers or other officers, shall submit to the arbitration.
  - (iii) Disputes over who is a Shareholder and over the Share register do not have to be resolved through arbitration.
  - (iv) Once the party seeking the arbitration submits a dispute or claim to the arbitration, the other party must submit to the arbitral body selected by the party seeking the arbitration. The party seeking arbitration may elect to have the dispute or claim arbitrated either by the CIETAC in accordance with its arbitration rules or by the HKIAC in accordance with its securities arbitration rules.
  - (v) If the party seeking the arbitration elects to arbitrate the dispute or claim at the HKIAC, either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC.
  - (vi) PRC laws shall govern the arbitration of disputes or claims referred to in clause (a) above, unless otherwise provided by law or administrative regulations.
  - (vii) The award of the arbitral body is final and shall be binding on the parties thereto.
  - (viii) The agreement to arbitrate is made by the Director or officer with the Company on its own behalf and on behalf of each Shareholder; and
  - (ix) Any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct the hearing in open session and to publish its award.

*Contract between the Company and every Supervisor*

The Company is also required to enter into a contract in writing with every Supervisor containing at least the following provisions:

- (a) an undertaking by the Supervisor to the Company to observe and comply with the Company Law, the Special Regulations and the Articles of Association and an agreement that the Company will have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- (b) an undertaking by the Supervisor to the Company acting as agent for each Shareholder to observe and comply with his obligations to Shareholders stipulated in the Articles of Association; and
- (c) the arbitration clause in terms set out in sub-paragraph (c) of the preceding paragraph in relation to a contract between the Company and every Director or officer subject to necessary modifications.

**(E) Taxation in Hong Kong**

The following summary of certain taxation provisions relevant to investing in H Shares is based on current law and practice, it is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in H Shares. Accordingly, each prospective investor should consult its own tax adviser regarding the tax consequences of an investment in H Shares. The discussion is based on the laws and the relevant interpretations thereof in effect as at the date of this document, all of which are subject to changes.

*(i) Taxation of dividends*

Under current practice of the Hong Kong Inland Revenue Department, no profits tax is payable in Hong Kong in respect of dividends paid by a company which is not subject to Hong Kong profits tax. Where a company is not chargeable to Hong Kong profits tax, any dividends paid by it to persons who carry on a business in Hong Kong are liable to profits tax to the extent that such dividends form part of the profits of such persons arising from their Hong Kong business.

*(ii) Taxation of gains*

No profits tax is imposed in Hong Kong in respect of capital gains from the sale of property, such as shares. Trading gains from the sale of property by persons who carry on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business are liable to profits tax, which is currently imposed at the rate of 17.5% for corporations and at a maximum rate of 16% for individuals. Gains from the sale of H Shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

*(iii) Stamp duty*

The sale and purchase of H Shares will be subject to stamp duty payable by both the seller and the buyer at the current rate of 0.1% of the consideration or, if higher, the fair value of the H Shares transferred (i.e. a total of 0.2% is currently payable on a typical sale and purchase transaction involving H Shares). A fixed rate of duty of HK\$5 is also payable in respect of every instrument of transfer of H Shares.

*(iv) Estate duty*

The Revenue (Abolition of Estate Duty) Ordinance 2005 abolishes estate duty in respect of deaths occurring on or after 11 February 2006. In addition, estate duty in respect of deaths occurring on or after 15 July 2005, but before 11 February 2006, has been reduced to a nominal duty of HK\$100 in respect of estates which assessed value exceeds HK\$7.5 million. No estate duty is payable where the assessed value of the dutiable estate does not exceed HK\$7.5 million.

**3. ARTICLES OF ASSOCIATION**

This section contains summary of the principal provisions of the Articles of Association (and the relevant articles therein shall be referred to as the “Articles”) adopted, with certain amendments thereto being approved, at the extraordinary general meeting of the Company held on 18 February 2005, and a related commentary. The full Chinese text of the Articles of Association is available for inspection as mentioned in the section headed “Documents delivered to the registrar of companies and available for inspection” in Appendix VI to this document.

**(a) Directors***(i) Power to allot and issue shares*

There are no provisions in the Articles empowering the Directors to allot and issue shares.

In order to increase the share capital of the Company and issue new shares, the Board must prepare a detailed plan and draft of amendments to the Articles to permit the increase for approval by Shareholders in general meeting by way of special resolution, subject to the relevant procedures and the approval of the relevant regulatory authorities of the PRC.

*(ii) Power to dispose of assets of the Company or its subsidiaries*

The Board shall not, without the prior approval of Shareholders in general meeting, dispose of or agree to dispose of any fixed assets of the Company where the aggregate of:

- (A) the amount or value of the consideration for the fixed assets proposed to be disposed, and

- (B) where any fixed assets of the Company have been disposed of in the period of four months immediately preceding the proposed disposition, the amount or value of the consideration for any such disposition,

exceeds 33% of the value of the Company's fixed assets as shown in the latest balance sheet placed before the Shareholders in general meeting. The validity of a disposition by the Company shall not be affected by the breach of the relevant Article. For the purpose of such Article, disposition includes an act involving the transfer of some interest in property other than by way of security.

*(iii) Remuneration and payments for loss of office*

The Company shall, with the prior approval of shareholders in general meeting, enter into a contract in writing with a Director or a Supervisor wherein his emoluments are stipulated, including:

- (A) emoluments in respect of his service as director, supervisor or senior management officer of the Company;
- (B) emoluments in respect of his service as director, supervisor or senior management officer of any subsidiary of the Company;
- (C) emoluments in respect of the provision of other services in connection with the management of the affairs of the Company and any of its subsidiaries; and
- (D) payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office.

Except under a contract entered into in accordance with the foregoing, no proceedings may be brought by a Director or Supervisor against the Company for anything due to him in respect of the above matters.

The contract concerning the emoluments between the Company and its Directors or Supervisors should provide that in the event of a takeover of the Company, the Directors and Supervisors shall, subject to the prior approval of the shareholders in general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. A "takeover of the Company" referred to in this paragraph means any of the following:

- (A) an offer made by any person to the general body of shareholders; or
- (B) an offer made by any person with a view to the offeror becoming a "controlling shareholder" within the meaning set out in the Articles.

If the relevant Director or Supervisor does not comply with the above provisions, any sum so received by him shall belong to those persons who have sold their Shares as a result of the said offer made. The expenses incurred in distributing that sum pro rata amongst the aforesaid persons shall be borne by the relevant Director or Supervisor and not paid out of the sum so distributed.

*(iv) Loans to Directors, Supervisors and other senior management officers*

The Company shall not directly or indirectly make a loan to or provide any guarantee in connection with the making of a loan to a director, supervisor, general manager, or other senior management officer of the Company or of the Company's holding company or a person connected with any of them. However, the following transactions are not subject to such prohibition:

- (A) the provision by the Company of a loan or a guarantee in connection with the making of a loan to a subsidiary;
- (B) the provision by the Company of a loan or a guarantee in connection with the making of a loan or any other funds to any of its Directors, Supervisors, general manager, and other senior management officers to meet the expenditure incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders in general meeting; or
- (C) the Company may make a loan to or provide a guarantee in connection with a loan to any of its Directors, Supervisors, general manager and other senior management officers or their connected persons in the ordinary course of its business and on normal commercial terms, where the ordinary course of business of the Company includes the lending of money or the giving of guarantees.

A loan made by the Company in breach of the prohibition described above shall be forthwith repayable by the recipient of the loan regardless of the terms of the loan.

A guarantee provided by the Company in breach of the prohibition described above shall be unenforceable against the Company, unless:

- (A) the guarantee was provided in connection with a loan to a person connected with a director, supervisor, general manager or other senior management officer of the Company or its holding company and at the time the loan was advanced the lender was not aware of the relevant circumstances; or
- (B) the security provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

For the purpose of this paragraph:

- (A) a guarantee includes an undertaking or property provided to secure the performance of obligations by the obligor; and
  - (B) the definition of a connected person in sub-paragraph (xi) below shall, mutatis mutandis, apply.
- (v) *Financial assistance to purchase shares in the Company or any of its subsidiaries*

Save as described below, no financial assistance shall be provided at any time and in any manner by the Company or its subsidiaries to any person acquiring or intending to acquire the shares of the Company. The person(s) acquiring the shares of the Company aforesaid shall include the person(s) who undertake(s), directly or indirectly, obligations as a result of an acquisition of shares of the Company.

Save as described below, no financial assistance shall be provided at any time and in any manner by the Company or its subsidiaries to reduce or release the obligations of the said person(s) undertaking such obligations.

The following transactions are not prohibited:

- (A) the provision of financial assistance where the financial assistance is given in good faith in the interests of the Company and the principal purpose in giving that assistance is not for the acquisition of shares in the Company, or the assistance is but an incidental part of some larger purpose of the Company;
- (B) a distribution of the Company's assets by way of dividend in accordance with law;
- (C) the allotment of bonus shares as dividends;
- (D) a reduction of share capital, a repurchase of shares of the Company, a reorganisation of the capital structure of the Company effected in accordance with the Articles;
- (E) the lending of money by the Company in the ordinary course of its business where the lending of money is part of its scope of business, provided that the Company's net assets are not thereby reduced or, to the extent that those assets are thereby reduced, that financial assistance is provided out of distributable profits of the Company;
- (F) the provision of money by the Company for contributions to employees' shares schemes, provided that the Company's net assets are not thereby reduced or, to the extent that those assets are thereby reduced, that financial assistance is provided out of distributable profits of the Company.

For the purposes of the foregoing provisions:

(A) “financial assistance” includes without limitation:

- (1) assistance given by way of gift;
- (2) assistance given by way of guarantee (including the provision of an undertaking or property to secure the performance of obligations by the obligor), or indemnity (other than an indemnity in respect of the Company’s default), or by way of release or waiver;
- (3) assistance given by way of a loan or any other agreement under which the obligations of the Company are to be fulfilled before the obligations of another party to the agreement, or by way of the novation of, or the assignment of rights arising under, a loan or such other agreement; or
- (4) any other assistance given by the Company when the Company is unable to pay its debts or has no net assets or when its net assets would thereby be reduced by a material extent, and

(B) “undertaking” includes the changing of one’s financial position by making an agreement or arrangement (whether enforceable or not, and whether made on his own account or with any other person) or by any other means.

(vi) *Disclosure of interests in contracts with the Company or its subsidiaries*

Where a Director, Supervisor, general manager or other senior management officer of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company, other than his contract of service, he shall disclose the nature and extent of his interests to the Board at the earliest opportunity, whether or not the related matters are under normal circumstances subject to the approval of the Board. Unless the interested Director, Supervisor, general manager or other senior management officer has disclosed his interest in accordance with the Articles and the contract, transaction or arrangement has been approved by the Board at a meeting in which such interested Director is not counted in the quorum and has abstained from voting, that contract, transaction or arrangement is voidable at the instance of the Company except as against a bona fide party acting without notice of the breach of duty by the Director, Supervisor, general manager or other senior management officer concerned. For the purposes of the foregoing, a Director, Supervisor, general manager or senior management officer is deemed to be interested in a contract, transaction or arrangement in which a person connected with him is interested.

Where a Director, Supervisor, general manager or senior management officer gives to the Board a general notice in writing stating that, by reason of the facts specified in the notice, he is interested in contracts, transactions or arrangements of any description which may subsequently be made by the Company, that notice shall be deemed for the purposes of the Articles to be a sufficient disclosure of his interests, so far as attributable

to those facts, in relation to any contract, transaction or arrangement of that description which may subsequently be made by the Company, provided that such general notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration on behalf of the Company.

*(vii) Remuneration*

The emoluments of a Director shall be approved by Shareholders in general meeting as referred to under the paragraph headed “Remuneration and payments for loss of office”.

*(viii) Retirement, appointment and removal*

The term of office of the Chairman and other Directors shall be three years commencing from the date of appointment or re-election, renewable upon re-election.

The Board shall consist of nine members, and shall have one Chairman and three independent non-executive Directors. The Chairman shall be elected and removed by half of the members of the Board.

Directors shall be elected by Shareholders in general meeting for a term of three years. Upon the expiry of the term, a Director shall be eligible for re-election. More than half of the members of the Board shall be external Directors (Directors who are not working in the Company).

External Directors shall have sufficient time and the necessary knowledge and ability in performing their duties. In performing his duties as an external Director, the Company shall provide all the necessary information.

A Director is not required to hold any shares in the Company.

A Director may be removed prior to the expiration of his term of office with the sanction of an ordinary resolution of a general meeting. There is no stipulation that a Director must retire at a certain age.

*(ix) Borrowing powers*

The Board has powers to formulate proposals for the issue of bonds of the Company.

There are no provisions in the Articles stipulating the manner of varying the borrowing powers exercisable by the Board. However, such powers, as with other provisions in the Articles, may be altered by way of special resolution of Shareholders in general meeting.



*(x) Notice and minutes of board meetings*

Meetings of the Board shall be held at least four times every year and be convened by the chairman of the Board. Notice of such Board meetings shall be given to all the Directors and Supervisors 14 days before the date of the meeting. An extraordinary meeting of the Board may be held upon request of the entitled shareholder(s) representing one-tenth or more of voting rights, the supervisory committee, the general manager of the Company or a one-third or more of the Directors. The chairman of the Board shall convene and preside over the extraordinary meeting of the Board within ten days from receiving the request.

The chairman of the Board may propose to convene extraordinary Board meetings as he deems necessary.

Notice of Board meetings (excluding extraordinary Board meetings) shall be given in a manner and within a time frame as follows:

- (i) Notice shall not be required for the convening of regular meetings of the Board where the time and place has been fixed by the Board in advance. If the time and place of the Board meeting has not been fixed by the Board in advance, the chairman of the Board shall instruct the secretary of the Board to, either by telex, telegram, facsimile, express special delivery, registered post or by hand, give the notice of the time and place of that Board meeting to all the Directors at least 14 days before the convention of the meeting. However, such notice requirement shall not apply to extraordinary Board meetings.
- (ii) Regular or extraordinary Board meetings may be conducted by telephone or other means of communications, provided that all the participating Directors can hear and speak to each other, and in such cases, all participating Directors shall be deemed to have attended the meeting in person, save and except certain matters set out in the Articles of Association.

Board meetings shall be held only if more than one-half of the Directors are present.

Each Director shall have one vote. Resolutions of the Board require the approval of more than half of all the Directors.

Where the numbers of votes voting for and against a resolution are equal, the chairman of the Board shall have a casting vote.

*(xi) Duties*

Each Director, Supervisor, general manager or other senior management officer owes a duty, in the exercise of his powers and the discharge of his duties, to exercise the care, diligence and skill that a reasonable prudent person would exercise in comparable circumstances.

In addition to the obligations imposed by laws, administrative regulations or required by the stock exchanges on which shares of the Company are listed, each Director, Supervisor, general manager and other senior management officer owes a duty to each shareholder, in the exercise of the powers of the Company entrusted to him:

- (A) not to cause the Company to exceed the scope of business stipulated in its business licence;
- (B) to act honestly in what he considers to be in the best interests of the Company;
- (C) not to expropriate in any way the Company's property, including without limitation, opportunities beneficial to the Company; and
- (D) not to expropriate the individual rights of shareholders, including, without limitation, rights to distribution and voting rights, save and except pursuant to a reorganisation of the Company submitted to shareholders for approval in accordance with the Articles.

Each Director, Supervisor, general manager or other senior management officer owes a duty, in the exercise of powers of the Company entrusted to him, to observe his fiduciary obligations and not to place himself in a position where his duties and his interests may conflict. This principle applies to, without limitation, the following obligations:

- (A) to act honestly in what he considers to be in the best interests of the Company;
- (B) to exercise the powers within his authority without abuse;
- (C) to personally exercise the discretion vested in him and not allow himself to act under the direction of another and, unless and to the extent permitted by law or administrative regulations or with the informed consent of shareholders in general meeting, not to delegate the exercise of his discretion;
- (D) to treat Shareholders of the same class equally and to treat Shareholders of different classes fairly;
- (E) except in accordance with the Articles or otherwise permitted by informed Shareholders in general meeting, not to enter into any contract, transaction or arrangement with the Company;
- (F) unless otherwise permitted by informed Shareholders in general meeting, not to use the Company's property for his own benefit;
- (G) not to obtain bribe or other illegal income by using his authority or to expropriate in any manner the Company's property, including, without limitation, not to usurp any opportunities beneficial to the Company;

- (H) unless otherwise permitted by informed Shareholders in general meeting, not to accept commissions paid by a third party in connection with the Company's transactions;
- (I) to abide by the Articles, faithfully execute his official duties and protect the Company's interests, and not to exploit his position and power in the Company to advance private interests of his own or others in related, such as figuring for business opportunities which essentially belong to the Company, not to conduct the same kind of business affairs as those of the Company for himself or as an agent of others;
- (J) unless otherwise permitted by informed shareholders in general meeting, not to compete in any form with the Company;
- (K) not to embezzle the Company's funds, and not to deposit the Company's funds in accounts opened in his own name or in the name of other persons, and not to lend the Company's funds to others in breach of the Articles without a permission of Shareholders' meeting or the Board meeting, and not to use the Company's assets to provide security for others; and
- (L) unless otherwise permitted by informed Shareholders in general meeting, not to disclose confidential information of the Company acquired by him in the course of and during his tenure and not to use such information other than in furtherance of the interests of the Company, save and except that disclosure of such information to the court or other governmental authorities is permitted if (i) the disclosure is required by law; (ii) it is in the public interest; or (iii) such disclosure is necessary to protect the interests of that Director, Supervisor, general manager or senior management officer.

In accordance with his fiduciary obligations, a Director, Supervisor, general manager or other senior management officer shall not cause a person connected with him to do what he is prohibited from doing. A person is connected with a Director, Supervisor, general manager or other senior management officer if he is:

- (A) the spouse or minor child of that Director, Supervisor, general manager or other senior management officer;
- (B) a person acting in the capacity of trustee of a Director, Supervisor, general manager, other senior management officer or any person referred to in (A) above;
- (C) a person who is a partner of a Director, Supervisor, general manager, other senior management officer or any person referred to in (A) or (B) above;
- (D) a company in which a Director, Supervisor, general manager or other senior management officer, alone or jointly with one or more persons referred to in (A), (B) and (C) above or other Director, Supervisor, general manager or other senior management officer, has de facto control; or

- (E) a director, supervisor, general manager or other senior management officer of a company referred to in (D) above.

The fiduciary duties of a Director, Supervisor, general manager or other senior management officer under the Articles do not necessarily cease with the termination of his term of office.

Their duty of confidence in relation to trade secrets of the Company survives the termination of their term of office. Other duties may continue for such period as fairness may require depending on the time lapse between such termination and the act concerned and the circumstances and the terms under which the relationship with the Company was terminated.

Subject to the provisions with regard to the duties of controlling shareholders defined in paragraph (r) below towards other Shareholders as set out in the Articles, a Director, Supervisor, general manager or other senior management officer may be relieved of liability for specific breaches of his duty by the informed consent of Shareholders in general meeting.

**(b) Alterations to constitutional documents**

The Company may amend the Articles in accordance with the following procedures:

- (i) the Board needs to prepared the draft of amendment to the Articles in accordance with the Articles;
- (ii) Shareholders shall be informed of the draft of amendments and a meeting of Shareholders shall be convened to vote on the amendments;
- (iii) the amendments shall require the sanction by a special resolution of Shareholders in general meeting; and
- (iv) any amendments to the Articles involving the contents of the Mandatory Provisions shall be effective only after being approved by the relevant departments of the State Council and CSRC. With respect to matters involving registration, any change of registration shall be effected according to law.

**(c) Variation of rights of existing Shares or classes of Shares**

Rights conferred on any class of Shareholders in the capacity of Shareholders (“class rights”) may not be varied or abrogated unless approved by way of special resolution of Shareholders in general meeting and by holders of shares of that class at a separate meeting conducted in accordance with the Articles. The following circumstances shall be deemed to be a variation or abrogation of the class rights of a class:

- (i) the increase or decrease in the number of Shares of such class, or an increase or decrease in the number of Shares of a class having voting or distribution rights or other privileges equal or superior to the Shares of such class;

- (ii) the exchange of all or part of the Shares of such class or the exchange or the grant of a right of exchange of all or part of the Shares of another class into the Shares of such class;
- (iii) the removal or reduction of rights to accrued dividends or rights to cumulative dividends attached such class;
- (iv) the reduction or removal of any preference to dividends or any preference to a distribution of assets upon the Company's liquidation;
- (v) the addition, removal or reduction of the right of such class in relation to conversion into shares, option, voting power, transfer or pre-emptive rights to acquire securities of the Company;
- (vi) the removal or reduction of rights of such class to receive payment in particular currencies from the Company;
- (vii) the creation of a new class of Shares having voting or distribution rights or other privileges equal or superior to the Shares of such class;
- (viii) the imposition of restrictions on the transfer or ownership of the Shares of such class or the addition of such restrictions;
- (ix) the allotment and issue of rights to subscribe for, or convert into, shares in the Company of such class or another class;
- (x) the increase of the rights or privileges of another class;
- (xi) the reorganisation of the Company which will result in different classes of shareholders bearing disproportionate burdens in such proposed reorganisation; and
- (xii) the variation or abrogation of provision in this part of the Articles.

**(d) Ordinary and special resolutions – majority required**

Resolutions of general meetings of Shareholders shall be divided into ordinary resolutions and special resolutions.

An ordinary resolution shall be passed by more than one half of the voting rights carried by the Shareholders (including proxies) present at the meeting in favour of the resolution. A special resolution shall be passed by more than two thirds of the votes represented by the Shareholders (including proxies) present at the general meeting exercised in favour of the resolution.

**(e) Voting rights (generally, on a poll and right to demand a poll)**

Holders of Domestic Shares and H Shares present at a general meeting have one vote of voting rights for each Share they hold.

At any meeting of Shareholders a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

- (i) by the chairman of the meeting;
- (ii) by at least two Shareholders having the right to vote either present in person or by proxy; or
- (iii) by one or more Shareholders present in person or by proxy and representing one-tenth or more of all Shares carrying the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman as to the passing of the resolution based on the results of a show of hands and an entry to that effect in the minutes of the Company shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

The demand for a poll may be withdrawn by the person who made the demand. A poll demanded on the election of the chairman of the meeting, or on adjournment, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any business other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.

On a poll taken at a meeting, a Shareholder entitled to two or more votes need not cast all his votes in the same way.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which whether the show of hands takes place or at which the poll is demanded shall be entitled to one extra vote.

**(f) Requirements for general meetings**

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meetings shall be convened by the Board. Annual general meetings are held once every year within six months after the last financial year end.

Under any of the following circumstances, the Board shall convene an extraordinary general meeting within two months of the occurrence of the following events:

- (i) when the number of Directors falls below the number required by the Company Law or two thirds of the number required by the Articles of Association;

- (ii) when the losses of the Company which have not been made good amount to one third of the total paid up share capital of the Company;
- (iii) upon written requisition of the Shareholder(s) holding individually or collectively 10% or more of the Company's issued and outstanding shares carrying voting rights for the convening of an extraordinary general meeting;
- (iv) when the Board deems necessary or the supervisory committee of the Company proposes to convene the same; or
- (v) when two (or more) independent non-executive Directors propose to convene the same.

**(g) Accounts and audit**

The Company shall formulate its own financial and accounting system in accordance with the relevant requirements of PRC laws, administrative regulations and the PRC accounting standards formulated by the department in charge of finance under the State Council.

The Board of the Company shall place before the shareholders at every annual general meeting such financial reports as are required by any laws, administrative regulations or directives promulgated by competent local government and the authority-in-charge to be prepared by the Company.

The financial reports of the Company shall be deposited at the Company for inspection by its Shareholders not later than 20 days before the annual general meeting.

Each shareholder of the Company shall be entitled to receive a copy of the financial statements referred to in the Articles. The Company shall send by prepaid mail 21 days before the annual general meeting the above reports to each holder of overseas listed foreign shares. The service address shall be the address in the register of shareholders of the Company.

The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards, or those of the place where the Company's H Shares are listed. If there is any material difference between the financial statements prepared in accordance with the respective sets of accounting standards, such difference shall be stated in the notes to the financial statements. When the Company is to distribute its after-tax profits, the lower of the after-tax profits as shown in the two financial statements shall be adopted.

Any interim results or financial information published or disclosed by the Company shall be prepared in accordance with international accounting standards or those of the place where the Company's H Shares are listed, and with the PRC accounting standards and regulations.

The Company shall publish its financial reports twice every financial year; interim reports shall be published within 60 days after the end of the first six months of each financial year and annual reports shall be published within 120 days after the end of the financial year.

The appointment, dismissal or termination of the office of the auditors shall be determined at Shareholders' general meetings and reported to the relevant State Council securities regulatory authorities for record.

Shareholders in general meeting may by ordinary resolution remove the Company's auditors before their term of office expires, irrespective of any provisions contained in the contract entered into between the Company and the auditors. Any right of the auditors to claim against the Company in connection with their removal shall not be affected by such removal.

In the event of the dismissal or termination of the services of the auditors, such auditors who are to be dismissed or whose services are to be terminated shall be given notice in advance. Such auditors shall have the right to present their views at the following Shareholders' general meetings:

- (i) the Shareholders' general meeting at which their term of office would otherwise have expired;
- (ii) any Shareholders' general meeting at which it is proposed to fill the casual vacancy caused by their removal; or
- (iii) any Shareholders' general meeting convened on their resignation.

**(h) Notice of meetings and business to be conducted thereat**

The Shareholders' general meeting is the organ of authority of the Company and shall exercise its functions according to law.

Notice of meetings of Shareholders shall be given 45 days before the meeting. A notice of meeting of Shareholders shall:

- (i) be in writing;
- (ii) specify the place, the date and the time of the meeting;
- (iii) state the general nature of the business to be transacted at the meeting;
- (iv) provide such information and explanation as are necessary for the Shareholders to exercise an informed judgment on the proposals before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate the Company with another, to repurchase shares of the Company, to reorganise the share capital, or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the cause and effect of such proposal must be properly explained;



- (v) contain a disclosure of the nature and extent, if any, of material interests of any Director, Supervisor, general manager or other senior management officer in the transaction to be discussed and the effect of the transaction to be discussed on such Director, Supervisor, general manager or other senior management officer in his capacity as shareholder in so far as it is different from the effect on the interests of other shareholders of the same class;
- (vi) contain the full text of any special resolution proposed to be moved at the meeting;
- (vii) contain conspicuously a statement that a Shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not also be a Shareholder; and
- (viii) specify the time and place for lodging proxy forms for the relevant meeting. In respect of holders of H Shares, notice of general meetings of Shareholders shall be served on each Shareholder, whether or not entitled to vote thereat, by hand or prepaid mail to the address of any such Shareholder as appearing on the register of holders of H Shares.

In respect of holders of Domestic Shares, notice of general meetings of shareholders can be published on any one day within the period of 45 to 50 days prior to the meeting in one or more publications specified by the State Council securities regulatory authority. Once published, all holders of Domestic Shares shall be deemed to have received the notice of the relevant general meeting.

The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate that meeting or any resolutions passed thereat.

The following matters shall be resolved by an ordinary resolution at a Shareholders' general meeting:

- (i) work reports of the Board and the supervisory committee;
- (ii) plans formulated by the Board for the distribution of profits and for making up losses;
- (iii) appointment and removal of the members of the Board and Supervisors of the supervisory committee who are not the representatives of staff, their remuneration and method of payment;
- (iv) annual preliminary and final budgets, balance sheets and income statements and other financial statements of the Company; and
- (v) matters other than those required by the laws and administrative regulations or by the Articles of Association to be adopted by special resolution.

The following matters shall be resolved by a special resolution at a Shareholders' general meeting:

- (i) the increase or decrease of share capital of the Company and the Company's issue of Shares of any class, warrants and other similar securities;
- (ii) the issue of debentures of the Company;
- (iii) the division, merger, dissolution and or alteration to the form of the Company;
- (iv) amendments to the Articles of Association;
- (v) where any material assets of the Company have been disposed of, or a guarantee has been provided in the period of a year, the amount purchased or of which, exceeds 30% of the value of the Company's total assets as shown in the latest audited balance sheet; and
- (vi) any other matters considered by the Shareholders' general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on the Company and should be adopted by a special resolution.

**(i) Transfer of shares**

All fully paid H Shares listed in Hong Kong are freely transferable pursuant to the Articles.

The Board may refuse to recognise any instrument of transfer without giving any reason unless such transfer is carried out in compliance with the following conditions:

- (i) payment of HK\$2.50 or maximum fee (whichever is lower) as agreed by the Stock Exchange has been made to the Company for the purpose of registering the instrument of transfer and other documents relating to or which may affect the title to the Shares;
- (ii) the instrument of transfer only involves the H Shares listed in Hong Kong;
- (iii) the stamp duty payable on the instrument of transfer has been paid;
- (iv) relevant share certificate and evidence that the transferor has the right to transfer such Shares as reasonably required by the Board have been provided;
- (v) if the Shares are to be transferred to joint holders, the number of joint holders shall not exceed 4; and
- (vi) the Company has no lien over the relevant Shares.

The overseas listed foreign shares of the Company shall be transferred by way of such standard transfer forms as prescribed by the Stock Exchange from time to time.

**(j) Register of shareholders**

The Company shall keep a register of Shareholders and enter therein the following particulars:

- (i) the name, address, occupation (or description of nature) of Shareholders, the class and the number of each class of Shares held, the amount paid or payable on the Shares and, the serial number of the share certificates held by each Shareholder;
- (ii) the date on which each person acquired the Shares;
- (iii) the date on which each person was entered in the register as a Shareholder; and
- (iv) the date on which any person ceased to be a Shareholder.

The Company shall have a complete register of Shareholders which shall be comprised of the following parts:

- (i) a part maintained at the Company's legal address in relation to Shares not required to be registered in the parts of the register referred to in (ii) and (iii) below;
- (ii) a part maintained in the place where the stock exchange on which the Company's overseas listed securities are listed is located; and
- (iii) any part in such other places as the Board may deem necessary for listing purposes.

The Company may appoint overseas agents to manage the register of Shareholders outside the PRC. A duplicate of parts of the register of Shareholders maintained pursuant to (ii) and (iii) above shall be maintained at the Company's legal address. The appointed overseas agents shall ensure that the original of any overseas part of the register of Shareholders is consistent with the duplicate thereof. In the event of discrepancy, the information recorded in the original part shall prevail. Different parts of the register of Shareholders shall not overlap. No transfer of any Shares registered in any part of the register shall, during the continuance of that registration, be registered in any other part of the register of Shareholders. The alteration and rectification of each part of the register of Shareholders shall be made in accordance with the laws of its situs. The register of Shareholders shall be conclusive evidence, in the absence of evidence to the contrary, of a shareholding in the Company.

**(k) Power of the Company to purchase its own shares and reduce its share capital**

Subject to governmental approvals, the Company may, subject to the provisions set out in the Articles, repurchase its own shares. A share repurchase may only be made (under one of the following situations):

- (i) under an offer to all Shareholders in proportion to their respective holdings;
- (ii) on a stock exchange by way of public transaction; or

- (iii) by an off-market contract.

The Company may, with the prior sanction of Shareholders obtained in accordance with the Articles, repurchase its shares by an off-market contract, but the Company may release or modify its rights under a contract so entered into by the Company with the prior approval of Shareholders obtained in the same manner. A contract to repurchase shares includes but is not limited to an agreement to become obliged to repurchase or to acquire rights to repurchase shares of the Company. The Company shall not assign its rights under a contract to repurchase its own shares.

Unless the Company has commenced liquidation:

- (i) where the Company repurchases its own shares at nominal value, payment may be made out of the book balance of the distributable profits of the Company and/or out of the proceeds of a fresh issue of shares made for that purpose;
- (ii) where the Company repurchases its own shares at a premium, payment of the portion equivalent to the nominal value may be made out of the book balance of the distributable profits of the Company and/or out of the proceeds of a fresh issue of Shares made for that purpose. Payment of the portion in excess of the nominal value shall be effected as follows:
  - (A) if the Shares being repurchased were issued at nominal value, payment shall be made out of the book balance of the distributable profits of the Company;
  - (B) if the Shares being repurchased were issued at a premium, payment shall be made out of the book balance of the distributable profits of the Company and/or out of proceeds of a fresh issue of Shares made for that purpose, provided that the amount paid out of the proceeds of the fresh issue may not exceed (1) the aggregate of premiums received by the Company on the issue of the Shares repurchased, or (2) the amount of the Company's Share premium account (or capital reserve fund account) at the time of such repurchase including the premiums on the fresh issue of Shares;

Payment by the Company in consideration for the following purposes shall be made out of the Company's distributable profits:

- (A) the acquisition of the right to repurchase shares of the Company;
- (B) the variation of any contract to repurchase shares of the Company; or
- (C) the release of any of the Company's obligations under any contract to repurchase shares of the Company.

Shares repurchased by the Company shall be cancelled or transferred and the amount of the Company's registered capital shall be reduced by the par value of those shares accordingly. The amount which has been deducted from the distributable profits and which has been used for repurchasing the nominal value of the Shares shall be credited to the share premium account (or capital reserve fund account).

Upon the reduction of registered capital, the Company shall prepare a balance sheet and a list of its assets. The Company shall notify its creditors within 10 days from the date of passing of the resolution for the reduction of registered capital and shall publish the notice in a newspaper within 30 days thereof.

Creditors who receive this notice shall have the right within 30 days from the date of receiving the notice, and the creditors who have not received the notice shall have the right within 45 days from the date of the notice was first published in the newspaper, to require the Company to settle the debt or to provide the corresponding guarantee in respect of the debt.

The registered capital shall not be less than the minimum statutory requirement after the reduction of capital.

**(l) Power for any subsidiary of the Company to own shares in the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

**(m) Dividends and other methods of distribution**

Unless otherwise resolved at a Shareholders' general meeting, the Board as authorised by Shareholders in general meeting has the authority to distribute interim or special dividend.

The Company may distribute dividends by way of cash dividends and/or bonus shares. Cash dividends and other distributions payable on Domestic Shares shall be paid in Renminbi. Cash dividends and other distributions payable in respect of H Shares shall be declared in Renminbi and payable in Hong Kong dollars in accordance with relevant provisions of foreign exchange control of the PRC.

When distributing dividends, the Company shall make such withholdings for income tax from dividends payable to Shareholders as may be required in accordance with PRC tax law.

The Company shall appoint a receiving agent to receive on behalf of holders of H Shares dividends declared and all other monies owing by the Company in respect of H Shares. Such receiving agent shall be registered as a trust company under the Trustee Ordinance of Hong Kong.

**(n) Proxies**

Any Shareholder entitled to attend and vote at a shareholders' meeting of the Company shall be entitled to appoint one or more persons (whether a Shareholder or not) as his proxies to attend and vote instead of him, and a proxy so appointed shall:

- (i) have the same rights as the Shareholder to speak at the meeting;
- (ii) have authority to demand or join in demanding a poll; and
- (iii) have the right to vote on a show of hands or on a poll, but a proxy of a Shareholder who has appointed more than one proxy may only vote on a poll.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is a company either under seal or under the hand of a director or attorney duly authorised, or if the appointor is a recognized clearing house, the instrument shall be under its legal person seal or under the hand of its directors or other staff internally granted the relevant authority or under the hand of a person or attorney duly authorized. The instrument appointing a proxy and, if such instrument is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, shall be deposited at the legal address of the Company or at such other place specified in the notice convening the meeting, not less than 24 hours before the time for holding the relevant meeting on 24 hours before conducting the designated voting at which the proxy proposes to vote or the time appointed for the taking of the poll.

Any form issued to a Shareholder by the Board for use by him for appointing a proxy to attend and vote at a meeting of the Company shall be such as to enable the Shareholder, according to his intention, to instruct the proxy to vote in favour of or against respectively each resolution to be voted on and dealing with the business to be transacted at the meeting. Such a form shall contain a statement that, in the absence of such instructions, the proxy may vote as he thinks fit. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that no notice in writing of such death, loss of capacity, revocation or transfer as aforesaid shall have been received by the Company before the commencement of the relevant meeting at which the proxy is used.

**(o) Calls on Shares and forfeiture of Shares**

There are no provisions in the Articles relating to making of call on or forfeiture of Shares.

**(p) Inspection of register of Shareholders and Shareholders' other rights**

The ordinary shareholders of the Company shall enjoy the following rights:

- (I) to receive dividends and other distributions in proportion to the number of Shares held;
- (II) to attend or appoint a proxy to attend on his behalf Shareholders' general meetings and to exercise voting right thereat;
- (III) to supervise the business operations and activities of the Company and to give advice or raise questions;
- (IV) to transfer his Shares according to laws, administrative regulations and the provisions of the Articles;

- (V) to obtain the following information in accordance with the Articles:
- (i) the right to obtain a copy of the Articles after payment of a fee representing the Company's costs;
  - (ii) the right to inspect and obtain copy after payment of reasonable charges:
    - (A) all parts of the register of Shareholders;
    - (B) particulars of each of the Directors, Supervisors, general manager and other senior management officers as follows:
      - (1) his present name and any former name or alias;
      - (2) his principal residential address;
      - (3) his nationality;
      - (4) his primary and all other business occupations; and
      - (5) his identification document and its number;
    - (C) the status of the Company's share capital;
    - (D) reports showing the aggregate number and par value of each class of the Shares repurchased by the Company since the end of the last financial year, total face value, the aggregate amount paid by the Company in connection with such repurchase and the maximum and minimum prices paid; and
    - (E) (1) minutes of shareholders' meetings and (2) special resolution(s) of shareholders' meeting;
    - (F) resolutions of meeting of the Board;
    - (G) resolutions of the supervisory committee;
    - (H) reports on finance and accounting (including the related directors' report, auditors' report and the supervisory committees' report);
    - (I) counterfoil of the company bonds;
    - (J) copy of the latest annual return filed with the administration for industry and commerce or other authorities of the People's Republic of China.
- (VI) to participate, in the event of the termination or liquidation of the Company, in the distribution of surplus assets of the Company in proportion to the number of Shares held;
- (VII) other rights conferred by the Articles and the relevant laws and regulations.

**(q) Quorum for Shareholders' meetings and class meetings**

A shareholder proposing to attend a Shareholder's general meeting shall deposit a written reply confirming his attendance 20 days prior to the holding of the meeting. The Company shall, according to the written replies received 20 days prior to the holding of a Shareholders' general meeting, calculate the number of Shares carrying the right to vote represented by the Shareholders proposing to attend the meeting. If the number of Shares carrying the right to vote represented by the Shareholders proposing to attend the meeting reaches more than half of the total number of shares of the Company carrying the right to vote, then the Company may hold the Shareholders' general meeting; if that number is not reached, the Company shall within five days notify the Shareholders again of the matters proposed to be considered at the meeting, the date and the place of the meeting by way of public announcement. After such public announcement, the Company may hold the Shareholder's general meeting.

The above procedure applies mutatis mutandis to Shareholders of the relevant class of Shares in respect of class meetings.

**(r) Rights of minority Shareholders in relation to fraud or oppression**

In addition to obligations imposed by laws, administrative regulations or required by the stock exchange(s) on which the Shares are listed, a controlling shareholder (defined below) shall not exercise his voting rights in a manner prejudicial to the interests of all or some of the Shareholders of the Company in respect of the following matters:

- (i) in relieving a Director or Supervisor of his duty to act honestly in the best interests of the Company;
- (ii) permitting a Director or Supervisor (for his own benefit or for the benefit of another person) to deprive the Company's assets in whatever manner, including without limitation, opportunities beneficial to the Company; or
- (iii) permitting a Director or Supervisor (for his own benefit or for the benefit of another person) to deprive the individual rights or interest of other Shareholders, including without limitation, rights to distributions and voting rights save and except pursuant to a reorganisation of the Company submitted to the Shareholders for approval in accordance with the Articles.

For these purposes, a "controlling shareholder" means a person who satisfies any one of the following conditions:

- (i) the Shares he holds exceed 50% or more of the total capital of the Company;
- (ii) the proportions of the Shares he holds is lower than 50%, yet the votes represented by the Shares he holds have been enough to greatly affect the resolutions of a general meeting;
- (iii) he alone or acting in concert with others has the power to elect more than half of the Directors;



- (iv) he alone or acting in concert with others has the power to exercise or to control the exercise of 30% or more of the voting rights in the Company;
- (v) he alone or acting in concert with others holds 30% or more of the issued Shares;  
or
- (vi) he alone or acting in concert with others in any other manner is in de facto control of the Company.

**(s) Shareholders' rights relating to, and procedures on, liquidation**

Shareholders have the right to participate in the distribution of the surplus assets of the Company in proportion to the number of Shares held by them in the event of a liquidation of the Company.

The Company shall be dissolved and liquidated upon the occurrence of any of the following events:

- (i) when the business period stipulated by the Articles expires or other reasons stipulated by the Articles for dissolution appear;
- (ii) where the Shareholders' general meeting resolves that the Company should be dissolved;
- (iii) where dissolution is necessary as a result of the merger or division of the Company;
- (iv) where the business license is revoked according to laws or where the Company is ordered to be closed down or quashed;
- (v) when the Company is ordered to be closed down by the people's court for reason of its violation of Article 183 in the Company Law.

Where the Board decides to liquidate the Company otherwise than because of a declaration of insolvency, the Board shall, in the notice convening the general meeting of Shareholders for this purpose, include a statement to the effect that, after having made full inquiry into the affairs of the Company, the Board is of the opinion that the Company will be able to pay its debts in full within 12 months from the commencement of the liquidation.

In the event the Company shall be dissolved under the provisions of (i), (ii), (iv) & (v) above, it shall within 15 days thereof set up a liquidation team, the members of which shall be Directors or persons determined by an ordinary resolution passed in the general meeting. If a liquidation team is not set up within the said period, a creditor can petition to the People's Court for the constitution of such liquidation term and implement the liquidation.

In the event the Company shall be declared bankruptcy it shall proceed with the liquidation in accordance with the relevant law on bankruptcy.

Upon the passing of the relevant resolution to liquidate the Company, all powers of the Board shall cease.

The liquidation team shall follow the directions of the general meeting:

- (i) at least once each year report to the general meeting on the team's revenue and expenses, the business of the Company and the progress of liquidation; and
- (ii) present a final report to the shareholders' general meeting on completion of the liquidation.

**(t) Other provisions material to the Company or its shareholders**

*(i) Scope of Business*

The major scope of the Company's operations include, among other things, sale of foodstuff, pre-shaped packaged food products (including chilled dairy products), individually packaged food products, cooked food products, raw meat, dried and fresh fruits, vegetables, non-staple foodstuff, health food products, beverages, wine, cereal and oil products, fodder, general merchandise, knitted and weaved goods, hardware and electronic and chemical products, mobile telephone handsets, medical equipment (categories I), cars, artifacts, flowers and plants, magnetic cards, clothes, jewellery, stationery, sporting goods and equipment, miscellaneous daily products, labour work related products, furniture, clocks and watches, spectacles, pets products, communication equipment, electronic products, planned fertility products, cosmetic products; repair of communication equipment; retail of over-the-counter drugs (category B), food, PRC published books, periodicals, newspapers and electronic publications, audio-visual articles, golden ornaments, photocopying and catering services (operated by branches and sub-branches); cigarettes; cigars, fireworks, fire crackers; import and export business; import and export of technology business; import and export agency; commercial facilities leasing; laundry services; enlargement and printing of colour film; warehousing services; commodity delivery; development of technology, transfer of technology, technological consultation, technological services; e-commerce; seamstress services; commercial equipment manufacture; processing of foodstuffs and non-staple foodstuffs; photographic services; repairs of articles for daily use; jewellery processing to be produced at the premises: noodle products, decorated cakes, staple food, fast food, snacks; sale of monthly tickets as agent; lock repair, key duplication. The following shall be operated by branches: property management, vehicle parking facilities; processed bean curd, soya milk, soya products; property development. (The scope of business approved by the administration for industry and commerce and regulatory department shall prevail.)

*(ii) Effect of the Articles*

The Articles were approved by the Company at the annual general meeting held on 18 May 2007 and become effective upon filing with the administration for industry and commerce and regulatory department. Relevant provisions of the Articles regarding withdrawal of listing on GEM and listing on the Main Board by way of introduction

were amended and approved by the Company at the extraordinary general meeting held on 20 March 2007 and become effective upon approval by the relevant governmental departments (if required) from the time of withdrawal of the listing of the Company on GEM and the commencement of its listing on the Main Board and shall be filed with the PRC companies registration authority. From the date when the Articles take effect, the Articles constitute a legally binding document regulating the relationship between the Company and each Shareholder and among the Shareholders. A Shareholder may bring an action against the Company and vice versa and against each other or against the Directors, Supervisors, general manager or other senior management officers in respect of rights and obligations concerning the affairs of the Company arising out of the Articles. For these purposes, actions include court proceedings and arbitration proceedings.

*(iii) Legal form of the Company*

- (A) The Company is a joint stock limited company. It is an independent legal entity, governed and protected by laws, regulations and other governmental provisions of the PRC.

The Company has perpetual existence unless and until terminated and liquidated in accordance with the Articles.

A company may invest in other enterprises. However, unless otherwise required by the laws, it shall not become the contribution party which accepts joint and several liabilities of the obligations of the invested enterprise.

- (B) Shares and transfers

Upon approval by the State Council securities regulatory authority, the Company may issue shares to domestic investors and foreign investors.

For the purpose of the foregoing paragraph, “foreign investors” refer to investors outside the PRC and investors from Hong Kong, Macau and Taiwan who subscribe for the shares issued by the Company; and “domestic investors” refer to investors within the PRC other than investors from the territories referred to above who subscribe for the shares issued by the Company. Foreign shares are subscribed by foreign investors (including investors from the regions of Hong Kong, Macau and Taiwan) in foreign currencies or otherwise permitted under PRC laws. Domestic shares are subscribed for in Renminbi by investors within the PRC other than investors from the territories referred to above.

Foreign shares listed overseas are known as overseas listed foreign shares (including, but not limited to H shares). H Shares are foreign shares listed on the Stock Exchange, which are subscribed for in Hong Kong dollars.

Subject to the approval by the securities regulatory authorities of the State Council, holders of Domestic Shares may transfer their Domestic Shares to overseas investors, and such shares may be listed and traded overseas; the listing and trading of such shares on an overseas stock exchange shall comply with the regulations of the overseas securities market, and the listing and trading of such shares on an overseas stock exchange are not subject to the approval of class meeting of the Shareholders. Save as otherwise provided in the Articles, holders of Domestic Shares and holders of foreign shares shall enjoy the same rights and assume the same obligations. The rights and obligations in respect of the Company enjoyed and assumed by Shareholders shall be limited to the extent of the number of Shares held by them. The Company shall be liable to its creditors to the extent of all of its assets.

The total amount of Shares to be issued by the Company under the Articles as currently constituted shall be not less than 366,620,000 shares and shall not exceed 384,620,000 shares including (i) 246,620,000 promoter shares already in issue at the time of establishment of the Company; and (ii) not less than 132,000,000 overseas listed foreign shares and not more than 151,800,000 overseas listed foreign shares.

The Company may, based on its business development requirements and in accordance with the Articles, increase its total registered capital. The increase in registered capital may be effected by the following methods:

- (1) by an issue of new Shares to unspecified investors;
- (2) by a placing of new Shares to the existing Shareholders;
- (3) by a bonus issue of Shares to the existing Shareholders; and
- (4) by any other method authorised by law and/or administrative regulations of the PRC.

Any increase in the capital of the Company shall be effected in accordance with the Articles and the procedures required by laws and administrative regulations of PRC.

*(iv) Legal notices*

Notices for Shareholders' meetings to be given by the Company to holders of H Shares must be served on holders of H Shares by hand to, or by post addressed to each holder of H Shares at, the address shown in the register of Shareholders. Notices for Shareholders' meetings to be given by the Company to holders of Domestic Shares may also be published in or one or more publications specified by PRC securities regulatory authority; once published, all holders of Domestic Shares shall be deemed to have received such notice.

(v) *Shareholders' obligations*

Ordinary Shareholders of the Company shall assume the following obligations:

- (A) to abide by the Articles;
- (B) to pay subscription monies according to the number of Shares subscribed and the method of subscription; and
- (C) other obligations imposed by the Articles and relevant laws and administrative regulations.

(vi) *Secretary of the Board*

The Company shall have one secretary of the Board. The secretary of the Board is a senior management officer of the Company.

The secretary shall be a natural person having the requisite professional knowledge and experience and appointed by the Board.

The secretary shall be mainly responsible for ensuring that the constitutional documents and records of the Company are in order, that the necessary reports and documents are prepared and submitted to relevant PRC authorities in accordance with law, that the register of Shareholders of the Company is properly maintained and that persons entitled to have access to records and documents of the Company are furnished with such records and documents without delay.

(vii) *Supervisory committee*

The Company shall have a supervisory committee. The supervisory committee is the Company's standing internal supervisory organ. The supervisory committee shall comprise of six members, each a Supervisor.

Four members of the supervisory committee shall be the representatives of Shareholders and the remaining two Supervisors shall be the representative of the staff of the Company. The representatives of the Shareholders shall be elected and removed by the Shareholders' general meeting; the representatives of the staff shall be elected and removed through democratic election by the staff of the Company. External Supervisors (being Supervisors who are not working in the Company) shall comprise more than half of the members of the supervisory committee, and there shall be two independent Supervisors (being Supervisors who are independent of the Shareholders and are not working in the Company).

The supervisory committee is accountable and reports to Shareholders in general meeting and shall exercise the following powers:

- (1) to examine the Company's financial affairs;
- (2) to supervise the Directors, general manager and other senior management officers to see whether they violate any laws, administrative regulations, the Articles or the resolutions of the Shareholder's general meeting in performing their duties and make a proposal to dismiss those from office whose behavior is in breach of the foresaid documents;
- (3) to require the Directors, general manager and other senior management officers to rectify their acts which are harmful to the Company;
- (4) to verify the financial reports, business reports and profit distribution plans proposed to be tabled at a Shareholders' general meeting and to appoint, in the name of the Company, a registered accountant to assist in reviewing them should any queries arise;
- (5) to propose to convene extraordinary general meetings of Shareholders and to convene and preside the general meeting of Shareholders when the Board does not perform its duty stipulated by the Company Law and the Articles on convening and presiding the general meeting of Shareholders;
- (6) to propose a resolution to the general meeting of Shareholders;
- (7) to represent the Company in negotiating with any Director or in initiating legal proceeding against any Director, general manager and other senior management officers;
- (8) to present its views to the accounting firm of the Company, and where necessary, separately appoint another accounting firm in the name of the Company to audit the accounts of the Company, and may directly report to the securities supervisory and regulatory body of the State Council and to other relevant departments; and
- (9) other powers as stipulated in the Articles.

Supervisors are entitled to attend and observe Board meetings. The chairman of the supervisory committee may be elected or removed with a two-third majority or more of the Supervisors. Each Supervisor shall not exceed 3 years. A supervisor may serve consecutive terms if re-elected. Resolutions of the supervisory committee shall be passed by a two-third majority or more of the Supervisors.

*(viii) Dispute resolution*

Whenever any disputes or claims arise in relation to the Articles, the Company Law or any rights or obligations conferred by any laws or administrative regulations concerning the affairs of the Company between the parties set out below, such disputes or claims shall, unless otherwise provided in the Articles, be referred to arbitration to either the CIETAC in accordance with its rules or to HKIAC in accordance with its securities arbitration rules, at the election of the claimant. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration shall be final and conclusive.

The above provisions apply to disputes or claims between the following parties:

- (A) a holder of overseas listed foreign shares and the Company;
- (B) a holder of overseas listed foreign shares and a Director, Supervisor, general manager or other senior management officer of the Company; and
- (C) a holder of overseas listed foreign shares and a holder of Domestic Shares.

Where a dispute or claim involves the above parties, the entire claim or dispute must be referred to arbitration and all persons (being Shareholders, Directors, Supervisors, general manager or other senior management officers of the Company or the Company), who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall submit to arbitration.

Unless otherwise provided in laws and administrative regulations, any of the above disputes or claims between the above mentioned parties shall be resolved in accordance with the laws of the PRC.

**4. PRC LEGAL MATTERS**

Jun Ze Jun Law Offices, the Company's legal advisers on PRC law, has sent to the Company a letter confirming that they have reviewed the summary of relevant laws and regulations contained in this Appendix and that in their opinion, the summary is a correct summary of the relevant PRC laws and regulations and the Articles of Association. A copy of this letter is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI in this document.

Any person wishing to have detailed advice on PRC law is recommended to seek independent legal advice.

**(1) FURTHER INFORMATION ABOUT OUR COMPANY****(A) Establishment of the Company**

- (I) The Company was established as a joint stock limited company in the PRC under the Company Law on 1 November 2004.
- (II) The Company is registered as an overseas company under Part XI of the Hong Kong Companies Ordinance and has a place of business in Hong Kong at 20th Floor, Alexandra House, 16-20 Chater Road, Hong Kong. The Company has appointed Richards Butler as the Company's process agent for the acceptance of service of process and notices in Hong Kong.

As the Company is established in the PRC, its corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant laws and regulations of the PRC is set out in Appendix IV to this document and a summary of the Articles of Association is also set out in Appendix IV to this document.

**(B) Changes in share capital of the Company**

- (I) When the Company was previously established as a limited company with the issuance of its business licence dated 20 May 2002 under the name of 北京京客隆超市連鎖有限公司 (Beijing Jingkelong Supermarket Chain Company Limited), the Company had a capital of RMB236,660,000;
- (II) for the purpose of converting the Company (being in the form of a limited company under the name of 北京京客隆超市連鎖集團有限公司 (Beijing Jingkelong Supermarket Chain Group Company Limited)) into a joint stock company, the then net asset value of the Company of RMB246,620,000 (as determined by 安永華明會計事務所 (Ernst & Young Hua Ming, the PRC auditors of the Company) by deducting the amount of the declared dividend of RMB29,135,259 from the net asset value as at 31 December 2003 of RMB275,755,259) was converted into 246,620,000 shares of RMB1.00 each in the capital of the Company; and
- (III) immediately upon the completion of the share offer as set out in the Prospectus (including the H Shares issued on exercise of the over-allotment option referred to therein), the issued share capital of the Company was increased to RMB384,620,000, divided into 232,820,000 Domestic Shares and 151,800,000 H Shares, fully paid or credited as fully paid, representing approximately 60.53% and approximately 39.47% of the issued share capital of the Company, respectively.

Save as disclosed above, there has been no change in the share capital of the Company within the two years preceding the date of this document.



**(C) Changes in share capital of our subsidiaries**

The subsidiaries of the Company are set out in the Accountants' Report set out in Appendix I to this document. The following were the only alterations in the share or registered capital of these subsidiaries which have taken place within the two years immediately preceding the date of this document.

On 1 August 2005, the equity holders of Chaopi Trading resolved, at a meeting of its equity holders, to increase the registered capital of Chaopi Trading from RMB80,000,000 to RMB96,000,000, and Chaopi Trading received cash contribution from the Company in the sum of RMB17,206,400 (of which RMB16,000,000 was paid and recorded as capital and RMB1,206,400 was paid and recorded as reserves), and as a result thereof, the Company held approximately 76.42% of Chaopi Trading's equity.

On 23 April 2007, the equity holders of Chaopi Trading resolved at a meeting of its equity holders to (i) increase the registered capital of Chaopi Trading from RMB96,000,000 to RMB192,000,000 and the said equity holders were offered to subscribe for the increase in registered capital pro-rata to their holdings of equity in Chaopi Trading, and (ii) declare a dividend of RMB28,800,000. The said dividend of RMB28,800,000 was re-invested by the equity holders as registered capital, and the balance of the increase in registered capital was contributed by the said equity holders by way of cash payments. Accordingly, the Company has contributed RMB51,352,700 to Chaopi Trading by way of cash payments as further registered capital to maintain its approximately 76.42% interest in Chaopi Trading. Furthermore, Shanxi Trust has also contributed RMB6,665,400 as further registered capital to Chaopi Trading to maintain its approximately 9.92% interest in Chaopi Trading. Accordingly, the registered capital of Chaopi Trading was increased to RMB192,000,000, while the proportionate equity interest of the Company and Shanxi Trust in Chaopi Trading remained unchanged respectively.

On 24 April 2007, the equity holders of Chaopi Huaqing resolved at a meeting of its equity holders to (i) increase the registered capital of Chaopi Huaqing from RMB9,000,000 to RMB18,000,000 and the said equity holders were offered to subscribe for the increase in registered capital pro-rata to their holdings of equity in Chaopi Huaqing, and (ii) declare a dividend of RMB2,700,000. The said dividend of RMB2,700,000 was re-invested by the equity holders as registered capital, and the balance of the increase in registered capital was contributed by the said equity holders by way of cash payments. Accordingly, Chaopi Trading has contributed RMB3,507,000 to Chaopi Huaqing by way of cash payments as further registered capital to maintain its holdings of equity in Chaopi Huaqing and acquired a further interest of approximately 1.21% in Chaopi Huaqing, and as a result thereof, Chaopi Trading held approximately 53.43% of Chaopi Huaqing's equity.

On 27 April 2007, the equity holders of Chaopi Flavourings resolved at a meeting of its equity holders to (i) increase the registered capital of Chaopi Flavourings from RMB9,500,000 to RMB23,750,000; and (ii) declare a dividend of RMB10,450,000. The said dividend of RMB10,450,000 was re-invested by the equity holders as registered capital, and the balance of the increase in registered capital was paid out by the reserve in the sum of RMB3,800,000 of Chaopi Flavourings. Accordingly, Chaopi Trading maintained its approximately 52.63% interest in Chaopi Flavourings.

On 23 April 2007, Chaopi Trading acquired 25.00%, 12.50% and 3.50% equity interests in Chaopi Qingdao from 王春林 (Wang Chunlin), 劉東 (Liu Dong) and 王曉娟 (Wang Xiaojuan) respectively and thereby increasing its equity interest in Chaopi Qingdao to 100.00%. On the same date, Chaopi Trading, being the sole equity holder of Chaopi Qingdao, resolved to increase the registered capital of Chaopi Qingdao from RMB2,000,000 to RMB5,000,000 of which Chaopi Qingdao received cash contribution from Chaopi Trading in the sum of RMB3,000,000.

On 23 April 2007, Chaopi Trading acquired 25.00%, 12.50% and 3.50% equity interests in Chaopi Shijiazhuang from 王春林 (Wang Chunlin), 段雲洪 (Duan Yunhong) and 王曉娟 (Wang Xiaojuan) respectively and thereby increasing its equity interest in Chaopi Shijiazhuang to 100.00%. On the same date, Chaopi Trading, being the sole equity holder of Chaopi Shijiazhuang, resolved to increase the registered capital of Chaopi Shijiazhuang from RMB2,000,000 to RMB5,000,000 of which Chaopi Shijiazhuang received cash contribution from Chaopi Trading in the sum of RMB3,000,000.

On 27 April 2007, the equity holders of Chaopi Jinglong resolved at a meeting of its equity holders to (i) increase the registered capital of Chaopi Jinglong from RMB12,000,000 to RMB18,000,000 and the said equity holders were offered to subscribe for the increase in registered capital pro-rata to their holdings of equity in Chaopi Jinglong, and (ii) declare a dividend of RMB3,600,000. The said dividend of RMB3,600,000 was re-invested by the equity holders as registered capital, and the balance of the increase in registered capital was contributed by the said equity holders by way of cash payments. Accordingly, Chaopi Trading has contributed RMB1,301,496 to Chaopi Jinglong by way of cash payment as further registered capital to maintain its approximately 54.23% interest in Chaopi Jinglong.

On 27 April 2007, the equity holders of Chaopi Shuanglong resolved at a meeting of its equity holders to (i) increase the registered capital of Chaopi Shuanglong from RMB12,000,000 to RMB24,000,000, and (ii) declare a dividend of RMB12,000,000. The said dividend of RMB12,000,000 was re-invested by the equity holders as registered capital. Accordingly, Chaopi Trading maintained its 59% interest in Chaopi Shuanglong.

Save as aforesaid, there has been no other alteration in the share or registered capital of the subsidiaries of the Company within the two years immediately preceding the date of this document.

#### **(D) Resolutions passed at certain Shareholders' meetings**

On 20 March 2007, a meeting of the shareholders of the Company and class meetings of the H Shares and Domestic Shares were held at the Company's registered office, during which, among others, the following matters concerning the Main Board Listing were conditionally approved:

- (I) the Proposed Withdrawal and the Main Board Migration; and
- (II) certain amendments to the Articles relating to the Introduction.

At the 2006 AGM, among other things, a special resolution was passed to grant the Board a general mandate to issue domestic shares and/or H shares of the Company, the details of which are as follows:

- (I) the Board has been granted, during the Relevant Period (as defined below), an unconditional general mandate to separately or concurrently allot, issue and deal with additional domestic shares and/or H shares of the Company, and to make or grant offers, agreements and/or options in respect thereof, subject to the following conditions:
- (a) such mandate shall not extend beyond the Relevant Period save that the Board may during the Relevant Period make or grant offers, agreements and/or options which may require the exercise of such powers after the end of the Relevant Period; and
  - (b) the aggregate nominal amount of the domestic shares or H shares of the Company allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the Board (otherwise than pursuant to any scrip dividend scheme (or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend), any share option scheme, a Rights Issue (as defined below), or any separate approval of the shareholders of the Company) shall not exceed 20% of the aggregate nominal amount of the domestic shares and H shares, respectively, of the Company in issue as at the date of the 2006 AGM;
  - (c) the Board will only exercise its power under such mandate in accordance with the Company Law and the GEM Listing Rules and/or the Main Board Listing Rules (as amended from time to time) and only if all necessary approvals from the CSRC and/or other relevant PRC authorities are obtained;

“Relevant Period” means the period from the passing of the special resolution until the earliest of: (i) the conclusion of the next annual general meeting of the Company following the passing of the special resolution unless, by special resolution passed at that meeting, the mandate is renewed, either unconditionally or subject to conditions; or (ii) the expiration of the period within which the next annual general meeting is required by the Articles or any applicable law to be held; or (iii) the date on which the authority sets out in the special resolution is revoked or varied by a special resolution of the shareholders of the Company in a general meeting; and

“Rights Issue” means the allotment or issue of shares in the Company or other securities which would or might require shares in the Company to be allotted and issued pursuant to an offer made to all the shareholders of the Company (excluding, as the Board may decide, for such purpose any shareholder who is resident in a place where such offer is not permitted under the law or regulation of that place) entitled to such offer, pro rata (apart from fractional entitlements) to their then existing holdings of shares in the Company;

- (II) contingent on the Board resolving to exercise the general mandate and/or issue shares in the Company pursuant to paragraph (I) above, the Board has been authorized: (1) to approve, execute and do and/or procure to be executed and done, all such documents, deeds and matters as it may consider necessary in connection with the exercise the general mandate and/or issue of such shares, including without limitation, determining the time, price and quantity of and the place for such issue, making all necessary applications to the relevant authorities, entering into underwriting agreement(s) or any other agreement(s); (2) to determine the use of proceeds and making all necessary filings and registrations with the relevant PRC, Hong Kong and/or any other places and jurisdictions (as appropriate); (3) to increase the registered capital of the Company and make all necessary amendments to the Articles to reflect such increase and to register the increased capital with the relevant authorities in the PRC, Hong Kong and/or any other places and jurisdictions (as appropriate) as so to reflect the new capital and/or share capital structure of the Company.

**(E) Certain brief history of the predecessor of the Company**

- (I) On 12 May 1994, upon the approval and the issuance of the business licence by 北京市朝陽區工商行政管理局 (Administration for Industry and Commerce of Chaoyang District, Beijing) (“Chaoyang Industry and Commerce Bureau”), the Company was established in the PRC under the name of 北京關東店商廈 (Beijing Guan Dong Dian Shang Sha) as a state-owned enterprise. At the time, the Company’s registered capital was RMB2,000,000.
- (II) On 6 February 1996, upon the approval and the issuance of business licence by Chaoyang Industry and Commerce Bureau, the name of the Company was changed to 京客隆商廈 (Beijing Jingkelong Shang Sha).
- (III) On 4 June 1997, upon the approval and the issuance of business licence by Chaoyang Industry and Commerce Bureau, the registered capital of the Company was changed to RMB22,190,000.

**(F) Chaoyang Auxillary State Owned Assets Restructuring**

The Chaoyang Auxillary State Owned Assets Restructuring (of which the Reorganisation forms part) was carried out to segregate the operating/performing assets from the non-operating/non-performing assets, and rationalise the various business units and holding structure of Chaoyang Auxillary, certain brief details of which are as follows:

- (I) On 28 April 2002, 北京金朝陽商貿國有資本運營公司 (Beijing Jin Chaoyang State-owned Capital Trading Company) issued an approval, whereby it approved, among other things:
- (a) the reorganisation of the Company into a limited liability company under the name of 北京京客隆超市連鎖有限公司 (Beijing Jingkelong Supermarket Chain Company Limited); and

- (b) the establishment of the Company as aforesaid through the injection by Chaoyang Auxillary of 京客隆商廈 (Beijing Jingkelong Shang Sha) and cash, together with the conversion of 北京市朝陽肉禽水產批發部 (Beijing City Chaoyang Poultry and Seafood Wholesale Department)、北京市生命綠洲健康服務中心 (Beijing City Life Health Service Centre)、北京市朝陽肉禽蔬菜公司 (Beijing City Chaoyang Poultry and Vegetables Company), 北京市朝陽藥品器材經營公司 (Beijing City Chaoyang Medical Equipment Operating Company)、北京市朝陽區文化用品批發公司 (Beijing City Chaoyang District Cultural Commodities Wholesale Company)、北京市朝陽副食品批發總公司 (Beijing City Chaoyang Food Wholesale Company)、北京月盛元飯莊 (Beijing Yue Sheng Yuan Restaurant)、北京市朝陽東方招待所 (Beijing City Chaoyang Eastern Service Centre)、北京市騰遠汽車維修中心 (Beijing City Teng Yuan Vehicle Repair Centre)、北京市朝陽區商業設備公司 (Beijing City Chaoyang District Business Equipment Company)、北京市朝陽東方加油站 (Beijing City Chaoyang Eastern Petrol Station) and 北京市朝陽區騰遠出租汽車公司 (Beijing City Chaoyang District Teng Yuan Car Rental Company).
- (II) On 20 May 2002, upon the issuance of the business licence by 北京市工商行政管理局 (Beijing Administration for Industry and Commerce), the Company was reorganised into a limited liability company, and the name of the Company was changed to 北京京客隆超市連鎖有限公司 (Beijing Jingkelong Supermarket Chain Limited Company). The registered capital of the Company was changed to RMB236,660,000.
- 王淑英 (Wang Shu Ying), 劉躍進 (Liu Yue Jin), 李慎林 (Li Shen Lin), 東海霞 (Dong Hai Xia), 孫麗英 (Sun Li Ying), 賀志勇 (He Zhi Yong), 王愛蓮 (Wang Ai Lian), 馬秀榮 (Ma Xiu Rong), 錢貝貝 (Qian Bei Bei), 李春燕 (Li Chun Yan), 謝冰 (Xie Bing), 盧寬明 (Lu Kuan Ming) (the “Nominees”) were then holding an aggregate of 10.8% of the then registered capital of the Company, amounting to RMB25,560,000, for themselves and for a total of other 110 natural persons, being the employees of the Company at the relevant time who had made capital contributions to the Company (together the “Beneficiaries”).
- (III) On 31 May 2002, 北京市朝陽副食品批發總公司 (Beijing City Chaoyang Food Wholesale Company) was converted into Chaopi Trading, a limited liability company.
- (IV) On 31 May 2002, 北京市朝陽區商業設備公司 (Beijing City Chaoyang District Business Equipment Company) was converted into Xinyang Tongli, a limited liability company.
- (V) On 31 May 2002, 北京市朝陽區騰遠出租汽車公司 (Beijing City Chaoyang District Teng Yuan Car Rental Company) was converted into Tengyuan, a limited liability company. Concurrently, 北京月盛元飯莊 (Beijing Yue Sheng Yuan Restaurant), 北京市朝陽東方招待所 (Beijing City Chaoyang Eastern Service Centre), 北京市騰遠汽車維修中心 (Beijing City Teng Yuan Vehicle Repair Centre) and 北京市朝陽東方加油站 (Beijing City Chaoyang Eastern Petrol Station) were injected into Tengyuan. Tengyuan was subsequently disposed on 22 June 2004, and the Company ceased to have any interest therein with effect from 23 June 2004.

- (VI) On 8 November 2002, 北京市朝陽藥品器材經營公司 (Beijing City Chaoyang Medical Equipment Operating Company)、北京市朝陽區文化用品批發公司 (Beijing City Chaoyang District Cultural Commodities Wholesale Company) were reorganised into Yiyuantang, in which the Company held 70.13% of the equity interest. Subsequently, on 8 July 2003, the Company transferred 35.065% of the equity interest in Yiyuantang to 北京國際信托投資有限公司 (Beijing International Trust Investment Company Limited), and the remaining 35.065% equity interest was transferred to Chaoyang Auxillary on 23 June 2004.
- (VII) On 6 December 2002, 北京市工商行政管理局 (Beijing Administration for Industry and Commerce) issued a business licence, whereupon the name of the Company was changed to 北京京客隆超市連鎖集團有限公司 (Beijing Jingkelong Supermarket Chain Group Limited Company).

## (2) THE REORGANISATION

- (I) On 12 June 2004, the Company entered into an equity interest transfer agreement with each of Chaopi Huaqing and Chaopi Flavourings. Under these agreements, the Company agreed to acquire the approximately 1.25% interest and approximately 0.79% interest in Chaopi Trading then held by Chaopi Huaqing and Chaopi Flavourings, respectively.
- (II) (a) On 16 June 2004, each of the 122 Beneficiaries (as appointor and beneficiary) as referred to in paragraph (F) (II) in section (1) above in this Appendix entered into a trust agreement with Shanxi Trust (as supplemented by a supplemental agreement dated 22 July 2005), whereby each of the Beneficiaries (as appointor) shall transfer a specified sum of money to Shanxi Trust, which shall then, as trustee, hold such monies on trust and apply these trust funds to acquire interests in the Company, and Shanxi Trust shall, as the trustee for each of the Beneficiaries, manage and deal with the trust properties (including the shareholdings in the Company acquired with the said trust monies). Please refer to the section headed “(3) Trust arrangements regarding interests in the Company and Chaopi Trading” below for more details.
- (b) On 16 June 2004, the Nominees (as referred to in paragraph (F) (II) in section (1) above in this Appendix) (as the transferors) and Shanxi Trust (as the transferee) entered into a registered capital transfer agreement, whereby the equity interest held by each of the Nominees for and on behalf of the Beneficiaries in the Company, amounting to RMB25,560,000, shall be transferred to Shanxi Trust at an aggregate consideration of RMB25,560,000 and Shanxi Trust paid RMB25,560,000 (being the trust monies it received from the Beneficiaries) to the Nominees.
- (c) On 22 July 2005, Shanxi Trust entered into an agreement supplementary to the respective trust agreements with each of the appointors to further clarify the objectives, term, and application and management of the trust property under the trusts.



- (III) On 21 June 2004, the Company entered into an equity interest transfer agreement with Chaoyang Auxillary, whereby Chaoyang Auxillary agreed to acquire the approximate 62.73% interest held by the Company in Tengyuan.
- (IV) On 21 June 2004, the Company entered into an equity interest transfer agreement with Chaopi Trading, whereby Chaopi Trading agreed to acquire the 10% interest held by the Company in Chaopi Shuanglong.
- (V) On 23 June 2004, the Company entered into an equity interest transfer agreement with Chaoyang Auxillary, whereby Chaoyang Auxillary agreed to acquire the approximate 35.07% interest held by the Company in Yiyuantang.
- (VI) On 12 August 2004, the Promoters entered into the promoters' agreement, pursuant to which, the Promoters agreed, among other things, to reorganise the Company into a joint stock limited company and to stipulate the capital contributions made by the Promoters towards the Company.
- (VII) On 1 November 2004, upon the approval of 北京市工商行政管理局 (Beijing Administration for Industry and Commerce), the Company was reorganised into a joint stock limited company, and the name of the Company was changed to 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Limited Company). The registered capital of the Company was changed to RMB246,620,000 divided into 246,620,000 Domestic Shares.
- (VIII) On 22 November 2004, the equity holders of Chaopi Flavourings resolved, at a meeting of its equity holders, to increase the registered capital of Chaopi Flavourings from RMB8,000,000 to RMB9,500,000, and Chaopi Flavourings received cash contributions from (i) Chaopi Trading (which was then already an equity holder of Chaopi Flavourings) in the sum of RMB1,075,000 (of which RMB500,000 was paid and recorded as capital and RMB575,000 was paid and recorded as reserves), and (ii) 李俊偉 (Li Junwei, being a then existing equity holder of Chaopi Flavourings) in the sum of RMB2,150,000 (of which RMB1,000,000 was paid and recorded as capital and RMB1,150,000 was paid and recorded as reserves), and as a result thereof, Chaopi Trading held approximately 52.63% of Chaopi Flavourings's equity.
- (IX) On 18 February 2005, a shareholders' meeting of the Company was held, at which, among other matters, the following matters were approved:
- (a) the allotment and issue of not exceeding 120,000,000 H Shares and upon the exercise of the Over-allotment Option not exceeding 138,000,000 H Shares (including the additional 18,000,000 H Shares which may be issued upon the exercise of the Over-allotment Option) by way of the Share Offer;
  - (b) the listing of the H Shares on GEM;
  - (c) the granting of the Over-allotment Option and the corresponding increase of the Company's registered capital in the amount equal to the aggregate number of H Shares issued under the Share Offer; and

- (d) the adoption by the Company of the Articles of Association and the authorisation of the Chairman of the Board to amend the Articles of Association in accordance with any requirement from the relevant governmental authorities in the PRC and the Stock Exchange.
- (X) On 9 July 2005, the SASAC issued 《關於北京京客隆商業集團股份有限公司國有股劃轉有關問題的批覆》 (approval of the allocation of State-owned shares), pursuant to which up to 13,800,000 State-owned Domestic Shares held by Chaoyang Auxillary were allocated to the NSSF Council, and the NSSF Council was directed to instruct the Company to offer the same for sale under the Share Offer.
- (XI) On 25 July 2005, Chaopi Trading acquired an approximately 7.33% equity interests in Chaopi Shuanglong from Shenzhen Yunzhongyuan Trading Company Limited and thereby increasing its equity interest in Chaopi Shuanglong to approximately 59.0%.
- (XII) On 1 August 2005, the equity holders of Chaopi Trading resolved, at a meeting of its equity holders, to increase the registered capital of Chaopi Trading from RMB80,000,000 to RMB96,000,000, and Chaopi Trading received cash contribution from the Company in the sum of RMB17,206,400 (of which RMB16,000,000 was paid and recorded as capital and RMB1,206,400 was paid and recorded as reserves), and as a result thereof, the Company held approximately 76.42% of Chaopi Trading's equity.
- (XIII) On 22 August 2005, the NSSF Council issued 《關於委托出售全國社保基金理事會所持北京京客隆商業集團股份有限公司國有股的函》 (a document authorising the Company to dispose of State-owned Domestic Shares on behalf of the NSSF Council under the Share Offer).
- (XIV) On 12 January 2006, 北京市朝陽肉禽水產批發部 (Beijing City Chaoyang Poultry and Seafood Wholesale Department), 北京市生命綠洲健康服務中心 (Beijing City Life Health Service Centre) and 北京市朝陽肉禽蔬菜公司 (Beijing City Chaoyang Poultry and Vegetables Company) were dissolved.
- (XV) On 23 March 2006, the CSRC issued 《關於同意北京京客隆商業集團股份有限公司發行境外上市外資股的批覆》 (an approval document approving the Share Offer and the listing of the H Shares on the Stock Exchange).

**(3) TRUST ARRANGEMENTS REGARDING INTERESTS IN THE COMPANY AND CHAOPi TRADING**

- (I) An aggregate of 10.8% (prior to the Share Offer) equity interest in the Company is held by Shanxi Trust as trustee for the benefit of a total of 122 Beneficiaries (as defined in paragraph (F) (II) in section (1) of this Appendix). In this relation, on 16 June 2004, each of the 122 Beneficiaries entered into a trust agreement (and each entered into a supplementary agreement dated 22 July 2005) with Shanxi Trust whereby:
- (1) Shanxi Trust shall as trustee and in its name hold such equity interest (being 25,560,000 Domestic Shares);



- (2) as a Shareholder, Shanxi Trust shall be entitled to the right of supervising the operation and management of the Company as well as the right to receive information and make enquiry;
  - (3) Shanxi Trust shall attend, or nominate proxy to attend, Shareholders' meetings and to exercise the right to propose and vote on resolutions, provided that with respect to certain specific matters including the nomination and election of Directors or Supervisors, profits distribution or amendment to Articles, Shanxi Trust shall exercise its voting power to propose and vote on any resolution as the meeting of the Beneficiaries shall in writing direct; and
  - (4) a Beneficiary shall only transfer his indirect interest in the Company by way of assigning his interest under his trust agreement with Shanxi Trust to another person who may be a core employee (as defined in the relevant trust agreement) of the Company as a meeting of the Beneficiaries may nominate or another Beneficiary.
- (II) An aggregate of 11.9% interest in Chaopi Trading is also held by Shanxi Trust (as trustee) on trust for a total of 119 beneficiaries. In this relation, on 21 June 2004, each of these beneficiaries entered into a trust agreement with Shanxi Trust setting out the terms and conditions of such trust arrangements, which are substantially similar to those of the trust agreements in relation to the Company as set out in paragraph (I) above.

On 1 August 2005, Shanxi Trust entered into an agreement supplementary to the respective trust agreements with each of the beneficiaries to further clarify the objectives, term, and application and management of the trust property under the trusts, and reduce the number of beneficiaries thereunder to 115 as certain of the original 119 beneficiaries had, since the establishment of the trusts, deceased or ceased to be an employee/officer of Chaopi Trading. On the same day, the registered capital of Chaopi Trading was increased to RMB96,000,000 and the interest of Shanxi Trust in Chaopi Trading was reduced from 11.9% to 9.919% accordingly.

On 30 March 2007, 7 beneficiaries assigned their interest under their trust agreements with Shanxi Trust to another 4 employees of Chaopi Trading nominated by the meeting of the Beneficiaries respectively, thus the number of beneficiaries thereunder to 112.

On 23 April 2007, at the meeting of the beneficiaries of Shanxi Trust, it was resolved that (i) the trust capital under the Shanxi Trust would be increased by RMB6,665,400, which amount would be used to pay for Shanxi Trust's pro-rata share of Chaopi Trading's increase of registered capital, and (ii) the amount of RMB2,856,600, being the dividend receivable by Shanxi Trust from Chaopi Trading for the year 2006, would be re-invested to Chaopi Trading as registered capital. On the same day, Shanxi Trust entered into an agreement supplemental to the respective trust agreements with each of the beneficiaries pursuant to which (a) the trust capital would be increased by RMB6,665,400, and (b) the said additional RMB6,665,400 trust capital would be injected as further registered capital contribution of Chaopi Trading. On 23 April 2007, the registered capital of Chaopi Trading was increased to RMB192,000,000, while the proportionate equity interest of Shanxi Trust in Chaopi Trading remained unchanged.

- (III) The Company's PRC legal advisers have confirmed that the establishment and operation of an trust fund under the trust agreement between the Company and Shanxi Trust ("Trust Agreement") and the investment in the Company by Shanxi Trust (collectively the "Trust Arrangements") are in compliance with the relevant provisions of the "Trust Law of People's Republic of China", "Law of Supervision and Administration on Banking Industry of People's Republic of China", "Company Law of People's Republic of China", "Rules of Administration on Company Registration of People's Republic of China", "Rules of Administration on Trust Investment Company", "Temporary Rules of Administration on Capital Trust in Trust Investment Company" and "People's Bank of China's Notice on Issues Concerning Capital Trust Practice in Trust Investment Company". The Company's PRC legal advisers have further confirmed that the Trust Arrangements were completed in June 2004, thus 《中國銀行業監督管理委員會關於信托投資公司集合資金信托業務信息披露有關問題的通知》(China Banking Regulatory Commission's Notice on Issues Concerning Disclosure of Collective Money Trust Business Operated by Trust and Investment Companies), which became effective on 8 December 2004, is not applicable in respect thereof.

In accordance with article 10 of the "Trust Law of People's Republic of China", in respect of any trust for which registration of trust properties is required, a trust shall only be become legally valid upon registration of its trust assets in accordance with the relevant PRC laws and regulations. However, there are no PRC laws or regulations requiring such registration in relation to trust assets under the trust fund under the Trust Agreement. Therefore, the Company's PRC legal advisers have confirmed that the trust fund under the Trust Agreement is valid without the above-mentioned registration.

The Company's PRC legal advisers have also confirmed that there are presently no prohibitive provisions in the PRC laws, regulations and rules in relation to the meetings of trustors and its working committee. These meetings of trustors and its working committee shall operate in accordance with the "Rules of Procedure for the Meetings of Trustors" (including but not limited to opening and notice of the meeting, calling for and attending the meeting, the agenda and schedule of the meeting, voting of the meeting, decision and record of the meeting, execution of decision of the meeting, etc.), which are in compliance with the relevant provisions of "General Principles of the Civil Law of the People's Republic of China" and "Contract Law".

**(4) FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP****(A) Summary of material contracts**






















The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Company or its subsidiaries within the two years preceding the date of this document and are or may be material:-

- (i) an agreement dated 25 July 2005 between Chaopi Trading and 深圳市雲中園貿易有限公司 (Shenzhen Yunzhongyuan Trading Company Limited) in relation to the purchase by Chaopi Trading of an approximate 7.33% equity interest in Chaopi Shuanglong from 深圳市雲中園貿易有限公司 (Shenzhen Yunzhongyuan Trading Company Limited) for a consideration of RMB880,000;
- (ii) a non-competition agreement dated 25 July 2005 entered into between Chaoyang Auxillary and the Company in which Chaoyang Auxillary has given certain non-competition undertakings to the Company;
- (iii) a loan agreement dated 26 October 2005 between the Company and Bank of Communications in relation to a loan facility being offered by Bank of Communications to the Company with a maximum loan amount of RMB170 million;
- (iv) a mortgage deed dated 26 October 2005, supplemental to the loan agreement being referred to in paragraph (iii) above, between the Company and Bank of Communications in relation to two landed properties owned by the Company being pledged as security in the loan facility;
- (v) a deed of indemnity dated 1 March 2006, together with a supplemental agreement dated 10 August 2006, given by Chaoyang Auxillary in favour of the Company against any cost and penalties that the Group may suffer due to the non-compliance with the relevant PRC Laws as disclosed in the paragraphs headed “Risks associated with leased property interest of Chaopi Trading and the Company”, “Certain loans to the Company” and “The use of Jingkelong cards and the membership reward cards” in the “Risk Factors” section of this document;
- (vi) a loan agreement dated 6 March 2006 between the Company and Bank of Beijing in relation to a loan of RMB100 million being offered by Bank of Beijing to the Company;
- (vii) a mortgage deed dated 6 March 2006, supplemental to the loan agreement being referred in paragraph (vi) above, between the Company and Bank of Beijing in relation to a landed property owned by the Company being pledged as security in the loan;
- (viii) an underwriting agreement dated 11 September 2006 and entered into between, amongst other, the Company, Chaoyang Auxillary and the underwriters named therein relating to the offer of the H Shares referred to in the Prospectus;

- (ix) the co-operation agreement dated 8 February 2007 and entered into between the Company and 盛世原華房地產有限公司 in relation to the arrangement to jointly develop the land located at Xiguan Huandao East, Changping District, Beijing, the PRC.
- (x) the capital increase agreement dated 10 February 2007 and entered into between the Company and Shou Lian in relation to the issue by Shou Lian of RMB50 million new equity capital to the Company;
- (xi) the co-operation agreement dated 10 February 2007 and entered into between Xi You, Shou Lian and the Company in relation to, inter alia, the operation of Shou Lian's network on terms of the Group's franchise arrangements under the Group's "京客隆" brandname, and the grant by Xi You to the Company of a right of first refusal and a purchase right exercisable by the Company in respect of Xi You's equity interests in Shou Lian;
- (xii) an equity interest and distribution business transfer agreement dated 18 April 2007 between Chaopi Trading, 北京中得高雅經貿有限公司 (Beijing Zhongde Gaoya Jingmao Company Limited) and Chaopi Zhongde in relation to the sale by Chaopi Trading of a 20% interest in Chaopi Zhongde to Beijing Zhongde Gaoya Jingmao Company Limited for an consideration of RMB5,600,000 and the transfer by Beijing Zhongde Gaoya Jingmao Company Limited of its distribution business to Chaopi Zhongde;
- (xiii) an equity interest transfer agreement dated 23 April 2007 between Chaopi Trading and 王春林 (Wang Chunlin), 劉東 (Liu Dong) and 王曉娟 (Wang Xiaojuan) in relation to the acquisition by Chaopi Trading of an aggregate of 41% interest in Chaopi Qingdao from 王春林 (Wang Chunlin), 劉東 (Liu Dong) and 王曉娟 (Wang Xiaojuan) for an aggregate consideration of RMB810,000;
- (xiv) an equity interest transfer agreement dated 23 April 2007 between Chaopi Trading and 王春林 (Wang Chunlin), 段雲洪 (Duan Yunhong) and 王曉娟 (Wang Xiaojuan) in relation to the acquisition by Chaopi Trading of an aggregate of 41% interest in Chaopi Shijiazhuang from 王春林 (Wang Chunlin), 段雲洪 (Duan Yunhong) and 王曉娟 (Wang Xiaojuan) for an aggregate consideration of RMB820,000.





**(B) Intellectual property rights of the Group***Trademarks*

As at the Latest Practicable Date, the Group had registered the following trademarks in the PRC:–



<b>Trademark</b>	<b>Place of registration</b>	<b>Class</b>	<b>Registration number</b>	<b>Date of registration</b>
	The PRC	3	1565701	07/05/2001
	The PRC	5	1700845	21/01/2002
	The PRC	7	1585779	14/06/2001
	The PRC	8	1589970	21/06/2001
	The PRC	9	1586370	14/06/2001
	The PRC	10	1601509	14/07/2001
	The PRC	11	1594007	28/06/2001
	The PRC	16	1592666	28/06/2001
	The PRC	18	1568769	14/05/2001
	The PRC	20	1568907	14/05/2001
	The PRC	21	1565004	07/05/2001
	The PRC	24	1556963	21/04/2001
	The PRC	25	1557629	21/04/2001
	The PRC	28	1561109	28/04/2001
	The PRC	29	1587152	14/06/2001
	The PRC	30	1590914	21/06/2001
	The PRC	31	1586624	14/06/2001
	The PRC	32	1595386	28/06/2001
	The PRC	33	1591520	21/06/2001
	The PRC	34	1590654	21/06/2001
	The PRC	35	1587869	14/06/2001

Trademark	Place of registration	Class	Registration number	Date of registration
 京客隆	The PRC	37	955896	28/02/1997
 京客隆	The PRC	39	995744	28/04/1997
 京客隆	The PRC	40	1659660	28/10/2001
 京客隆	The PRC	42	1591601	21/06/2001
 朝批	The PRC	31	2014858	14/10/2002
 朝批	The PRC	16	1995994	14/01/2003
 朝批	The PRC	28	1998746	07/02/2003
 朝批	The PRC	24	2002907	21/12/2002
 朝批	The PRC	5	1976652	28/11/2002
 朝批	The PRC	27	1995739	14/12/2002
	The PRC	25	2000719	28/01/2003
	The PRC	30	1990761	14/01/2003
 朝批	The PRC	29	1999150	28/10/2002
	The PRC	35	3212778	14/01/2004
	The PRC	39	3212774	21/10/2003
	The PRC	35	3212773	07/01/2004
	The PRC	39	3212775	21/10/2003
朝批 Chao Pi	The PRC	35	3212776	14/01/2004
朝批 Chao Pi	The PRC	39	3212777	21/10/2003

As at the Latest Practicable Date, the Group had obtained approval for the transfer of the registrations of the following trademarks to the Group:–

Trademark	Place of application	Class	Registration number	Date of approval
	The PRC	30	1502064	21/10/2005
	The PRC	30	1485951	21/10/2005
	The PRC	30	1510259	21/10/2005
	The PRC	30	691126	21/10/2005

As at the Latest Practicable Date, the Group had registered the following trademarks in Hong Kong:–

Trademark	Place of application	Name of applicant	Class	Trade Mark number	Date of registered
	Hong Kong	The Company	3, 5, 7, 8 9, 10, 11, 14 16, 18, 20, 21 24, 25, 26, 27 28, 29, 30, 31 32, 33, 34, 35 37, 39, 40, 42, 43	300484858	26/8/2005
	Hong Kong	The Company	35, 39	300482139	23/8/2005

The following is a brief description of the classes referred to above:–

- Class 3 Bleaching preparations and other substances for laundry use; cleaning, polishing, scouring and abrasive preparations; soaps; perfumery, essential oils, cosmetics, hair lotions; dentifrices.
- Class 5 Pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic substances adapted for medical use, food for babies; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.
- Class 7 Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs.
- Class 8 Hand tools and implements (hand operated); cutlery; side arms; razors.

- Class 9 Scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signalling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; automatic vending machines and mechanisms for coin operated apparatus; cash registers; calculating machines, data processing equipment and computers; fire-extinguishing apparatus.
- Class 10 Surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopaedic articles; suture materials.
- Class 11 Apparatus for lighting, heating, steam generating, cooking, refrigerating, drying, ventilating, water supply and sanitary purposes.
- Class 14 Precious metals and their alloys and goods in precious metals or coated therewith, not included in other classes; jewellery, precious stones; horological and chronometric instruments.
- Class 16 Paper, cardboard and goods made from these materials, not included in other classes; printed matter; book binding material; photographs; stationery; adhesives for stationery or household purposes; artists' materials; paint brushes; typewriters and office requisites (except furniture); instructional and teaching material (except apparatus); plastic materials for packaging (not included in other classes); printers' type; printing blocks.
- Class 18 Leather and imitations of leather, and goods made of these materials and not included in other classes; animal skins, hides; trunks and travelling bags; umbrellas, parasols and walking sticks; whips, harness and saddlery.
- Class 20 Furniture, mirrors, picture frames; goods (not included in other classes) of wood, cork, reed, cane, wicker, horn, bone, ivory, whalebone, shell, amber, mother-of-pearl, meerschaum and substitutes for all these materials, or of plastics.
- Class 21 Household or kitchen utensils and containers (not of precious metal or coated therewith); combs and sponges; brushes (except paint brushes); brush-making materials; articles for cleaning purposes; steel wool; un-worked or semi-worked glass (except glass used in building); glassware, porcelain and earthenware not included in other classes.
- Class 24 Textiles and textile goods, not included in other classes; bed and table covers.
- Class 25 Clothing, footwear, headgear.



- Class 26 Lace and embroidery, ribbons and braid; buttons, hooks and eyes, pins and needles; artificial flowers.
- Class 27 Carpets, rugs, mats and matting, linoleum and other materials for covering existing floors; wall hangings (non-textile).
- Class 28 Games and playthings; gymnastic and sporting articles not included in other classes; decorations for Christmas trees.
- Class 29 Meat, fish, poultry and game; meat extracts; preserved, dried and cooked fruits and vegetables; jellies, jams, fruit sauces; eggs, milk and milk products; edible oils and fats.
- Class 30 Coffee, tea, cocoa, sugar, rice, tapioca, sago, artificial coffee; flour and preparations made from cereals, bread, pastry and confectionery, ices; honey, treacle; yeast, baking-powder; salt, mustard; vinegar, sauces (condiments); spices; ice.
- Class 31 Agricultural, horticultural and forestry products and grains not included in other classes; live animals; fresh fruits and vegetables, seeds, natural plants and flowers; foodstuffs for animals; malt.
- Class 32 Beers; mineral and aerated waters and other non-alcoholic drinks; fruit drinks and fruit juices; syrups and other preparations for making beverages.
- Class 33 Alcoholic beverages (except beers).
- Class 34 Tobacco; smokers' articles; matches.
- Class 35 Advertising; business management; business administration; office functions.
- Class 37 Building construction; repair; installation services.
- Class 39 Transport; packaging and storage of goods; travel arrangement.
- Class 40 Treatment of materials.
- Class 42 Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software; legal services.
- Class 43 Services for providing food and drink; temporary accommodation.

*Domain names*

As at the Latest Practicable Date, the Group had registered the following domain names:—

<b>Domain Name</b>	<b>Registrant</b>	<b>Date of Registration</b>
www.jkl.com.cn	The Company	15th October, 2003
www.京客隆.com	The Company	9th December, 2003
www.京客隆.net	The Company	9th December, 2003
www.京客隆集團.com	The Company	9th December, 2003
www.京客隆集團.net	The Company	9th December, 2003
www.京客隆.中國	The Company	9th December, 2003
www.京客隆集團.中國	The Company	9th December, 2003

**(5) FURTHER INFORMATION ABOUT THE DIRECTORS AND SUPERVISORS****(A) Particulars of Directors' and Supervisors' service contracts***(a) Executive Directors*

Each of the executive Directors has entered into an employment agreement with the Company pursuant to which they have agreed to act as executive Directors for a term of three years with effect from 1 November 2004.

The particulars of these agreements are in all material respects identical and are set out below:—

- (1) each of the executive Directors is entitled to a fixed basic salary, a performance based salary (subject to clawback based on the Company's gross profit for the relevant year), a discretionary bonus (based on the Company's gross profit for the relevant year) and other allowance and benefits in kind under applicable PRC law and regulations; and
- (2) the fixed annual salary (annualised on the basis of current monthly salary) of the four executive Directors is RMB1,320,000 in aggregate.

At the annual general meeting of the Company held on 18 May 2007, the engagement of the four executive Directors has each been extended for a further term of three years commencing 1 November 2007. The terms of engagement of the four executive Directors for the said further three year term are substantially the same as those outlined above, save that their fixed annual salary shall be RMB2,000,000, in aggregate.

(b) *Non-executive Directors and independent non-executive Directors*

Each of the non-executive Directors has entered into an appointment letter with the Company pursuant to which they have agreed to act as non-executive Directors for a term of three years with effect from 1 November 2004. The terms of the appointment letters of the non-executive Directors are identical in all material respects. They do not receive any director's fee. At the annual general meeting of the Company held on 18 May 2007, the engagement of the two non-executive Directors has each been extended for a further term of three years commencing 1 November 2007. The terms of engagement of the non-executive Directors for the said further three year term are substantially the same as those outlined above.

Each of the independent non-executive Directors has entered into an appointment agreement with the Company pursuant to which they have agreed to act as independent non-executive Directors with effect from 7 January 2005 (in the case of Fan Faming and Huang Jiangming) and from 27 July 2005 (in the case of Chung Chi Kong), in each case until 31 October 2007. The terms of the appointment agreements of the independent non-executive Directors are identical in all material respects and they are entitled to receive a fixed director's fee. The fixed annual salary (annualized on the basis of current monthly salary) of the three independent non-executive Directors is approximately RMB160,000 in aggregate. At the annual general meeting of the Company held on 18 May 2007, the engagement of the three independent non-executive Directors has each been extended for a further term of three years commencing 1 November 2007. The terms of engagement of the three independent non-executive Directors for the said further three year term are substantially the same as those outlined above.

(c) *Supervisors*

Each of the Supervisors has entered into an appointment letter or agreement with the Company pursuant to which they agreed to act as Supervisors with effect from 1 November 2004 (in the case of Chen Jie, Qu Xinhua and Yang Baoqun); from 7 January 2005 (in the case of Chen Zhong and Cheng Xianghong); and from 23 February 2006 (in the case of Wang Shuying), in each case until 31 October 2007. The terms of the appointment agreements of the Supervisors are identical in all material respects save that:

- (i) Yang Baoqun does not receive any supervisor's fee;
- (ii) each of Chen Zhong and Cheng Xianghong receives a fixed supervisor's fee; and
- (iii) each of Chen Jie, Qu Xinhua and Wang Shuying (being internal employee appointed Supervisors) receives a fixed basic salary, a performance based salary (subject to clawback based on the Company's gross profit for the relevant year), a discretionary bonus (based on the Company's gross profit for the relevant year) and other allowance and benefits in kind under the applicable PRC laws and regulations.

The fixed annual salary (annualized on the basis of current monthly salary) of Chen Zhong, Cheng Xianghong, Chen Jie, Qu Xinhua and Wang Shuying in aggregate is approximately RMB898,000.

At the annual general meeting of the Company held on 18 May 2007 and at the meeting of the staff representatives of the Company held on 18 May 2007, the engagement of the abovementioned Supervisors (except Chen Jie and Qu Xinhua) has each been extended for a further term of three years commencing 1 November 2007. The meeting of the staff representatives of the Company held on 18 May 2007 appointed Ms Wang Shuying and Ms Yao Jie as Supervisors for the term of three years commencing 1 November 2007. The terms of engagement of the said Supervisors for the said further three year term are substantially the same as those outlined above, save that the fixed annual salary of Wang Shuying and Yao Jie shall be RMB424,000 in aggregate.

*(d) Remuneration of Directors and Supervisors*

Remuneration and benefits in kind of approximately RMB1.9 million in aggregate were paid and granted by the Group to the Directors in respect of the financial year ended 31 December 2006. Remuneration and benefits in kind of approximately RMB1.2 million in aggregate were paid and granted by the Group to the Supervisors in respect of the financial year ended 31 December 2006.

Under the arrangements currently in force, the Directors will be entitled to receive remuneration and benefits in kind (if any) which, for the year ending 31 December 2007, will be approximately RMB3.1 million in aggregate (including performance based salary (if any) assuming that the relevant gross profit target can be met, but excluding discretionary bonus), and the Supervisors will be entitled to receive remuneration and benefits in kind (if any) which, for the year ending 31 December 2007 will be approximately RMB1.6 million in aggregate (including performance based salary (if any) assuming that the relevant gross profit target can be met, but excluding discretionary bonus).

Save as disclosed in this document, none of the Directors or the Supervisors has or is proposed to have a service contract with any member of the Group other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

**(B) Disclosure of interests**

*(a) Interests and short positions of the Directors and the Supervisors in the share capital of the Company and its associated corporations*

As at the Latest Practicable Date, the interests or short positions of the Directors, the Supervisors and the chief executive in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the SFO (and as if it were applicable to supervisors) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which were required to be

notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors (or would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listing Companies in the Main Board Listing Rules if the H Shares were listed on the Main Board), were as follows:–

Name of Director/ Supervisor	Name of corporation	Capacity/ Nature of interest	Total number of Domestic Shares	Approximate percentage of shareholding in the relevant class of shares in the corporation	Approximate percentage of shareholding in the entire issued capital of the corporation
Wei Tingzhan	The Company	Personal (Long position)	1,417,237	0.61%	0.37%
Li Jianwen	The Company	Personal (Long position)	1,354,712	0.58%	0.35%
Li Chunyan	The Company	Personal (Long position)	208,417	0.09%	0.05%
		Beneficiary (Long position)	187,575 (Note 1)	0.08%	0.05%
Liu Yuejin	The Company	Beneficiary (Long position)	375,151 (Note 2)	0.16%	0.10%
Gu Hanlin	The Company	Personal (Long position)	1,417,237	0.61%	0.37%
Li Shunxiang	The Company	Personal (Long position)	5,210,428	2.24%	1.35%
Yang Baoqun	The Company	Personal (Long position)	1,042,086	0.45%	0.27%
Qu Xinhua	The Company	Personal (Long position)	833,669	0.36%	0.22%
Wang Shuying	The Company	Beneficiary (Long position)	375,151 (Note 3)	0.16%	0.10%

Notes:–

- These 187,575 Domestic Shares are held by Shanxi Trust as trust property, the beneficiary of which is Li Chunyan. Please refer to the section headed “Trust arrangements regarding interests in the Company and Chaopi Trading” for more details.

2. These 375,151 Domestic Shares are held by Shanxi Trust as trust property, the beneficiary of which is Liu Yuejin. Please refer to the section headed “Trust arrangements regarding interests in the Company and Chaopi Trading” for more details.
  3. These 375,151 Domestic Shares are held by Shanxi Trust as trust property, the beneficiary of which is Wang Shuying. Please refer to the section headed “Trust arrangements regarding interests in the Company and Chaopi Trading” for more details.
- (b) *Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO*

As at the Latest Practicable Date, in addition to the interests disclosed under paragraph (a) above, so far as the Directors are aware, the following persons (other than members of the Group) had interests and/or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, and/or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:—

Name of interested party	Name of corporation	Capacity/Nature of interest	Number of shares or amount of registered capital in which the interested party has or is deemed have interests	Approximate percentage of interest in the registered capital or the same class of shares in the corporation
Chaoyang Auxillary	The Company	Beneficial owner (Long position)	170,169,808 Domestic Shares	73.09% (Note 3)
Shanxi Trust	The Company	Trustee (Long position)	26,635,710 Domestic Shares (Note 1)	11.44% (Note 4)
Shanxi Trust	Chaopi Trading	Trustee (Long position)	RMB19,044,000 (Note 2)	9.92%
Zhongde Gaoya	Chaopi Zhongde	Beneficial owner (Long position)	RMB5,600,000	20%
黃玉華 (Huang Yuhua)	Chaopi Huaqing	Beneficial owner (Long position)	RMB4,748,000	26.38%
李俊偉 (Li Junwei)	Chaopi Flavourings	Beneficial owner (Long position)	RMB7,325,000	30.84%
李俊偉 (Li Junwei)	Chaopi Jinglong	Beneficial owner (Long position)	RMB5,720,220	31.78%

Name of interested party	Name of corporation	Capacity/Nature of interest	Number of shares or amount of registered capital in which the interested party has or is deemed have interests	Approximate percentage of interest in the registered capital or the same class of shares in the corporation
王春林 (Wang Chunlin)	Chaopi Shuanglong	Beneficial owner (Long position)	RMB6,840,000	28.50%
王春林 (Wong Chunlin)	Chaopi Hui Long	Beneficial owner (Long position)	RMB1,956,000	16.30%
張西西 (Zhang Xi Xi)	Chaopi Hui Long	Beneficial owner (Long position)	RMB1,956,000	16.30%
胡靜芳 (Hu Jingfang)	Chaopi Hui Long	Beneficial owner (Long position)	RMB1,956,000	16.30%
李萬鑑 (Li Wanyi)	Xinyang Tongli	Beneficial owner (Long position)	RMB240,000	15%
廊坊華夏房地產 開發有限公司 (Langfang Huaxia Real Estate Development Company Limited)	Jingkelong Langfang	Beneficial owner (Long position)	RMB2,000,000	20%

*Notes:*

1. These 26,635,710 Domestic Shares are trust property, the beneficiaries of which are 122 employees and officers of the Company. Please refer to the section headed "Trust arrangements regarding interests in the Company and Chaopi Trading" for more details.
2. This registered capital amounting to RMB19,044,000 in Chaopi Trading is trust property, the beneficiaries of which are 115 employees and officers of Chaopi Trading. Please refer to the section headed "Trust arrangements regarding interests in the Company and Chaopi Trading" for more details.
3. These Shares amount to approximately 44.24% of the Company's total issued Shares.
4. These Shares amount to approximately 6.93% of the Company's total issued Shares.

(c) *Connected transactions and related party transactions*

Save as disclosed in this document and in Section II(41) of the Accountants' Report, the text of which is set out in Appendix I to this document, during the two years immediately preceding the date of this document, the Company has not engaged in any other material connected transactions or related party transactions.

**(C) Disclaimers**

Save as disclosed in this document, as at the Latest Practicable Date:–

- (a) the Directors were not aware of any person (not being a Director, a Supervisor or chief executive of the Company) who had an interest or a short position in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group;
- (b) none of the Directors and the Supervisors had any interest or short position in any of the Shares, underlying Shares or debentures or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was deemed to have under such provisions of the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors (or would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listing Companies in the Main Board Listing Rules if the H Shares were listed on the Main Board);
- (c) none of the Directors or the Supervisors nor any of the parties listed in the section headed "Consents of experts" of this Appendix was interested in the promotion of, or in any assets which had been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to the Company or any of the subsidiaries of the Company, or were proposed to be acquired or disposed of by or leased to the Company or any of the subsidiaries of the Company;
- (d) none of the Directors or the Supervisors nor any of the parties listed in the section headed "Consents of experts" of this Appendix was materially interested in any contract or arrangement subsisting at the date of this document which was significant in relation to the business of the Company;



- (e) none of the parties listed in the section headed “Consents of experts” of this Appendix:–
  - (i) was interested legally or beneficially in any securities of any member of the Group; or
  - (ii) had any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (f) none of the Directors, the Supervisors or their associates nor, to the knowledge of the Directors, had any Shareholder who held more than 5% of the total issued Shares as at the Latest Practicable Date had any interest in any of the five largest customers of the Group;
- (g) none of the Directors, the Supervisors or their associates nor, to the knowledge of the Directors, had any Shareholder who held more than 5% of the total issued Shares as at the Latest Practicable Date had any interest in any of the five largest suppliers of the Group; and
- (h) none of the Directors or the Supervisors had entered into or was proposing to enter into a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

**(6) OTHER INFORMATION**

**(A) Estate duty and tax**

The Directors have been advised that no material liability for estate duty under the laws of the PRC would be likely to fall upon the Company and any of its subsidiaries.

Dealings in H Shares will be subject to Hong Kong stamp duty.

Intending shareholders of the H Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the H Shares. It is emphasized that none of Sponsor, the Directors or any other parties involved in the Introduction accepts responsibility for any tax effect on, or liabilities of, holders of the H Shares resulting from their purchase, holding or disposal of or dealing in the H Shares.

**(B) Indemnities**

Chaoyang Auxillary has undertaken to indemnify the Company against any costs and penalties that the Group may suffer due to the non-compliance with the relevant PRC Laws as disclosed in the paragraphs headed “Risks associated with leased property interest of Chaopi Trading and the Company”, “Certain loans to the Company” and “The use of Jingkelong cards and the membership reward cards” in the “Risk Factors” section of this document.

**(C) Litigation**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Company, that would have a material adverse effect on the results of operations or financial condition of the Company.

**(D) Preliminary expenses**

The preliminary expenses incurred in connection with the initial establishment of the Company were approximately RMB6,710 in aggregate.

**(E) Promoters**

The Promoters in connection with the establishment of the Company were Chaoyang Auxillary, Shanxi Trust, Beijing Gaoya, Beijing Jiazeng, Tianjin Jinganghua, 李順祥 (Li Shunxiang), 楊寶群 (Yang Baoqun), 劉彥力 (Liu Yanli), 夏文盛 (Xia Wensheng), 高家強 (Gao Jiaqiang), 顧漢林 (Gu Hanlin), 衛停戰 (Wei Tingzhan), 戴京 (Dai Jing), 白憲榮 (Bai Xianrong), 陳莉敏 (Chen Limin), 趙維歷 (Zhao Weili), 李建文 (Li Jianwen), 高京生 (Gao Jinsheng), 田俊英 (Tian Junying), 屈新華 (Qu Xinhua), 李春燕 (Li Chunyan). Save as disclosed in this document and in the Prospectus, within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given to or is proposed to be paid, allotted or given to the Promoters.

**(F) Sponsor**

The Sponsor has made an application on behalf of the Company to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the H Shares. The H Shares have been admitted into CCASS.

**(G) No material adverse change**

Save as disclosed in this document, the Directors believe that there has been no material adverse change in the financial or trading position of the Company since 31 December 2006.

**(H) Miscellaneous**

(a) Save as disclosed in this document or the Prospectus:–

- (i) within the two years immediately preceding the date of this document, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

- (iii) neither the Company nor any of its subsidiaries has issued or agreed to issue any founder shares, management shares or deferred shares;
  - (iv) within the two years immediately preceding the date of this document, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of the Group;
  - (v) within the two years preceding the date of this document, no commission has been paid or payable (except commissions to underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in the Company;
  - (vi) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange (other than GEM) nor is any listing or permission to deal being or proposed to be sought; and
  - (vii) the Company had no material mortgage or charge as at the Latest Practicable Date.
- (b) The Company had no outstanding convertible debt securities as at the Latest Practicable Date.

#### (I) Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this document:-

Name	Qualification
DBS Asia	A licensed corporation under the SFO to engage in types 1, 4 and 6 of the regulated activities (as defined under the SFO)
Ernst & Young	Certified public accountants
Jun Ze Jun Law Offices	PRC lawyers
Vigers Appraisal & Consulting Limited	Property valuer

#### (J) Consents of experts

Each of the DBS Asia, Ernst & Young, Jun Ze Jun Law Offices and Vigers Appraisal & Consulting Limited has given and has not withdrawn their respective consents to the issue of this document with the inclusion of its advice and/or report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it appears.

As at the Latest Practicable Date and save as disclosed in this document, none of the experts named in the paragraph headed “Qualifications of experts” in this Appendix had any shareholding interests in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Richards Butler at 20/F, Alexandra House, 16-20 Chater Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

- (a) the Articles of Association;
- (b) the Accountants' Report prepared by Ernst & Young, the text of which is set out in Appendix I to this document;
- (c) the audited financial statements of the Group for the three financial years ended 31 December 2006;
- (d) the letters, summary of valuation and valuation certificates relating to the property interests of the Group prepared by Vigers Appraisal & Consulting Limited, the texts or extracts of which are set out in, among other parts, Appendix III to this document;
- (e) the PRC Company Law together with an unofficial English translation thereof;
- (f) the Special Regulations together with an unofficial English translation thereof;
- (g) the Mandatory Provisions together with an unofficial English translation thereof;
- (h) the material contracts referred to in the section headed "(4) Further information about the business of the Group – (A) Summary of material contracts" in Appendix V to this document;
- (i) the service contracts and appointment letters referred to in the paragraph headed "(5) Further information about the Directors and our Supervisors – (A) Particulars of Directors' and Supervisors' service contracts" in Appendix V to this document;
- (j) the written consents referred to in the paragraph headed "(6) Other information – (J) Consents of experts" in Appendix V to this document;
- (k) the PRC legal opinion (in Chinese) dated 29 June 2007 issued by Jun Ze Jun Law Office confirming that, in their opinion, among other things, the summary of relevant PRC laws and principal regulatory provisions set out in Appendix IV to this document is a correct summary of the relevant PRC laws and regulatory provisions;
- (l) 設立外商投資股份有限公司暫行規定 (the Provisional Regulations on Establishment of Foreign Investment Joint Stock Limited Companies) issued by MOFTEC on 10 January 1995 together with an unofficial English translation thereof;
- (m) the Opinion on the Further Promotion of the Regular Operation and In-Depth Reform of Companies Listed Overseas issued by SETC and CSRC on 29 March 1999, together with an unofficial English translation thereof;

- (n) the Securities Law of the PRC promulgated by the Standing Committee of the NPC on 29 December 1998, together with an unofficial English translation thereof;
- (o) the Arbitration Law of the PRC promulgated by the Standing Committee of the NPC on 31 August 1994, together with an unofficial English translation thereof; and
- (p) the Civil Procedure Law of the PRC adopted at the fourth meeting of the seventh NPC promulgated by the president of the PRC on 9 April 1991, together with an unofficial English translation thereof.

