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)

(Stock Code : 814)

2014
Interim Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Li Jianwen *(Chairman)*
Mr. Li Wei
Ms. Li Chunyan
Mr. Liu Yuejin

NON-EXECUTIVE DIRECTORS

Mr. Wang Weilin
Mr. Li Shunxiang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Choi Onward, *CPA*
Mr. Wang Liping
Mr. Chen Liping

AUDIT COMMITTEE

Mr. Choi Onward, *CPA (Chairman)*
Mr. Wang Liping
Mr. Chen Liping

REMUNERATION COMMITTEE

Mr. Wang Liping *(Chairman)*
Mr. Li Jianwen
Mr. Chen Liping

NOMINATION COMMITTEE

Mr. Chen Liping *(Chairman)*
Mr. Li Jianwen
Mr. Wang Liping

SUPERVISORS

Ms. Liu Wenyu *(Chairman)*
Ms. Wang Hong
Ms. Yao Jie
Mr. Chen Zhong
Ms. Cheng Xianghong
Mr. Yang Baoqun

COMPANY SECRETARY

Mr. Li Bo, *CPA*

AUTHORISED REPRESENTATIVES

Ms. Li Chunyan
Mr. Li Bo, *CPA*

AUDITORS

Deloitte Touche Tohmatsu CPA LLP

LEGAL ADVISERS

As to Hong Kong law:
Reed Smith Richards Butler

As to PRC law:
Zhong Lun Law Firm

PRINCIPAL BANKERS

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REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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COMPANY WEBSITE

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SHAREHOLDERS' ENQUIRIES CONTACT INFORMATION OF THE COMPANY

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STOCK CODE

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FINANCIAL HIGHLIGHTS

Beijing Jingkelong Company Limited (the "Company"or "Jingkelong") and its subsidiaries (collectively the "Group") achieved the following results during the six months ended 30 June 2014 (the "Reporting Period"):

- Revenue from principle business amounted to RMB5,004,423,169, representing an increase of approximately 6.3% compared with the last corresponding period.

- Gross profit amounted to RMB669,170,624, representing a decrease of approximately 2.6% compared with the last corresponding period.

- Operating profit amounted to RMB79,871,404, representing a decrease of approximately 20.7% compared with the last corresponding period.

- Profit attributable to shareholders of the parent company reached approximately RMB29,361,008, representing a decrease of approximately 39.3% compared with the last corresponding period.

(Important notice: This report is published in Chinese and English versions. In case of inconsistency, the Chinese version shall prevail.)

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2014, the overall economic conditions in China remained challenging as China was in a critical stage of achieving structural adjustments and economic transformation and upgrading. The weak consumer sentiment, as well as the impact of rapidly developed e-commerce on traditional industries, posed a challenge to the growth models of traditional retail and wholesale industry of fast moving consumer goods.

During the Reporting Period, in response to the diversified competition landscape and the constantly rising costs, the Group made active adjustments and transformation by analyzing and meeting consumers' demand, as well as optimising and integrating its merchandise and supply chain management from a consumer-orientated perspective, thus achieving an increase in sales revenue and curbing the downward trend of profitability.

RETAIL BUSINESS

STRENGTHENING PROCUREMENT MANAGEMENT AND ENHANCING MERCHANDISING CAPABILITY

During the Reporting Period, the Group stuck to its nature as a retailer and strengthened its procurement function by keeping abreast of merchandise lines and consumption trends on the basis of extensive market research, focusing on the analysis and control of procurement cost and logistics cost, and contacting vendors to renegotiate purchase prices, with a view to reducing procurement costs. Based on the merchandise marketing data analysis, the Group selected the promotional products and properly arranged the promotion mix of merchandises. The Group separated the replenishment function from the procurement function and established a specialized replenishment department, which paid attention to the structural changes in inventory and turnover changes, and lowered store inventory shortage rate by improving order fulfillment rate. By rapidly introducing imported merchandises, the Group tried to adapt to the consumers' upgraded needs, and developed customized merchandises among daily distribution products to attract more customers.

INSISTING ON SELF-OPERATING LIVE OF FRESH PRODUCE

During the Reporting Period, depending on the production and supply conditions of the fruit and vegetable bases, the Group streamlined its existing procurement bases, through ascertaining the types of fruit and vegetable to be procured and their supply period, and developing new procurement bases in light of their different harvest season. In accordance with the characteristics of different seasons and festivals, the Group timely introduced packaged fungi, fine vegetables and modified atmosphere packaged of poultry produce, reduced repetitive bulk frozen food and introduced imported packaged aquatic products, which enriched the product mix and attracted more consumers. Meanwhile, the Group adjusted its fresh produce promotion strategies by reducing the promotions of easily stored products that are common in wet markets while increasing the promotions of medium to high-end fresh produce.

STEERING STORES TOWARDS REFINED OPERATIONS TO ENHANCE THE LEVEL OF OPERATIONS

In order to gradually migrate to a meticulous approach of management from the original extensive management model, the Group introduced an internal analysis of comparative data from stores of comparable sizes, covering the data on customer flow, sales and inventory turnover. The Operation Division in the Group's headquarter would identify the problems of each store in respect of areas such as the placing of orders, inactive merchandises management, merchandise display and inventory management, and would direct the stores to develop improvement measures and monitor their implementation, so as to enhance the stores operation and improve economic benefits. As a part of its implementation of a full-day supply of fresh produce scheme, the Group paid partial attention to the operation management of stores at nights and monitored the volume of order and inventory level of fresh produce, with a view that such implantation of full-day supply of fresh produce would improve the attractiveness to customers and in turn boost the overall customer flow.

OPTIMIZING LOGISTICS AND DISTRIBUTION MANAGEMENT TO INCREASE LOGISTICS EFFICIENCY

During the Reporting Period, in view of the lack of original packaging of certain merchandises delivered by the suppliers to our normal-temperature logistics centre, the Group strictly implemented spot checks on acceptance rate standards, to maintain the standard of products accepted at the forefront. Through our phone reservation system for acceptance of products, the Group established a "green channel" for VIP suppliers by utilizing designated loading docks coupled with designated personnel, thus achieving an efficient receiving process. The Group shifted the cooperative distribution model by the suppliers to the cross-docking logistics operation model, and the adoption of consolidated sowing and receiving operation improved the efficiency of receipt.

FURTHER STRENGTHENING THE FOOD SAFETY MANAGEMENT

During the Reporting Period, the Group continued to perform review and approval procedures in respect of the acceptance of new suppliers and new products to ensure compliance with the relevant quality standards, and to conduct site inspections on high-risk food. In order to better implement food safety management and to eliminate food safety risk, in each month the Group would conduct monthly special inspections on product quality and condition in retail outlets and live-and-fresh produce logistics center, and would timely supervise the rectification of the problems identified. In order to ensure quality and safety of fresh foods, the Group had combined the daily self-inspection conducted by the live-and-fresh produce logistics center and the random inspection conducted by the marketing department of the headquarter and increased the quantity of samples, and hence maintained an effective control over the quality of fresh foods. Meanwhile, targeting on the characteristics of different seasons and festivals, the Group carried out "summer food safety month" activities by reviewing key aspects of food quality control, intensifying food safety training for food safety management personnel in retail outlets, and strengthening consciousness of food safety management amongst all staff in Company.

CONTINUAL STEADY DEVELOPMENT OF THE RETAIL NETWORK

During the Reporting Period, the Group continued its steady development of the retail network. Fourteen retail outlets which comprised eight directly-operated convenience store and six franchise-operated convenience stores were opened. In addition, the Group renovated and upgraded one supermarket and four convenience stores.

The total number of the Group's retail outlets was 287 as at 30 June 2014, including 197 directly-operated outlets and 90 franchise-operated outlets, with a total net operating area of 324,439 square metres The following table sets out the number and net operating area of the Group's retail outlets as at 30 June 2014:

	Department stores	Hypermarkets	Supermarkets	Convenience stores	Total
Number of retail outlets:					
Directly-operated	2	12	76	107	197
Franchise-operated	–	–	1	89	90
Total	2	12	77	196	287
Net operating area (square metres):					
Directly-operated	39,742	86,088	160,115	20,592	306,537
Franchise-operated	–	–	880	17,022	17,902
Total	39,742	86,088	160,995	37,614	324,439

RETAIL OPERATING RESULTS

An analysis of the principal operating income contributed by the Group's directly-operated hypermarkets, supermarkets, convenience stores and department stores is set out as follows:

	For the six months ended 30 June		
	2014 RMB'000	2013 RMB'000	**Variance** (%)
Directly-operated retail outlets:			
Hypermarkets	**684,008**	595,576	14.8
Supermarkets	**1,541,771**	1,541,802	0
Convenience stores	**166,768**	162,849	2.4
Department stores	**26,662**	27,829	-4.2
(including commissions)	**22,719**	23,891	-4.9
Total retail principal operating income	**2,419,209**	2,328,056	3.9
Gross profit margin of directly-operated hypermarkets, supermarkets and convenience stores (%)	**15.7**	15.8	-0.1

During the Reporting Period, the retail principal operating income of the Group increased by approximately 3.9% mainly due to the following reasons: (i) an overall same-store sales decrease of approximately 0.7% during the Reporting Period; (ii) customers volume increased during the Big Sales Promotion period for celebrating the 20th anniversary of the Company in the first half of 2014; and (iii) sales contributions from those stores opened in the second half of 2013 and during the Reporting Period.

During the Reporting Period, gross profit margin of the directly-operated retail business (excluding department stores) decreased slightly from 15.8% of the last corresponding period to 15.7%, mainly because of: (i) the Big Sales Promotion launched by the Company during the Reporting Period benefited consumers which in turn reduced the gross profit margin; and (ii) the gross profit margin in retail business decreased due to severe diversified market competition of the industry.

WHOLESALE BUSINESS

CONTINUING TO INTRODUCE NEW PRODUCT LINES

During the Reporting Period, faced with the challenging economic conditions and the decline market demand for high-end liquor, the Group introduced more new brands of low-end liquor, and welcomed new brands of food and daily necessities for sale and promotion in Beijing and through our subsidiaries in other cities. Through the introduction of new brands, the Group paid more attention to the balanced development of each lines of merchandises, so as to reduce the operational risks and expand our room for further development niche in the market.

CONTINUING TO EXPAND THE WHOLESALE DISTRIBUTION NETWORK

During the Reporting Period, the Group further expanded its regional distribution network, improved the sharing of brand resources among our subsidiaries in Beijing and other cities, and enhanced the sales capability of our existing brand resources in different regions. The Group also continued to explore e-commerce sales channel and managed to invite an increasing number of manufacturers into such e-commerce sales channel in order to present new products online, which resulted in a dramatic increase in our e-commerce sales dramatically.

IMPROVING EFFICIENCY OF LOGISTICS AND DISTRIBUTION

During the Reporting Period, in order to further improve the efficiency of logistics and distribution and reduce the operating costs, the Group's wholesale business distribution to centre carried out a trial operation of piecework way in respect of transportation and warehousing outsourcing model. We believed that guided by the "zero error" logistics management philosophy, piecework contracting was more effective in identifying the responsible person, motivating the fleet, reducing operating costs and improving distribution efficiency.

WHOLESALE OPERATING RESULTS

The wholesale principal operating income and gross profit margin are set out as follows:

	For the six months ended 30 June		
	2014 RMB'000	2013 RMB'000	**Variance** (%)
Wholesale principal operating income recognised by Chaopi Group*	**2,842,314**	2,640,329	7.6
Less: Intersegment Sales	**(271,353)**	(270,715)	0.2
Sales to franchisees	**3,399**	5,737	-40.8
Consolidated Wholesale principal operating income	**2,574,360**	2,375,351	8.4
Gross profit margin (%)**	**9.4**	11.3	-1.9

* *Chaopi Group represents Beijing Chaopi Trading Company Limited and its subsidiaries.*

** *This represents gross profit margin of wholesale business recognised by Chaopi Group including intersegment sales.*

During the Reporting Period, the wholesale principal operating income recognized by Chaopi Group increased by approximately 8.4%, which was mainly due to the following reasons: (i) multiple intensified promotional campaigns were launched during the Reporting Period in order to increase market shares; (ii) the sales contribution from the new subsidiaries in the second half of 2013; and (iii) the sales contribution from newly introduced distribution brands.

During the Reporting Period, the gross profit margin of wholesale business recognised by Chaopi Group decreased by 1.9 percentage point, mainly because of (i) more intensified sales promotions were arranged during the Reporting Period; and (ii) the gross profit of alcoholic beverage with higher gross profit margin continued to decline.

FINANCIAL RESULTS

	For the six months ended 30 June		
	2014 RMB'000	2013 RMB'000	**Variance** (%)
Revenue from principal businesses	**5,004,423**	4,709,150	6.3
Gross profit	**669,171**	686,969	-2.6
Gross profit margin (%)	**13.4%**	14.6%	-1.2
Earnings before interest and tax	**166,070**	175,877	-5.6
Net profit	**55,960**	72,771	-23.1
Net profit margin (%)	**1.1%**	1.5%	-0.4
Net profit attributable to shareholders of the parent company	**29,361**	48,365	-39.3
Net profit margin attributable to shareholders of the parent company (%)	**0.6%**	1.0%	-0.4

REVENUE FROM PRINCIPAL BUSINESS

During the Reporting Period, the Group's revenue from principal business increased by approximately 6.3%, of which retail revenue from principal business increased by approximately 3.9%, and wholesale revenue from principal business increased by approximately 8.4%.

GROSS PROFIT AND GROSS PROFIT MARGIN

During the Reporting Period, the gross profit of the Group decreased by approximately 2.6% compared with the last corresponding period. During the Reporting Period, the gross profit margin was 13.4% (last corresponding period: 14.6%).

NET PROFIT ATTRIBUTABLE TO THE PARENT COMPANY

During the Reporting Period, net profit attributable to the parent company decreased by approximately 39.3% compared with the last corresponding period. The earnings before interest and tax amounted to RMB166,069,700, representing a decrease of RMB9,807,597 compared with the last corresponding period, and the net profit attributable to the parent company decreased from RMB48,365,390 of the last corresponding period to RMB29,361,008.

LIQUIDITY AND FINANCIAL RESOURCES

During the Reporting Period, the Group mainly financed its operations through internally generated cash flows, bank borrowings, and debentures.

As at 30 June 2014, the Group had non-current assets of RMB2,469,403,167 (comprising mainly fixed assets, investment properties, and land use rights for a total of RMB1,523,188,567), and non-current liabilities of RMB974,898,333 (comprising mainly bonds payable of RMB744,171,668 and bank loans of RMB196,000,000).

As at 30 June 2014, the Group had current assets of RMB4,374,123,797. Current assets mainly comprised of cash and cash equivalents of RMB667,019,316, inventories of RMB1,410,965,126, accounts receivable of RMB1,438,337,048 and prepayments and other receivables of RMB673,221,858. The Group had current liabilities of RMB3,815,074,108. Current liabilities mainly comprised of notes payable and accounts payable for a total of RMB1,142,939,658, short term bank loans and long-term bank loans due within one year for a total of RMB1,892,291,791 and other payables of RMB185,396,407.

INDEBTEDNESS AND PLEDGE OF ASSETS

As at 30 June 2014, the Group had bank loans of RMB2,088,291,791, which consisted of accounts receivable factored bank loans of RMB26,350,718, secured bank loans of RMB206,000,000, unsecured bank loans of RMB1,855,941,073. All the Group's bank loans bear interest rates ranging from 5.60% to 6.72% per annum. The secured bank loans were secured by certain of the Group's buildings and investment properties with an aggregate net book value of RMB142,694,147 on 30 June 2014.

Certain of the Group's margin deposits of RMB23,877,466 were pledged for notes payable of RMB204,485,730 as at 30 June 2014.

The Group's gearing ratio* was approximately 70.0% as at 30 June 2014, which was slightly lower than approximately 71.7% in the previous corresponding period.

* *Represented by: Total Liabilities/Total Assets*

FOREIGN CURRENCY RISK

The Group's operating revenues and expenditures are principally denominated in Renminbi.

During the Reporting Period, the Group did not encounter any material effect on its operations or liquidity as a result of fluctuation in currency exchange rates.

EMPLOYEES

As at 30 June 2014, the Group employed 8,426 employees domestically (as at 30 June 2013: 8,425 employees). The total staff costs (including directors' and supervisors' remunerations) of the Group for Reporting Period amounted to approximately RMB337,307,632 (last corresponding period: RMB325,175,173). The staff emolument (including directors' and supervisors' emoluments) of the Group are based on duty (position), experience, performance and market rates, in order to maintain their remunerations at a competitive level.

CONTINGENT LIABILITIES

As at 30 June 2014, the Group did not have any significant contingent liabilities.

ESTABLISHMENT OF TWO SUBSIDIARIES

During the Reporting Period, the Group, through its non-wholly owned subsidiary Beijing Chaopi Trading Company Limited ("Chaopi Trading") established a subsidiary, Beijing Chaopi Shengshi Trading Company Limited ("Chaopi Shengshi"), with Mr. Sun Wenhui (a director of Chaopi Trading) and two third parties (Mr. Li Gang and Ms. Wang Ping), to engage in the wholesale distribution of daily consumer products in Beijing. The registered capital of Chaopi Shengshi was RMB25,000,000, which has been fully paid up as of the announcement date. The capital contribution of Chaopi Trading was RMB16,250,000, and Chaopi Trading became the holder of 65% of the equity interest in Chaopi Shengshi. The Company held an indirect equity interest of approximately 51.90% in Chaopi Shengshi. The relevant details are set out in the announcement issued by the Company on 12 May 2014.

During the Reporting Period, Chaopi Trading and Mr. Du Jianxin, established a subsidiary, Beijing Qumeiba Information Technology Company Limited ("Chaopi Qumeiba"), to engage in the wholesale of general merchandise by e-commerce channel. The registered capital of Chaopi Qumeiba was RMB1,000,000, which has been fully paid up as of the announcement date. The capital contribution of Chaopi Trading was RMB650,000, thus Chaopi Trading held the equity of 65% of Chaopi Qumeiba. The Company held an indirect equity interest of approximately 51.90% in Chaopi Qumeiba.

CAPITAL INCREASE OF ONE NON-WHOLLY OWNED SUBSIDIARY

On May 21, 2014, Chaopi Trading and other investors collectively contributed an additional capital injection amounted to RMB12,822,800 and RMB11,679,100 respectively into a non-wholly owned subsidiary, Beijing Chaopi Huaqing Drinks Company Limited ("Chaopi Huaqing"), increasing the registered capital of Chaopi Huaqing from RMB56,000,000 to RMB80,000,000. The total investment contributed by Chaopi Trading was RMB42,742,800 after the increase of registered capital, and Chaopi Trading is the holder of approximately 53.43% of the equity interest in Chaopi Huaqing. As at 30 June 2014,the Company held an indirect equity interest of approximately 42.66% in Chaopi Huaqing.

ACQUISITION OF 8.75% EQUITY IN ONE SUBSIDIARY

Pursuant to an agreement entered into between Chaopi Trading and five independent investors dated 16 May 2014, the said five investors transferred collectively 8.75% of the equity interests in a subsidiary of Chaopi Trading, Beijing Chaopi Huilong Trading Company Limited ("Chaopi Huilong"), to Chaopi Trading for a consideration of RMB2,100,000. After the completion of the said transfer, Chaopi Trading became the holder of 77.75% of the equity interest of Chaopi Huilong, and the Company held an indirect interest of approximately 62.08% in Chaopi Huilong. As of the announcement date, Chaopi Trading has not paid to the said five independent investors to complete the equity transfer.

OUTLOOK

In the first half of 2014, facing actual economic and operational difficulties and the critical stage of economic structure transformation, China's economy had sustained a certain level of downward pressure. However, with the continued adjustments of economic structure, a series of new structural trends of macro-economy, including the demand structure, industrial structure, consumption structure and income distribution structure, emerged with new features.

Engaging in the traditional wholesale and retail industry of fast moving consumer goods, the Group faces both challenges and opportunities for development. The rapidly development of Internet technology and mobile network technology have gradually changed the transaction processes and the standards of traditional retail industry. The Group realised that, in view of these dramatic changes, a fusion of online and offline retails shall form the main development path.

Looking forward to the second half of 2014, we will unswervingly continue to improve our procurement and marketing capabilities and store operation capabilities and supply chain management, while relying on the Group's offline store resources to achieve transformation. Making use of the Internet technology and mobile network technology to re-attract consumers back from e-commerce, we will also reconsolidate the Group's core competitiveness.

OTHER INFORMATION

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has applied the principles of and complied with all the code provisions of the Corporate Governance Code (the "Corporate Governance Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the Reporting Period, save for the directors' retirement by rotation as set out below.

Provision A4.2 of the Corporate Governance Code requires that every director (including those appointed for a specific term) of a listed issuer shall be subject to retirement by rotation at least once every three years. The Company's Articles of Association of the Company stipulates that each director shall be elected by the general meeting of the Company for a term of not more than three years, and eligible for re-election upon the expiry of the term. Having taken into account of the continuity of the Group's operation and management policies, the Company's Articles of Association contains no express provision for the directors' retirement by rotation and thus deviate from the aforementioned provision of the Corporate Governance Code.

DIRECTOR'S SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiries will all directors, all the directors have confirmed that they have complied with the required standard of dealings as set out in the Model Code and the code of conduct regarding their securities transactions throughout the Reporting Period.

AUDIT COMMITTEE

The Audit Committee together with the management of the Company and the independent auditor have considered and reviewed the accounting principles and practices adopted by the Group and discussed matters in relation to internal control and financial reporting, including the review of the Group's 2014 unaudited interim consolidated results. The Audit Committee considered that the interim financial report for the six months ended 30 June 2014 was in compliance with the relevant accounting standards, requirements of the Stock Exchange and the Laws of Hong Kong, and appropriate disclosures have been made.

DISCLOSURE OF INTERESTS

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2014, the interests and positions of the directors, supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), 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 or short positions which were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 of the Listing Rules, were as follows:

Long positions in the domestic shares of the Company

Name	Capacity	Number of domestic shares held	Approximate percentage of total issued domestic shares (%)	Approximate percentage of total issued shares (%)
Li Jianwen	Personal	1,482,579	0.64	0.36
Li Chunyan	Personal	395,992	0.17	0.10
Liu Yuejin	Personal	375,151	0.16	0.09
Li Shunxiang	Personal	5,210,428	2.26	1.26
Yang Baoqun	Personal	1,042,086	0.45	0.25
Liu Wenyu	Personal	265,151	0.12	0.06
Yao Jie	Personal	125,051	0.05	0.03
Wang Hong	Personal	82,525	0.04	0.02

Save as disclosed above, as at 30 June 2014, none of the directors, supervisors or chief executive of the Company nor any of their associates had any interest and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) 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 or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, so far as is known to the directors, supervisors or chief executive of the Company, the persons (other than a director, supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in the domestic shares of the Company

Name	Capacity	Number of domestic shares held	Approximate percentage of total issued domestic shares (%)	Approximate percentage of total issued shares (%)
Beijing Chaoyang Auxiliary Food Company	Beneficial owner	167,409,808	72.77	40.61

Positions in the H shares of the Company

Name	Total number of H shares held	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued shares (%)
JPMorgan Chase & Co. *(Note 1)*	23,680,900 (L)	13.00 (L)	5.74
	23,680,900 (P)	13.00 (P)	5.74
Schroders Plc *(Note 2)*	19,977,000 (L)	10.96 (L)	4.85
Templeton Asset Management Ltd. *(Note 3)*	18,314,900 (L)	10.05 (L)	4.44
Schroder Investment Management (Hong Kong) Limited *(Note 4)*	13,036,000 (L)	7.16 (L)	3.16
Genesis Asset Managers, LLP *(Note 5)*	12,749,000 (L)	6.99 (L)	3.09
Genesis Emerging Markets Opportunities Fund Limited *(Note 6)*	12,749,000 (L)	6.99 (L)	3.09

(L) – Long Position
(P) – Lending Pool

Note:

1. These 23,680,900 H shares were held by JP Morgan Chase & Co. were in its capacity as a custodian corporation/an approved lending agent of which 23,680,900 H shares were in a lending pool.

2. These 19,977,000 H shares were held by Schroders Plc in its capacity as an investment manager.

3. These 18,314,900H shares were held by Templeton Asset Management Limited in its capacity as an investment manager.

4. These 13,036,000 H shares were held by Schroder Investment Management (Hong Kong) Limited in its capacity as an investment manager.

5. These 12,749,000 H shares were held by Genesis Asset Managers, LLP in its capacity as an investment manager.

6. These 12,749,000 H shares were held by Genesis Emerging Markets Opportunities Fund Limited in its capacity as an investment manager.

Save as disclosed above, as far as is known to the directors, supervisors or chief executive of the Company, as at 30 June 2014, no other persons (not being a director, supervisor or chief executive of the Company) had, or were deemed or taken to have any interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Reporting Period.

By Order of the Board
Beijing Jingkelong Company Limited
Li Jianwen
Chairman

Beijing, PRC
22 August 2014

As at the date of this report, the executive directors of the Company are Mr. Li Jianwen, Mr. Li Wei, Ms. Li Chunyan and Mr. Liu Yuejin; the non-executive directors are Mr. Wang Weilin, and Mr. Li Shunxiang; and the independent non-executive directors are Mr. Wang Liping, Mr. Chen Liping and Mr. Choi Onward.

REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

De Shi Bao (Yue) Zi (14) No. R0027

TO THE SHAREHOLDERS OF BEIJING JINGKELONG COMPANY LIMITED:

We have reviewed the accompanying interim financial statements of Beijing Jingkelong Company Limited (the "Company" or "Jingkelong"), which comprise the Company's and consolidated statements of financial position as at 30 June 2014, and the Company's and consolidated income statements, the Company's and consolidated statements of changes in shareholders' equity, the Company's and consolidated cash flow statements for the six-month period then ended and certain explanatory notes. These interim financial statements are prepared in accordance with "Accounting Standard for Business Enterprises No. 32- Interim Financial Reporting". Management of Jingkelong is responsible for the preparation of these interim financial statements. Our responsibility is to express a conclusion on these interim financial statements based on our review.

We conducted our review in accordance with "China Certified Public Accountant Review Standard No. 2101-Review of Financial Statement". Those standards require that we plan and perform the review to obtain limited assurance about whether the interim financial statements are free from material misstatement. A review of these interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements are not prepared in all material respects in accordance with "Accounting Standard for Business Enterprises No. 32- Interim Financial Reporting".

Deloitte Touche Tohmatsu
Certified Public Accountants LLP

Chinese Certified Public Accountants
Zhou Ying
Fu Yan Jun

22 August 2014

(English translation is for reference only. Should there be any inconsistency between the Chinese version and English version, the Chinese version shall prevail.)

COMPANY'S AND CONSOLIDATED BALANCE SHEETS

AT 30 JUNE 2014

RMB

		Consolidated		Company	
ITEM	*Notes*	**2014.6.30 (unaudited)**	2013.12.31 (audited)	**2014.6.30 (unaudited)**	2013.12.31 (audited)
Current Assets:					
Cash and bank balances	*(VII)1*	**690,896,782**	601,588,771	**225,836,789**	255,644,218
Entrusted loans		**–**	–	**70,000,000**	250,000,000
Accounts receivable	*(VII)2/(XI)1*	**1,438,337,048**	1,658,164,932	**243,532,363**	269,182,947
Prepayments	*(VII)3*	**494,585,225**	550,729,655	**2,019,105**	1,596,853
Other receivables		**178,636,633**	129,135,310	**300,197,489**	166,213,069
Inventories	*(VII)4/(XI)2*	**1,410,965,126**	1,481,250,484	**257,986,612**	336,898,450
Other current assets	*(VII)5/(XI)3*	**160,702,983**	247,122,377	**90,620,283**	117,620,036
Total Current Assets		**4,374,123,797**	4,667,991,529	**1,190,192,641**	1,397,155,573
Non-current Assets:					
Entrusted loans		**–**	–	**350,000,000**	350,000,000
Available-for-sale financial assets	*(VII)6*	**2,656,000**	3,860,000	**–**	–
Long-term equity investments		**–**	–	**973,635,094**	973,635,094
Investment properties	*(VII)7/(XI)4*	**120,615,799**	128,243,912	**36,610,322**	37,485,364
Fixed assets	*(VII)7/(XI)4*	**1,235,976,649**	1,279,327,711	**951,346,180**	985,754,778
Construction in progress	*(VII)7/(XI)4*	**103,034,389**	94,067,053	**101,863,848**	91,237,506
Intangible assets	*(VII)8*	**200,026,316**	197,500,316	**90,308,767**	91,429,917
Goodwill	*(VII)9*	**86,673,788**	86,673,788	**–**	–
Long-term prepaid expenses	*(VII)10*	**531,467,911**	565,226,236	**431,216,263**	456,988,860
Deferred tax assets		**27,044,896**	20,478,748	**–**	–
Other non-current assets	*(VII)11/(XI)5*	**161,907,419**	106,689,056	**43,159,472**	50,795,094
Total Non-current Assets		**2,469,403,167**	2,482,066,820	**2,978,139,946**	3,037,326,613
TOTAL ASSETS		**6,843,526,964**	7,150,058,349	**4,168,332,587**	4,434,482,186

The notes form an integral part of the interim financial statements.

The interim financial statements on pages 18 to 70 have been signed by the following:

Legal Representative	*Chief Financial Officer*	*Chief Accountant*
Li Jianwen	**Li Chunyan**	**Pei Lianhuan**

COMPANY'S AND CONSOLIDATED BALANCE SHEETS

AT 30 JUNE 2014

RMB

		Consolidated		Company	
ITEM	*Notes*	**2014.6.30 (unaudited)**	2013.12.31 (audited)	**2014.6.30 (unaudited)**	2013.12.31 (audited)
Current Liabilities:					
Short-term borrowings	*(VII)12/(XI)6*	**1,882,291,791**	1,860,977,942	**490,000,000**	400,000,000
Notes payable	*(VII)13*	**204,485,730**	56,677,291	**–**	–
Accounts payable	*(VII)13*	**938,453,928**	1,138,958,035	**671,389,807**	758,543,948
Advances from customers		**479,555,768**	503,311,013	**387,177,463**	457,541,118
Employee benefits payable		**2,088,902**	3,128,350	**1,568,078**	1,467,858
Taxes payable		**27,878,433**	25,866,834	**8,896,491**	9,195,320
Dividends payable		**22,734,051**	5,000	**17,501,451**	5,000
Other payables		**185,396,407**	216,163,456	**123,992,201**	132,650,324
Bonds payable		**–**	199,979,167	**–**	199,979,167
Long-term borrowings due within one year	*(VII)12/(XI)6*	**10,000,000**	10,000,000	**10,000,000**	10,000,000
Other current liabilities		**62,189,098**	49,837,305	**50,979,310**	35,614,133
Total Current Liabilities		**3,815,074,108**	4,064,904,393	**1,761,504,801**	2,004,996,868
Non-current Liabilities:					
Deferred tax liabilities		**8,906,109**	9,727,229	**6,947,311**	7,274,369
Bonds payable		**744,171,668**	743,553,870	**744,171,668**	743,553,870
Long-term borrowings	*(VII)12/(XI)6*	**196,000,000**	234,000,000	**196,000,000**	234,000,000
Provisions		**910,612**	910,612	**910,612**	910,612
Other non-current liabilities		**24,909,944**	20,611,219	**10,830,816**	12,039,449
Total Non-current Liabilities		**974,898,333**	1,008,802,930	**958,860,407**	997,778,300
TOTAL LIABILITIES		**4,789,972,441**	5,073,707,323	**2,720,365,208**	3,002,775,168
SHAREHOLDERS' EQUITY:					
Share capital		**412,220,000**	412,220,000	**412,220,000**	412,220,000
Capital reserve		**612,736,069**	613,424,939	**610,293,521**	610,293,521
Surplus reserve		**129,500,819**	129,500,819	**105,723,585**	105,723,585
Undistributed profits	*(VII)14*	**487,773,217**	499,634,209	**319,730,273**	303,469,912
Total equity attributable to shareholders of the parent company		**1,642,230,105**	1,654,779,967	**1,447,967,379**	1,431,707,018
Minority interests		**411,324,418**	421,571,059	**–**	–
TOTAL SHAREHOLDERS' EQUITY		**2,053,554,523**	2,076,351,026	**1,447,967,379**	1,431,707,018
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**6,843,526,964**	7,150,058,349	**4,168,332,587**	4,434,482,186

The notes form an integral part of the interim financial statements.

COMPANY'S AND CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2014

RMB

ITEM		*Notes*	Consolidated Six months ended 2014.6.30 (unaudited)	Consolidated Six months ended 2013.6.30 (unaudited)	Company Six months ended 2014.6.30 (unaudited)	Company Six months ended 2013.6.30 (unaudited)
I.	Total operating income	*(VII)15/(XI)7*	**5,445,920,835**	5,097,403,143	**2,415,144,107**	2,356,262,929
	Less: Operating costs	*(VII)15/(XI)7*	**4,339,049,338**	4,025,156,342	**1,918,411,562**	1,865,371,047
	Business tax and surcharges		**35,742,868**	33,048,964	**15,475,023**	15,995,668
	Selling expenses	*(VII)16*	**771,715,032**	741,422,158	**353,887,615**	352,172,290
	Administrative expenses	*(VII)17*	**141,548,860**	135,440,464	**85,425,287**	77,840,207
	Financial expenses	*(VII)18/(XI)8*	**82,144,696**	74,670,213	**24,106,508**	18,712,537
	Impairment losses on assets		**90,432**	–	**90,432**	–
	Add: Investment income	*(VII)19*	**1,958,307**	188,293	**41,623,371**	58,847,540
II.	Operating profit		**77,587,916**	87,853,295	**59,371,051**	85,018,720
	Add: Non-operating income		**4,174,128**	14,987,320	**4,093,220**	1,543,169
	Less: Non-operating expenses		**1,890,640**	2,151,692	**332,373**	1,975,916
	Including: Losses from disposal of non-current assets		**1,288,218**	1,288,191	**12,323**	1,264,328
III.	Total profit		**79,871,404**	100,688,923	**63,131,898**	84,585,973
	Less: Income tax expenses	*(VII)20/(XI)9*	**23,911,445**	27,917,753	**5,649,537**	5,361,402
IV.	Net profit		**55,959,959**	72,771,170	**57,482,361**	79,224,571
	Net profit attributable to shareholders of the parent company		**29,361,008**	48,365,390	**--**	--
	Profit or loss attributable to minority interests		**26,598,951**	24,405,780	**--**	--
V.	Other comprehensive income		**(903,000)**	(2,574,000)	**–**	–
	Items will be reclassified to gains (losses) in subsequent accounting period if certain requirements are met					
	Net losses arising from available-for-sale financial assets	*(VII)21*	**(903,000)**	(2,574,000)	**–**	–
VI.	Total comprehensive income		**55,056,959**	70,197,170	**57,482,361**	79,224,571
	Total comprehensive income attributable to shareholders of the parent company		**28,458,008**	45,791,390	**--**	--
	Total comprehensive income attributable to minority interests		**26,598,951**	24,405,780	**--**	--
VII.	Earnings per share:					
	(I) Basic earnings per share	*(VII)22*	**0.07**	0.12	**--**	--

The notes form an integral part of the interim financial statements.

COMPANY'S AND CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2014

RMB

ITEM	Notes	Consolidated Six months ended 2014.6.30 (unaudited)	Consolidated Six months ended 2013.6.30 (unaudited)	Company Six months ended 2014.6.30 (unaudited)	Company Six months ended 2013.6.30 (unaudited)
I. Cash Flows from Operating Activities:					
Cash received from selling goods and rendering services		**6,428,881,045**	5,753,414,165	**2,642,493,580**	2,545,727,841
Other cash received relating to operating activities		**102,674,217**	353,449,258	**73,060,122**	150,046,740
Sub-total of cash inflows from operating activities		**6,531,555,262**	6,106,863,423	**2,715,553,702**	2,695,774,581
Cash paid for purchasing goods and receiving services		**(5,063,813,450)**	(4,695,523,321)	**(2,234,146,381)**	(2,054,500,197)
Cash payments to and on behalf of employees		**(337,671,618)**	(354,015,168)	**(195,175,226)**	(180,645,765)
Cash payments for taxes and surcharges		**(157,693,737)**	(143,632,672)	**(68,447,575)**	(50,838,548)
Other cash paid relating to operating activities		**(470,325,422)**	(416,528,391)	**(155,967,992)**	(167,353,568)
Sub-total of cash outflows from operating activities		**(6,029,504,227)**	(5,609,699,552)	**(2,653,737,174)**	(2,453,338,078)
Net Cash Flow from Operating Activities	*(VII)23*	**502,051,035**	497,163,871	**61,816,528**	242,436,503
II. Cash Flows from Investing Activities:					
Proceeds from short-term investment/ interest income		**8,953,349**	4,893,718	**19,791,621**	13,869,416
Net cash received from disposal of fixed assets		**626,335**	130,769	**134,194**	533,548
Principal received from short-term financial products		**1,305,588,804**	492,010,000	**1,115,588,804**	145,010,000
Cash received from withdrawal of margin deposits		**18,880,514**	20,461,874	**–**	–
Cash received from withdrawal of entrusted loans		**–**	–	**180,000,000**	410,000,000
Cash received from distribution of dividends		**–**	–	**39,925,900**	58,771,400
Sub-total of cash inflows from investing activities		**1,334,049,002**	517,496,361	**1,355,440,519**	628,184,364
Cash paid for acquisition of fixed assets, construction in progress, intangible assets and other long-term assets		**(50,962,538)**	(127,642,961)	**(40,266,062)**	(89,096,395)
Cash paid for placement of margin deposits		**(30,722,522)**	(89,717,977)	**–**	–
Cash paid for entrusted loans		**–**	–	**–**	(380,000,000)
Principal paid for purchase of short-term financial products		**(1,270,588,804)**	(567,010,000)	**(1,095,588,804)**	(245,010,000)
Cash paid for other investing activities		**(63,500,000)**	–	**(115,000,000)**	–
Sub-total of cash outflows from investing activities		**(1,415,773,864)**	(784,370,938)	**(1,250,854,866)**	(714,106,395)
Net Cash Flow from (used in) Investing Activities		**(81,724,862)**	(266,874,577)	**104,585,653**	(89,922,031)

COMPANY'S AND CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2014

RMB

ITEM	Notes	Consolidated Six months ended 2014.6.30 (unaudited)	Consolidated Six months ended 2013.6.30 (unaudited)	Company Six months ended 2014.6.30 (unaudited)	Company Six months ended 2013.6.30 (unaudited)
III. Cash Flows from Financing Activities:					
Cash received from disposal of interests of subsidiaries		**–**	16,800,000	**–**	–
Cash received from investments		**11,679,100**	–	**–**	–
Including: cash received from capital contributions from minority shareholders of subsidiaries		**11,679,100**	–	**–**	–
Cash received from borrowings		**2,076,858,224**	2,219,268,786	**557,080,016**	597,107,688
Sub-total of cash inflows from financing activities		**2,088,537,324**	2,236,068,786	**557,080,016**	597,107,688
Cash paid for repayment of liabilities		**(2,093,544,375)**	(2,072,124,892)	**(505,080,016)**	(628,000,000)
Cash paid for repayment of bonds		**(200,000,000)**	–	**(200,000,000)**	–
Cash paid for dividends and interest		**(137,673,811)**	(151,027,629)	**(48,020,071)**	(64,481,703)
Including: Dividend paid to minority interests by subsidiaries		**(25,581,511)**	(41,328,096)	**–**	–
Sub-total of cash outflows from financing activities		**(2,431,218,186)**	(2,223,152,521)	**(753,100,087)**	(692,481,703)
Net Cash Flow from (used in) Financing Activities		**(342,680,862)**	12,916,265	**(196,020,071)**	(95,374,015)
IV. Effect on cash and cash equivalents due to change in foreign currency exchange rate		**(179,308)**	–	**(189,539)**	–
V. Net Increase (decrease) in Cash and Cash Equivalents	*(VII)23*	**77,466,003**	243,205,559	**(29,807,429)**	61,140,457
Add: Balance of cash and cash equivalents at beginning of the period		**589,553,313**	461,110,253	**255,644,218**	236,502,341
VI. Balance of cash and cash equivalents at end of the period	*(VII)23*	**667,019,316**	704,315,812	**225,836,789**	297,642,798

The notes form an integral part of the interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2014

RMB

	Six months ended 30 June 2014 (unaudited)					
	Attributable to shareholders of the parent company					
Item	**Share capital**	**Capital reserve**	**Surplus reserve**	**Undistributed profits**	**Minority interests**	**Total equity**
At 1 January 2014 (audited)	**412,220,000**	**613,424,939**	**129,500,819**	**499,634,209**	**421,571,059**	**2,076,351,026**
I. Changes for the period						
(I) Net profit	**–**	**–**	**–**	**29,361,008**	**26,598,951**	**55,959,959**
(II) Other comprehensive income	**–**	**(903,000)**	**–**	**–**	**–**	**(903,000)**
Subtotal of (I) and (II)	**–**	**(903,000)**	**–**	**29,361,008**	**26,598,951**	**55,056,959**
(III) Shareholders' contributions and reduction in capital						
1. Capital contribution from minority shareholders	**–**	**214,130**	**–**	**–**	**11,464,970**	**11,679,100**
(IV) Profit distribution						
1. Distributions to shareholders	**–**	**–**	**–**	**(41,222,000)**	**–**	**(41,222,000)**
2. Distributions to minority shareholders by subsidiaries	**–**	**–**	**–**	**–**	**(48,310,562)**	**(48,310,562)**
At 30 June 2014 (unaudited)	**412,220,000**	**612,736,069**	**129,500,819**	**487,773,217**	**411,324,418**	**2,053,554,523**

RMB

	Six months ended 30 June 2013 (unaudited)					
	Attributable to shareholders of the parent company					
Item	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Minority interests	Total equity
At 1 January 2013 (audited)	412,220,000	617,477,216	121,313,202	493,033,750	356,003,642	2,000,047,810
I. Changes for the period						
(I) Net profit	–	–	–	48,365,390	24,405,780	72,771,170
(II) Other comprehensive income	–	(2,574,000)	–	–	–	(2,574,000)
Subtotal of (I) and (II)	–	(2,574,000)	–	48,365,390	24,405,780	70,197,170
(III) Shareholders' contributions and reduction in capital						
1. Sales of minority interests of subsidiaries	–	(536,256)	–	–	17,336,256	16,800,000
(IV) Profit distribution						
1. Distributions to shareholders	–	–	–	(41,222,000)	–	(41,222,000)
2. Distributions to minority shareholders by subsidiaries	–	–	–	–	(48,053,796)	(48,053,796)
At 30 June 2013 (unaudited)	412,220,000	614,366,960	121,313,202	500,177,140	349,691,882	1,997,769,184

The notes form an integral part of the interim financial statements.

COMPANY'S STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2014

RMB

	Six months ended 30 June 2014 (unaudited)				
	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Total equity
At 1 January 2014 (audited)	**412,220,000**	**610,293,521**	**105,723,585**	**303,469,912**	**1,431,707,018**
I. Changes for the period					
(I) Net profit	**–**	**–**	**–**	**57,482,361**	**57,482,361**
(II) Profit distribution					
1. Distributions to shareholders	**–**	**–**	**–**	**(41,222,000)**	**(41,222,000)**
At 30 June 2014 (unaudited)	**412,220,000**	**610,293,521**	**105,723,585**	**319,730,273**	**1,447,967,379**

RMB

	Six months ended 30 June 2013 (unaudited)				
	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Total equity
At 1 January 2013 (audited)	412,220,000	610,293,521	97,535,968	271,003,360	1,391,052,849
I. Changes for the period					
(I) Net profit	–	–	–	79,224,571	79,224,571
(II) Profit distribution					
1. Distributions to shareholders	–	–	–	(41,222,000)	(41,222,000)
At 30 June 2013 (unaudited)	412,220,000	610,293,521	97,535,968	309,005,931	1,429,055,420

The notes form an integral part of the interim financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

I. GENERAL INFORMATION

Beijing Jingkelong Company Limited (the "Company") is a joint stock limited company incorporated in the People's Republic of China (the "PRC"). On 1 November 2004, upon the approval by Beijing Administration for Industry and Commerce (北京市工商局), the Company was transformed from Beijing Jingkelong Supermarket Chain Group Limited ("Beijing Jingkelong Supermarket Chain Company Limited" before renamed) and the registered capital of the Company was RMB246,620,000. The Company's Business License Number is 1100001231592. The registered office of the Company is located at Block No. 45, Xinyuan Street, Chaoyang District, Beijing. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the retail and wholesale distribution of daily consumer products.

On 25 September 2006, the Company was listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited through the issue of H shares. On 26 February 2008, all the ordinary shares were transferred to the Main Board for listed trading. The Company issued a total of 412,220,000 ordinary shares as at 30 June 2014.

The controlling shareholder of the Company is Beijing Chaoyang Auxiliary Food Company ("Chaoyang Auxiliary"), an enterprise established in the PRC.

II. BASIS OF PREPARATION OF INTERIM FINANCIAL STATEMENTS

The interim financial statements have been prepared in accordance with China Accounting Standard "Accounting Standard for Business Enterprises No. 32 – Interim Financial Reporting". In addition, the Group also discloses relevant information required by the Companies Ordinance of Hong Kong and the Listing Rules of the Stock Exchange of Hong Kong Limited.

Going concern

As at 30 June 2014, the Company had net current liabilities of RMB571,312,160 (31 December 2013: RMB607,841,295). Based on the Company's history of obtaining financing, available banking facilities, working capital forecast, operating performance and financial obligations in the next twelve months, the management considers that there are sufficient financial resources available to the Company to meet its liabilities as when fall due and to carry on its business in the foreseeable future.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The accounting policies used in the interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013 that were prepared in accordance with Accounting Standards for Business Enterprises("ASBE") and relevant regulations issued by the Ministry of Finance of the PRC.

The interim financial statements do not include all the information and disclosures required for annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2013.

1. **Statement of compliance with ASBE**

The financial statements have been prepared in compliance with the "ASBE No. 32 – Interim Financial Reporting" to truly and completely reflect the Company's and consolidated financial position as at 30 June 2014, and the Company's and consolidated results of operations and cash flows for the six months ended 30 June 2014.

2. **Basic of preparation and principle of measurement**

The Group's financial statements have been prepared on an accrual basis. Except for certain financial instruments which are measured at fair value, the financial statements are prepared under the historical cost convention. In the event that impairment of assets occurs, a provision for impairment is made accordingly in accordance with the relevant requirements.

3. **Accounting period**

The financial year of the Group is from 1 January to 31 December of each calendar year. The accounting period of these interim financial statements is from 1 January to 30 June.

4. **Reporting currency**

Renminbi ("RMB") is the currency of the primary economic environment where the Group operates, and the Group's reporting currency is Renminbi. The financial statements of the Group have been prepared in Renminbi.

5. **The accounting treatment of business combinations not involving enterprises under common control**

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination.

The cost of combination is the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree. The intermediary expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services, etc. and other associated administrative expenses attributable to the business combination are recognised in profit or loss when they are incurred. Where a business combination not involving enterprises under common control is achieved in stages that involve multiple transactions, the cost of combination is the sum of the consideration paid at the acquisition date and the fair value at the acquisition date of the acquirer's previously held interest in the acquiree. The equity interest in the acquiree held before the acquisition date is remeasured at its fair value at the acquisition date, with any difference between its fair value and its carrying amount being recognised as investment income. The other comprehensive income of the acquiree before the acquisition date relating to the previously held interest in the acquiree is transferred to investment income.

The acquiree's identifiable assets, liabilities and contingent liabilities, acquired by the acquirer in a business combination, that meet the recognition criteria shall be measured at fair value at the acquisition date. Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is treated as an asset and recognised as goodwill, which is measured at cost on initial recognition. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer firstly reassesses the measurement of the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities and measurement of the cost of combination. If after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer recognises the remaining difference immediately in profit or loss for the current period.

If either the fair values of identifiable assets, liabilities and contingent liabilities acquired in a combination or the cost of business combination can be determined only provisionally by the end of the period in which the business combination was effected, the acquirer recognises and measures the combination using those provisional values. Any adjustments to those provisional values within twelve months after the acquisition date are treated as if they had been recognised and measured on the acquisition date.

Goodwill arising on a business combination is measured at cost less accumulated impairment losses, and is presented separately in the consolidated financial statements. It is tested for impairment at least at the end of each year.

For the purpose of impairment testing, goodwill is considered together with the related assets group(s), i.e., goodwill is reasonably allocated to the related assets group(s) or each of assets group(s) expected to benefit from the synergies of the combination. An impairment loss is recognised if the recoverable amount of the assets group or sets of assets groups (including goodwill) is less than its carrying amount. The impairment loss is firstly allocated to reduce the carrying amount of any goodwill allocated to such assets group or sets of assets groups, and then to the other assets of the group pro-rata on the basis of the carrying amount of each asset (other than goodwill) in the group.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. Costs of disposal are expenses attributable to disposal of the asset, including legal fee, relevant tax and surcharges, transportation fee and direct expenses incurred to prepare the asset for its intended sale. The present value of expected future cash flows of an asset shall be determined by estimating the future cash flows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to those future cash flows.

The impairment of goodwill is recognised in profit or loss for the period in which it is incurred and will not be reversed in any subsequent period.

6. Basis for preparation of consolidated financial statements

The scope of consolidated financial statements is determined on the basis of control. Control is the power to influence the investee and participate in its operating activities to obtain benefits, the amount of which shall be effected by the power.

The Group takes the date of getting or losing the control over subsidiaries as the acquisition date and disposal date. For a subsidiary disposed by the Group, the operating results and cash flows before the date of disposal (the date when control is lost) are included in the consolidated income statement and consolidated statement of cash flows, as appropriate, but no adjustment is made to the opening balance.

Major accounting policies and accounting periods adopted by the subsidiaries are defined according to the uniform accounting policies and accounting periods set out by the Company.

All significant intra-group balances and transactions are eliminated on consolidation.

The portion of subsidiaries' equity that is not attributable to the Company is treated as minority interests and presented as "minority interests" in the consolidated balance sheet within shareholders' equity. The portion of net profits or losses of subsidiaries for the period attributable to minority interests is presented as "minority interests" in the consolidated income statement under the "net profit" line item.

When the amount of loss for the period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount are still allocated against minority interests.

Acquisition of minority interests or disposal of interest in a subsidiary that does not result in the loss of control over the subsidiary is accounted for as equity transactions. The carrying amounts of the Company's interests and minority interests are adjusted to reflect the changes in their relative interests in the subsidiary. The difference between the amount by which minority interests are adjusted and the fair value of the consideration paid or received is adjusted to capital reserve. If the capital reserve is not sufficient to absorb the difference, the excess are adjusted against retained earnings.

7. Recognition criteria of cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

8. Translation of transactions and financial statements denominated in foreign currencies

A foreign currency transaction is recorded, on initial recognition, by applying the spot exchange rate on the date of the transaction. At the balance sheet date, foreign currency monetary items are translated into RMB using the spot exchange rates at the balance sheet date. Exchange differences arising from the differences between the spot exchange rates prevailing at the balance sheet date and those on initial recognition or at the previous balance sheet date are recognised in profit or loss for the period.

9. Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. For financial assets and financial liabilities at fair value through profit or loss, transaction costs are immediately recognised in profit or loss. For other financial assets and financial liabilities, transaction costs are included in their initial recognised amounts.

9.1 Method of determination of fair value

The fair value refers to the amount at which both willing parties to a fair transaction who are familiar with the condition exchange their assets or clear off their debts under fair conditions. For a financial instrument which has an active market, the Group uses the quoted price in the active market to establish its fair value. For a financial instrument which has no active market, the Group establishes fair value by using a valuation technique.

9.2 Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and the interest income or interest expense over the relevant period, using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial asset or financial liability (without considering future credit losses), and also considers all fees paid or received between the parties to the contract giving rise to the financial asset and financial liability that are an integral part of the effective interest rate, transaction costs, and premiums or discounts, etc.

9.3 Classification, recognition and measurement of the financial assets

On initial recognition, the Group's financial assets are classified into loans, receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

9.3.1 loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables by the Group include bank and cash, entrusted loans, accounts receivable and other receivables.

Loans and receivables are subsequently measured at amortised cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortisation is recognised in profit or loss.

9.3.2 available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated on initial recognition as available for sale, and financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are subsequently measured at fair value, and gains or losses arising from changes in the fair value are recognised as other comprehensive income and included in the capital reserve, except that impairment losses and exchange differences related to amortised cost of monetary financial assets denominated in foreign currencies are recognised in profit or loss, until the financial assets are derecognised, at which time the gains or losses are released and recognised in profit or loss.

Interests obtained and the dividends declared by the investee during the period in which the available-for-sale financial assets are held, are recognised in investment gains.

For investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivative financial assets that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost.

9.4 Impairment of financial assets

The Group assesses at each balance sheet date the carrying amounts of financial assets other than those at fair value through profit or loss. If there is objective evidence that a financial asset is impaired, the Group determines the amount of any impairment loss. Objective evidence that a financial asset is impaired is evidence that, arising from one or more events that occurred after the initial recognition of the asset, the estimated future cash flows of the financial asset, which can be reliably measured, have been affected.

Objective evidence that a financial asset is impaired includes the following observable events:

(1) Significant financial difficulty of the issuer or obligor;

(2) A breach of contract by the borrower, such as a default or delinquency in interest or principal payments;

(3) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting a concession to the borrower;

(4) It becoming probable that the borrower will enter bankruptcy or other financial reorganisations;

(5) The disappearance of an active market for that financial asset because of financial difficulties of the issuer;

(6) Upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such observable data includes:

- Adverse changes in the payment status of borrower in the group of assets;

- Economic conditions in the country or region of the borrower which may lead to a failure to pay the group of assets;

(7) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost;

(8) Other objective evidence indicating there is an impairment of a financial asset.

Impairment of financial assets measured at amortised cost

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to 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. The amount of reduction is recognised as an impairment loss in profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

The Group assesses the asset individually for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

Impairment of available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognised directly in capital reserve is reclassified from the capital reserve to profit or loss. The amount of the cumulative loss that is reclassified from capital reserve to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognised as other comprehensive income and included in the capital reserve, while the amount of reversal of impairment loss on available-for-sale debt instruments is recognised in profit or loss.

Impairment of financial assets measured at cost

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognised as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognised.

9.5 Transfer of financial assets

The Group derecognises a financial asset if one of the following conditions is satisfied: (1) the contractual rights to the cash flows from the financial asset expire; or (2) the financial asset has been transferred and substantially all the risks and rewards of ownership of the financial asset is transferred to the transferee; or (3) although the financial asset has been transferred, the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but has not retained control of the financial asset.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference between the carrying amount of the financial asset transferred and the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised in other comprehensive income, is recognised in profit or loss.

9.6 Classification, recognition and measurement of financial liabilities

Debt and equity instruments issued by the Group are classified into financial liabilities or equity on the basis of the substance of the contractual arrangements and definitions of financial liability and equity instrument. The financial liabilities of the Group are classified as the other financial liabilities.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains or losses arising from derecognition or amortisation is recognised in profit or loss for the current period.

9.7 Derecognition of financial liabilities

The Group derecognises a financial liability or part of it only when the underlying present obligation or part of it is discharged. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognises a financial liability or a part of it, it recognises the difference between the carrying amount of the financial liability derecognised and the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

9.8 The offset of financial assets and financial liabilities

Where the Group has a legal right that is currently enforceable to set off the recognised financial assets and financial liabilities, and intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet. Except for the above circumstances, financial assets and financial liabilities shall be presented separately in the balance sheet and shall not be offset.

10. Receivables

10.1 Receivables that are individually significant and for which bad debt provision is individually assessed

Basis or monetary criteria for determining an individually significant receivable	A receivable that exceeds RMB5,000,000 is deemed as an individually significant receivable by the Group.
Method of determining provision for receivables that are individually significant and for which bad debt provision is individually assessed	For receivables that are individually significant, the Group assesses the receivables individually for impairment. For a financial asset that is not impaired individually, the Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Receivables for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

10.2 Receivables that are not individually significant but for which bad debt provision is individually assessed

Reasons for determining individual bad debt provision	Accounts receivable that are not individually significant are deemed to be impaired by evidences such as controversial debt that are unlikely to recover.
Method of determining bad debt provision	Impairment test is individually conducted on accounts receivable that are not individually significant but deemed to be impaired by objective evidence to determine the impairment losses recorded in profit or loss.

10.3 Receivables for which bad debt provision is collectively assessed on portfolio basis

Basis for determining a portfolio according to the credit risk characteristics	The Group classifies the receivables that are not individually significant and those that are individually significant but are not impaired individually into groups of financial assets according to the similarity and relevance of credit risk characteristics. These credit risks usually reflect the debtors' ability to pay the amounts due at maturity under contractual terms of related assets and are related to the estimation of future cash flows of the assets subject to assessment.
Method of determining bad debt provision for a portfolio according to the credit risk characteristics	As collectively assessing the impairment on portfolio basis, the amount of bad debt provision is determined according to that the historical experience on losses and current economic conditions for the receivables' portfolio structure and similar credit risk and predicted impairment losses that have been existed in the portfolio.

11. Inventory

11.1 Categories of inventories

Inventories of the Group mainly include raw materials, low-value consumables and merchandises. Inventories are initially measured at cost. Cost of inventories includes purchasing cost, processing cost and other expenses that help deliver the inventories to the current location and situation.

11.2 Valuation method of inventories upon delivery

The actual cost of inventories upon delivery is calculated using the first-in-first-out method.

11.3 Basis for determining net realisable value of inventories and provision methods for decline in value of inventories

At the balance sheet date, inventories are measured at the lower of cost and net realisable value. If the net realisable value is below the cost of inventories, a provision for decline in value of inventories is made. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale and relevant taxes. Net realisable value is determined on the basis of clear evidence obtained, and takes into consideration the purposes of holding inventories and effect of post balance sheet events.

For large quantity and low value items of inventories, provision for decline in value is made based on categories of inventories. Provision for decline in value of other inventories is made based on the excess of cost of inventory over its net realisable value on an item-by-item basis.

After the provision for decline in value of inventories is made, if the circumstances that previously caused inventories to be written down below cost no longer exist so that the net realisable value of inventories is higher than their cost, the original provision for decline in value is reversed and the reversal is included in profit or loss for the period.

11.4 Inventory count system

The perpetual inventory system is maintained for stock system.

11.5 Amortization of low-value consumable

Low-value consumable is amortised using the immediate write-off method.

12. Long-term equity investments

12.1 Determination of investment cost

For a long-term equity investment acquired through business combination involving enterprises not under common control, the initial investment cost of the long-term equity investment acquired shall be the cost of acquisition. The long-term equity investment acquired through means other than a business combination shall be initially measured at its cost.

12.2 Subsequent measurement and recognition of profit or loss

12.2.1 Long-term equity investments accounted for using the cost method

Long-term equity investments in subsidiaries are accounted for using the cost method in the Company's separate financial statements. A subsidiary is an investee that is controlled by the Group.

Under the cost method, a long-term equity investment is measured at its initial investment cost. Except receiving the actual consideration paid for the investment or the declared but not yet distributed cash dividends or profits which is included in the consideration, investment gains for the period is recognized as the cash dividends or profits declared by the investee.

12.2.2 Disposal of long-term equity investments

On disposal of a long term equity investment, the difference between the proceeds actually received and receivable and the carrying amount is recognised in profit or loss for the period. On disposal of a long-term investment under equity method, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that investee on the same basis as would be if that investee had directly disposed of the related assets or liabilities.

12.3 Basis for determining joint control and significant influence over investee

Control refers to the power over the investee, the exposure to the variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating policy decisions relating to the activity require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. When determining whether an investing enterprise is able to exercise control or significant influence over an investee, the effect of potential voting rights of the investee (for example, warrants and convertible debts) held by the investing enterprises or other parties that are currently exercisable or convertible shall be considered.

12.4 Methods of impairment assessment and determining the provision for impairment loss

The Group reviews the long-term equity investments at each balance sheet date to determine whether there is any indication that they have suffered an impairment loss. If an impairment indication exists, the recoverable amount is estimated. If such recoverable amount is less than its carrying amount, a provision for impairment losses in respect of the deficit is recognised in profit or loss for the period.

Once an impairment loss is recognised for a long-term equity investment, it will not be reversed in any subsequent period.

13. Investment property

Investment property is property held to earn rentals or for capital appreciation or both. It includes a land use right that is leased out; a land use right held for transfer upon capital appreciation; and a building that is leased out.

An investment property is measured initially at cost. Subsequent expenditures incurred for such investment property are included in the cost of the investment property if it is probable that economic benefits associated with an investment property will flow to the Group and the subsequent expenditures can be measured reliably. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

The Group uses the cost model for subsequent measurement of investment property, and adopts a depreciation or amortisation policy for the investment property which is consistent with that for buildings or land use rights.

The Group reviews the investment properties at each balance sheet date to determine whether there is any indication that they have suffered an impairment loss. If there is any indication that such assets may be impaired, the recoverable amounts are estimated for such assets. Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognised in profit or loss for the period.

Once an impairment loss is recognised for an investment property, it will not be reversed in any subsequent period.

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

14. Fixed assets

14.1 Recognition criteria for fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognised only when it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Fixed assets are initially measured at cost.

Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset and if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

14.2 Depreciation of each category of fixed assets

A fixed asset is depreciated over its useful life using the straight-line method since the month subsequent to the one in which it is ready for intended use. The useful life, estimated net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

Category	Depreciation period	Residual value rate	Annual depreciation rate
Buildings and structures	20-35 years	3%-4%	2.70%-4.85%
Machinery and equipment	5-10 years	3%-4%	9.60%-19.40%
Office equipment	5 years	3%-4%	19.20%-19.40%
Vehicles	5-8 years	3%-4%	12.00%-19.40%

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

14.3 Methods of impairment assessment and determining the provision for impairment losses of fixed assets

The Group assesses at each balance sheet date whether there is any indication that the fixed assets may be impaired. If there is any indication that such assets may be impaired, recoverable amounts are estimated for such assets. Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognised in profit or loss for the period.

Once the impairment loss of such assets is recognised, it is not be reversed in any subsequent period.

14.4 Other explanations

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least once at each financial year-end, and account for any change as a change in an accounting estimate.

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognised. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognised in profit or loss for the period.

15. Construction in progress

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period, borrowing costs capitalised before it is ready for intended use and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a fixed asset when it is ready for intended use.

The Group assesses at each balance sheet date whether there is any indication that construction in progress may be impaired. If there is any indication that such assets may be impaired, recoverable amounts are estimated for such assets. Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognised in profit or loss for the period.

Once the impairment loss of construction in progress is recognised, it is not be reversed in any subsequent period.

16. Intangible assets

16.1 Intangible assets

Intangible assets include land use rights, software development costs and distribution network.

Intangible assets are measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortised using the straight-line method over its estimated useful life.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of the period, and makes adjustments when necessary.

16.2 Methods of impairment assessment and determining the provision for impairment losses of intangible assets

The Group assesses at each balance sheet date whether there is any indication that the intangible assets with a finite useful life may be impaired. If there is any indication that such assets may be impaired, recoverable amounts are estimated for such assets. Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognised in profit or loss for the period.

Once the impairment loss of such assets is recognised, it is not be reversed in any subsequent period.

17. Long-term prepaid expenses

Long-term prepaid expenses represent expenses incurred that should be borne and amortised over the current and subsequent periods (together of more than one year). Long-term prepaid expenses are amortised using the straight-line method over the expected periods in which benefits are derived.

18. Revenue

18.1 Revenue from sales of goods

Revenue from sale of goods is recognised when (1) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; (2) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (3) the amount of revenue can be measured reliably; (4) it is probable that the associated economic benefits will flow to the Group; and (5) the associated costs incurred or to be incurred can be measured reliably.

For sale of goods that result in award credits for customers, the consideration received or receivable is allocated between the revenue from sale of goods and the fair value of the award credits. The consideration received or receivable after deduction of the portion attributable to the fair value of the award credits is recognised as revenue, and the portion attributable to the fair value of the award credits is recognised as deferred income.

When a customer redeems the award credits, the Group reclassifies the amount associated with the credits redeemed from deferred income to revenue. The amount of revenue recognised is based on the number of award credits that have been redeemed in exchange for awards, relative to the total number of award credits expected to be redeemed.

18.2 Revenue from rendering of services

Revenue from rendering of services is recognised when (1) the amount of revenue can be measured reliably; (2) it is probable that the associated economic benefits will flow to the enterprise; (3) the stage of completion of the transaction can be determined reliably; and (4) the associated costs incurred or to be incurred can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the costs incurred that will be recoverable, and the costs incurred are recognised as expenses for the period. When it is not probable that the costs incurred will be recovered, revenue is not recognised.

The Group's revenue from service mainly includes the promoting activities. Revenue from rendering of services is recognised when the various services have been provided and related economic benefits will probably flow to the enterprise.

When the Group enters into contract or agreement with other parties which contains both sale of goods and rendering of services, if the portion of sale of goods and rendering of services can be separately measured, the portion of sale of goods and rendering of services are measured individually. If the portion of sale of goods and rendering of services cannot be separately measured or even if it can be separately measured but cannot be measured individually, it is deemed to be sale of goods.

19. Government grants

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration. A government grant is recognised only when the Group can comply with the conditions attaching to the grant and the Group will receive the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. According to the auxiliary object specified in the relative government documents, government grant can be classified as government grants related to assets and government grants related to income.

A government grant related to an asset is recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset.

For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised in profit or loss over the periods in which the related costs are recognised. If the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the period.

20. Deferred tax assets/deferred tax liabilities

The income tax expenses include current income tax and deferred income tax.

20.1 Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods shall be measured at the amount expected to be paid (or recovered) according to the requirements of tax laws.

20.2 Deferred tax assets and deferred tax liabilities

For temporary differences between the carrying amounts of certain assets or liabilities and their tax base, or between the nil carrying amount of those items that are not recognised as assets or liabilities and their tax base that can be determined according to tax laws, deferred tax assets and liabilities are recognised using the balance sheet liability method.

Deferred tax is generally recognised for all temporary differences. Deferred tax assets for deductible temporary differences are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. However, for temporary differences associated with the initial recognition of goodwill and the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset or liability is recognised.

For deductible losses and tax credits that can be carried forward, deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates, according to tax laws, that are expected to apply in the period in which the asset is realised or the liability is settled.

Current and deferred tax expenses or income are recognised in profit or loss for the period, except when they arise from transactions or events that are directly recognised in other comprehensive income or in shareholders' equity, in which case they are recognised in other comprehensive income or in shareholders' equity; and when they arise from business combinations, in which case they adjust the carrying amount of goodwill.

At the balance sheet date, the carrying amount of deferred tax assets is reviewed and reduced if it is no longer probable that sufficient taxable profits will be available in the future to allow the benefit of deferred tax assets to be utilised. Such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

When the Group has a legal right to settle on a net basis and intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously, current tax assets and current tax liabilities are offset and presented on a net basis.

When the Group has a legal right to settle current tax assets and liabilities on a net basis, and deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis or to realise the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be reversed, deferred tax assets and deferred tax liabilities are offset and presented on a net basis.

21. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset are capitalised when expenditures for such asset and borrowing costs are incurred and activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced. Capitalisation of borrowing costs ceases when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale. Capitalisation of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is suspended abnormally and when the suspension is for a continuous period of more than 3 months. Capitalisation is suspended until the acquisition, construction or production of the asset is resumed. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Where funds are borrowed under a specific-purpose borrowing, the amount of interest to be capitalised is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. Where funds are borrowed under general-purpose borrowings, the Group determines the amount of interest to be capitalised on such borrowings by applying a capitalisation rate to the weighted average of the excess of cumulative expenditures on the asset over the amounts of specific-purpose borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

22. Operating lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

22.1 The Group as lessee under operating leases

Operating lease payments are recognised on a straight-line basis over the term of the relevant lease, and are charged to profit or loss for the period. Initial direct costs incurred are charged to profit or loss for the period. Contingent rents are charged to profit or loss in the period in which they are actually incurred.

22.2 The Group as lessor under operating leases

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs with more than an insignificant amount are capitalised when incurred, and are recognised in profit or loss on the same basis as rental income over the lease term. Other initial direct costs with an insignificant amount are charged to profit or loss in the period in which they are incurred. Contingent rents are charged to profit or loss in the period in which they actually arise.

23. Other significant accounting policies and estimates and basis for preparation of the financial statements

23.1 Employee benefits

In an accounting period in which an employee has rendered service to the Group, the Group recognises the employee benefits for that service as a liability, except for compensation for termination of employment relationship with the employees.

The Group participates in the employee social security systems, such as basic pensions, medical insurance, housing funds and other social securities established by the government in accordance with relevant requirements. The related expenditures are charged to profit or loss in the period when they are incurred.

When the Group terminates the employment relationship with employees before the expiry of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, the Group recognizes employee compensation liabilities for the cancellation of the labor relationship, and correspondingly recognize in the current period profits and losses, on the following date which is earlier:

(1) When the Group cannot unilaterally withdraw the termination benefit raised from the plan on the cancellation of labor relationship or the layoff proposal;

(2) When the Group recognizes costs or expenses related to the payment of restructuring related costs or expenses raised from termination benefits.

23.2 Exchange of non-monetary assets

Exchange of non-monetary assets, is mainly consisted of the exchange of inventories, fixed assets, intangible assets, and long-term equity investments. This exchange doesn't involve or lightly involves monetary exchange.

If an exchange of non-monetary assets has commercial substance and the fair value of either the asset received or the asset given up can be reliably measured, the cost of the asset received is measured at the fair value of the asset given up (unless there is conclusive evidence that the fair value of the asset received is more reliable) plus any related taxes, and the difference between the fair value used and the carrying amount of the asset given up is recognised in profit or loss. If an exchange of non-monetary assets fails to meet the above conditions, the cost of the asset received is measured at the carrying amount of the asset given up plus any related taxes, and no gain or loss is recognised.

23.3 Related party

Where one party has control, joint control, or major impact on the other party, or where the two parties or more are or will be under control of the same party, the two parties shall constitute related parties.

IV. SIGNIFICANT JUDGEMENTS MADE IN THE APPLICATION OF ACCOUNTING POLICIES AND KEY ASSUMPTIONS AND UNCERTAINTIES IN ACCOUNTING ESTIMATES

In the application of the Group's accounting policies, which are described in Note III, the Group is required to make judgements, estimates and assumptions about the carrying amounts of items in the financial statements that cannot be measured accurately, due to the internal uncertainty of the operating activities. These judgements, estimates and assumptions are based on historical experiences of the Group's management as well as other factors that are considered to be relevant. Actual results may differ from these estimates of the Group.

The Group regularly reviews the aforesaid judgments, estimates and assumptions on the basis of continuous operation. Where the changes in accounting estimates only impact the current period, the impact shall be recognized during the current period; where such changes impact both the current and future periods, the impact shall be confirmed during the current and future periods when such changes occur.

Significant judgement made in the application of accounting policies

The following are the significant judgement which may have significant influence to the financial statements:

Operating lease – as the lessor

The Group had contract on the investment properties. The Group retains all the significant risks and rewards according to the lease contract and thus accounts for the operating lease.

Critical assumptions and uncertainties in the application of accounting estimates

At the balance sheet date, the following are the critical assumptions and uncertainties which may have significant influence to the financial statements:

Impairment of goodwill

The Group tests whether the goodwill is impaired at least annually. This requires the evaluation of the present value of the future cash flows on the group of assets or groups of assets with allocated goodwill. Upon the evaluation of the present value, the Group should evaluate the future cash flows of the group of assets or groups of assets using the appropriate discounted rate. When the actual cash flows are lower than the predicted cash flows, there might be material impairment. More information relating to goodwill and impairment test is in Note VII. 9.

Provision for inventory impairment based on the net realisable value

The Group recognizes provision for inventory impairment according to the net realizable value of the inventory. Provision for inventory impairment is required to be recognized when there is sign showing that the net realizable value is lower than cost. The Group will reevaluate whether the inventory is obsolete and slow-moving, and the net realizable value is lower than the cost at each year end. Recognition of net realizable value involves judgments and estimations. If the result of new estimation differs from the current estimation, such difference will impact the book value of inventory for the corresponding period.

Provision for bad debt of receivables

The Group recognizes provision for bad debts according to the management's judgement on recoverability of receivables. When there is sign showing that the recoverable amount is lower than its book value, provision for bad debts is required to be recognized. If the result of new estimation differs from the current estimation, such difference will impact the book value of receivables for the corresponding period.

Depreciation

As stated in Note III.14, the Group accounts for the depreciation on a straight-line basis in the predictable useful life after considering the residual value. The Group reviews the predictable useful life to calculate the amount of depreciation in the reporting period. The Group estimates the useful life of fixed assets based on experience of actual useful life of fixed asset of similar nature and function. Significant changes related to the estimation will result in adjustments of depreciation in future periods.

Deferred tax assets

At the balance sheet date, the Group will assess whether the recognition of deferred tax assets will be made. A deferred tax asset should be recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised and the Group should make appropriate estimates and judgements when considering whether there will be enough taxable profit. Deferred tax assets should be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. If the actual earnings accrued in the future is more than estimates, or the actual tax rate is higher than estimates, such deferred tax asset shall be recognized in the consolidated income statement in the six months in which they are incurred.

Customer loyalty programme

Deferred revenue arising from award credits for customers, under the Group's customer loyalty programme, are measured at fair value, according to the Group's policies for credit award redemption and the expected redemption rate. And the estimation of expected redemption rate depends on certain mathematical statistics. At each balance sheet date, the Group re-estimates the expected redemption rate by reference to the actual credits that have been redeemed in exchange for awards, and adjusts the balance of deferred revenue.

V. TAXATION

1. Major tax types and tax rates

Tax type	Basis	Tax rate
Value-added tax	*(Note 1)*	17%/13%/11%/6%
Business tax	Service income	5%
Consumption tax	Income tax subject to consumption tax	5%
City construction and maintenance tax	Value-added tax, consumption tax and business tax	5%/7%
Education surcharges	Value-added tax, consumption tax and business tax	3%/4%
Local education surcharges	Value-added tax, consumption tax and business tax	2%
Corporate income tax	Taxable income	25%

Note 1: The value-added tax payable is the residual value of the output value-added tax after deduction of input value-added tax. The output value-added tax is computed on a basis of sales resolved by relevant tax laws.

2. Tax incentives and approvals

According to point 7, item 1, paragraph 86 of "the Circular of the Scope of the Preferential Policy of Primary Processing of Agricultural Products Relating to the Income Tax" issued by the Ministry of Finance and State Administration of Taxation on 20 November 2008, the Company obtained the right of exemption of relevant income tax of the primarily processed agricultural products in the fresh logistics center.

VI. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2014, the subsidiaries of the Company are as follows:

(1) Subsidiaries held by the Company during the reporting period

RMB

Full name of subsidiaries	Type of subsidiary	Place of registration	Business nature	Registered capital	Scope of business	Holding percentage (%)	Voting percentage (%)*	Consolidated or not	Minority interest **	Amount in minority interests used to absorb the profit or loss attributable to minority interests	Notes
Beijing Jingkelong (Langfang) Co., Ltd. (Jingkelong Langfang)	Limited company	Langfang	Retail	80,000,000	Retail of general merchandise	100	100	Yes	–	–	
Beijing Jingkelong Supermarket Chain Co., Ltd. (Jingkelong Tongzhou)	Limited company	Beijing	Retail	29,000,000	Retail of general merchandise	100	100	Yes	–	–	
Beijing Xinyang Tongli Commercial Facilities Co., Ltd. (Xinyang Tongli)	Limited company	Beijing	Manufacture	3,200,000	Production of plastic packing materials and installation and maintenance of commercial equipment	52.03	52.03	Yes	4,219,747	–	
Beijing Jingkelong Shouchao Commercial Co., Ltd. (Shoulian Supermarket)	Limited company	Beijing	Retail	398,453,439	Retail of general merchandise	100	100	Yes	–	–	
Beijing Shoulian Jiulong Supermarket Co., Ltd.	Limited company	Beijing	Retail	10,000,000	Retail of general merchandise	100	100	Yes	–	–	
Beijing Chaopi Trading Co., Ltd. (Chaopi Trading)	Limited liability company	Beijing	Wholesale	500,000,000	Wholesale of general merchandise	79.85	79.85	Yes	158,008,873	–	
Beijing Chaopi Shuanglong Alcohol Sales Company Limited (Chaopi Shuanglong)*	Limited company	Beijing	Wholesale	110,160,000	Wholesale of alcoholic beverages	47.11	59.00	Yes	64,256,059	–	
Beijing Chaopi Huaqing Beverage Company Limited (Chaopi Huaqing)*	Limited company	Beijing	Wholesale	80,000,000	Wholesale of drinks and food	42.66	53.43	Yes	50,455,270	–	*Note 1*
Beijing Chaopi Flavourings Company Limited (Chaopi Flavourings)*	Limited company	Beijing	Wholesale	50,000,000	Wholesale of edible oil and food	42.03	52.63	Yes	39,422,735	–	
Beijing Chaopi Jinglong Oil Sales Company Limited (Chaopi Jinglong Oil Sales)*	Limited company	Beijing	Wholesale	36,000,000	Wholesale of edible oil	43.30	54.23	Yes	21,189,954	–	
Shijiazhuang Chaopi Xinlong Trading Company Limited*	Limited company	Shijiazhuang	Wholesale	5,000,000	Wholesale of general merchandise	79.85	100	Yes	–	–	
Qingdao Chaopi Jinlong Trading Company Limited*	Limited company	Qingdao	Wholesale	5,000,000	Wholesale of general merchandise	79.85	100	Yes	–	–	
Beijing Chaopi Zhongde Trading Company Limited (Chaopi Zhongde)*	Limited company	Beijing	Wholesale	50,000,000	Wholesale of general merchandise	79.85	100	Yes	–	–	
Beijing Chaopi Huilong Trading Company Limited*	Limited company	Beijing	Wholesale	24,000,000	Wholesale of alcoholic beverages	55.10	69	Yes	522,980	–	*Note 2*
Taiyuan Chaopi Trading Company Limited*	Limited company	Taiyuan	Wholesale	5,000,000	Wholesale of general merchandise	79.85	100	Yes	–	–	
Tangshan Chaopi Trading Company Limited*	Limited company	Tangshan	Wholesale	5,000,000	Wholesale of general merchandise	79.85	100	Yes	–	–	
Tianjin Chaopi Trading Company Limited*	Limited company	Tianjin	Wholesale	15,000,000	Wholesale of general merchandise	79.85	100	Yes	–	–	

RMB

Full name of subsidiaries	Type of subsidiary	Place of registration	Business nature	Registered capital	Scope of business	Holding percentage (%)	Voting percentage (%)*	Consolidated or not	Minority interest **	Amount in minority interests used to absorb the profit or loss attributable to minority interests	*Notes*
Beijing Chaopi Yuli Trading Company Limited*	Limited company	Beijing	Wholesale	12,000,000	Wholesale of general merchandise	30.31	70	Yes	4,930,892	–	
Beijing Chaopi Fangsheng Trading Company Limited*	Limited company	Beijing	Wholesale	12,000,000	Wholesale of general merchandise	63.88	80	Yes	2,691,647	–	
Jinan Chaopi Linda Trading Company Limited*	Limited company	Jinan	Wholesale	26,000,000	Wholesale of general merchandise	51.90	65	Yes	10,174,588	–	
Beijing Chaopi Shenglong Trading Company Limited (Chaopi Shenglong)*	Limited company	Beijing	Wholesale	20,000,000	Wholesale of packed food, package and storage service	47.11	59	Yes	7,218,852	–	
Beijing Chaopi Tianhua Trading Company Limited*	Limited company	Beijing	Wholesale	10,000,000	Wholesale of packed food, package and storage service	42.66	53.43	Yes	5,363,141	–	
Datong Chaopi Beichen Trading Company*	Limited company	Datong	Wholesale	26,000,000	Wholesale of packed food, package and storage service	55.90	70	Yes	7,969,011	–	
Datong Chaopi Ant Trading Company Limited*	Limited company	Datong	Retail	5,000,000	Retail of general merchandise and storage service	55.90	100	Yes	–	–	
Tangshan Chaopi Baishun Trading Company*	Limited company	Tangshan	Wholesale	30,000,000	Wholesale of general merchandise, freight and exhibition service	55.90	70	Yes	9,360,374	–	
Beijing Chaopi Maolisheng Trading Company Limited*	Limited company	Beijing	Wholesale	50,000,000	Wholesale of general merchandise	51.90	65	Yes	25,540,295	–	
HongKong Chaopi Asian Company Limited*	Limited company	Hong Kong	Wholesale	HKD 10,000	Merchandise Trading	42.03	100	Yes	–	–	

(2) Subsidiaries acquired or established through investment during the reporting period

RMB

Full name of subsidiaries	Type of subsidiary	Place of registration	Business nature	Registered capital	Scope of business	Holding percentage (%)	Voting percentage (%)*	Consolidated or not	Minority interest **	Amount in minority interests used to absorb the profit or loss attributable to minority interests	*Notes*
Beijing Chaopi Shengshi Trading Company Limited ("Chaopi Shengshi")*	Limited Company	Beijing	Wholesale	25,000,000	Wholesale of cosmetics	51.90	65	Yes	–	–	*Note 3*
Beijing Qumeiba Information Technology Company Limited ("Chaopi Qumeiba")*	Limited Company	Beijing	Wholesale	1,000,000	Wholesale of cosmetics	51.90	65	Yes	–	–	*Note 4*

Except for the newly established subsidiaries through investment, there was no change in the scope of consolidated financial statements during the current reporting period.

Note 1: On 13 June 2014, the Company's subsidiary, Chaopi Traidng and other equity holders contributed additional RMB12,822,800 and RMB11,679,100, respectively, into Chaopi Huaqing. As of the date, the registered capital of Chaopi Huaqing increased to RMB80,000,000. Upon the completion of the capital increase, the equity interest in Chaopi Huaqing was directly held by Chaopi Trading as to 53.43%, and indirectly held by the Company through Chaopi Trading as to 42.66%.

Note 2: On 16 May 2014, the Company's subsidiary, Chaopi Trading, entered into an equity transfer agreement with other investors to acquire 8.75% equity interest in Chaopi Huilong from the said investors at a consideration of RMB2,100,000. As of the reporting date, Chaopi Trading has not paid the consideration to the said investors to complete the equity transfer.

Note 3: On 16 May 2014, the Company's subsidiary, Chaopi Trading, established a subsidiary, Chaopi Shengshi, with independent third parties. The registered capital of Chaopi Shengshi was RMB25,000,000. The subscribed capital contribution of Chaopi Trading was RMB16,250,000. Thus, Chaopi Trading's direct interest in Chaopi Shengshi was 65%. The Company indirectly held 51.90% of the equity interest in Chaopi Shengshi through Chaopi Trading. Chaopi Shengshi has obtained its Business License numbered 110105017227187. On 4 July 2014, Chaopi Trading injected RMB16,250,000 into Chaopi Shengshi and fully paid up its subscribed capital contribution.

Note 4: On 19 May 2014, the Company's subsidiary, Chaopi Trading, established a subsidiary, Chaopi Qumeiba, with an independent third party. The registered capital of Chaopi Qumeiba was RMB1,000,000. The subscribed capital contribution of Chaopi Trading was RMB650,000. Thus, Chaopi Trading's direct interest in Chaopi Qumeiba was 65%. The Company indirectly held 51.90% of the equity interest in Chaopi Qumeiba through Chaopi Trading. Chaopi Qumeiba has obtained its Business License numbered 110105017246602. On 7 July 2014 Chaopi Trading injected RMB650,000 into Chaopi Qumeiba and fully paid up its subscribed capital contribution.

* Chaopi Trading holds more than 50% of the equity interests of those companies which are deemed to be the subsidiaries. As the Company holds 79.85% of Chaopi Trading, the holding percentage is different with the voting power percentage.

** The minority interests are stated in respect of the shareholders' equity of subsidiaries that are not owned by the direct controlling shareholders. And the equity of the subsidiary of Chaopi Trading indirectly held by the minority shareholders of Chaopi Trading is included in the minority shareholders' equity of Chaopi Trading.

VII. NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank balances

RMB

Item	2014.6.30 (unaudited) Original Currency	Exchange Rate	RMB
Cash:			
RMB			**28,380,746**
USD	**487**	**6.0965**	**2,969**
HKD	**418**	**0.7871**	**329**
GBP	**201**	**10.0647**	**2,023**
SGD	**2,110**	**4.7848**	**10,096**
Bank balances:			
RMB			**637,729,867**
EUR	**106,412**	**8.3946**	**893,286**
Other currencies-RMB			
Bank acceptance margin deposits *(Note 1)*			**23,877,466**
Total			**690,896,782**

RMB

Item	2013.12.31 (audited) Original Currency	Exchange Rate	RMB
Cash:			
RMB			28,422,743
USD	482	6.1017	2,941
HKD	1,650	0.7861	1,297
GBP	193	10.0363	1,937
SGD	2,026	4.7853	9,695
Bank balances:			
RMB			561,114,700
Other currencies-RMB			
Bank acceptance margin deposits *(Note 1)*			11,335,458
Deposits for letter of credit *(Note 2)*			700,000
Total			601,588,771

Note 1: As at 30 June 2014, the Group's bank acceptance margin deposits with use restrictions was RMB23,877,466 (31 December 2013: RMB11,335,458). See Note VII 13.

Note 2: As at 30 June 2014, the Group has no deposit for letter of credit with use restrictions (31 December 2013: RMB700,000). See Note VII 13.

2. Accounts receivable

The Group normally allows a credit period of no more than 90 days to its customers. A longer credit period is granted to its major customers with 180 days. Accounts receivables bear no interest except the amount due from Beijing Shoulian Trading Group Limited ("Shoulian Group"), which bears interest at a rate of 6.40% per annum from 1 January 2014 to 30 June 2014 ("the current period"). (During 1 January 2013 to 30 June 2013 ("the previous corresponding period"):6.40% per annum).

Aging of accounts receivable, based on the invoice date, is as follows:

		RMB
Aging	**2014.6.30 (unaudited)**	2013.12.31 (audited)
Within 1 year	**1,341,481,323**	1,556,171,061
1 to 2 years	**16,855,725**	21,993,871
3 to 4 years	**80,000,000**	80,000,000
Total	**1,438,337,048**	1,658,164,932

As at 30 June 2014, accounts receivable of the Group amounted to RMB80,000,000 (31 December 2013: RMB80,000,000) due from Shoulian Group were overdue for more than two years. In the opinion of the directors, no impairment is necessary in view of the following consideration: the accounts receivable bear interest at the rate stated above, and all the interest has been received in full. Moreover, Shoulian Group has pledged one piece of its land and related buildings with a total value of not less than the overdue accounts receivable in favor of the Group.

As at 30 June 2014, allowance for doubtful debts was RMB1,890,579 (31 December 2013: RMB1,890,579).

As at 30 June 2014, the total accounts receivable due from Beijing Wu-mart Comprehensive Supermarket Co., Ltd., Auchan (China) investment Co., Ltd., Beijing Carrefour Commercial Co., Ltd. and Beijing Lotus Supermarket Chain Store Co., Ltd. amounted to RMB131,969,840 (31 December 2013: RMB206,767,979) were limited by being factored to secure certain of the Group's bank loans. See Note VII 12.

3. Prepayments

Aging analysis of prepayments is as follows:

		RMB
Aging	**2014.6.30 (unaudited)**	2013.12.31 (audited)
Within 1 year	**494,585,225**	550,729,655
Total	**494,585,225**	550,729,655

As at 30 June 2014 and 31 December 2013, there were no prepayments due from shareholders holding 5% or more of the Company's shares with voting power.

4. Inventories

Item	2014.6.30 (unaudited)	RMB 2013.12.31 (audited)
Merchandise	**1,406,503,857**	1,471,893,523
Raw materials	**4,107,818**	8,755,812
Low-valued consumables	**353,451**	601,149
Total	**1,410,965,126**	1,481,250,484

As at 30 June 2014, provision for decline in value of inventory was RMB1,545,336 (31 December 2013: RMB1,454,904). As at 30 June 2014 and 31 December 2013, no inventory was pledged or guaranteed.

5. Other current assets

Item	2014.6.30 (unaudited)	RMB 2013.12.31 (audited)
Short-term investment *(Note 1)*	**30,000,000**	65,000,000
Tax credit	**89,706,359**	148,368,819
Prepaid rental expenses	**38,191,430**	28,420,556
Other prepaid expenses *(Note 2)*	**2,805,194**	5,333,002
Total	**160,702,983**	247,122,377

Note 1: On 30 April, 2014, Chaopi Shuanglong, a subsidiary of the Company, held financial products of RMB30,000,000 managed by China Guangfa Bank. The maturity date was 30 July 2014. The expected annualized rate of return was about 5%. The principal and interest of such short-term investments amounted to RMB30,373,973 were fully recovered on 30 July 2014.

On 31 December 2013, the Company held banking financial products of RMB20,000,000 managed by Guangda Securities Co., Ltd., and Chaopi Trading, a subsidiary of the Company, held financial products of RMB45,000,000 managed by Bank of Communications Co., Ltd., with estimated annualized rate of return of 3.0% to 25.6%. The principal and interest of such short-term investments amounted to RMB65,028,064 were fully recovered on 13 January 2014.

Note 2: Other prepaid expenses mainly included heating fees, cooling fees, property fees, cleaning fees and security fees.

6. Available-for-sale financial assets

Name of investee	Holding Percentage%	**2014.6.30 (unaudited)**	*RMB* 2013.12.31 (audited)
Shanxi Xinghuacun Fen Wine Factory Co., Ltd. (Shanxi Xinghuacun) *(Note 1)*	0.023	**2,656,000**	3,860,000
Luoyang Chundu Group Ltd. (Luoyang Chundu) *(Note 2)*	0.120	**–**	–

Note 1: The Company's subsidiary, Chaopi Trading, gained 100,000 stocks (RMB1 for each stock) from Shanxi Xinghuacun for RMB350,000 in November 1993. On 18 May 2012, Shanxi Xinghuacun issued a stock dividend of 10 for 10 stocks to all shareholders through the notice of 2011 annual general meeting. As at 30 June 2014, Chaopi Trading held 200,000 stocks in total with 0.023% of its equity (31 December 2013: 0.023%). In the current period, the decrease in fair value of the Group's available-for-sale financial assets amounted to RMB1,204,000 (the previous corresponding period: decreased by RMB3,432,000) was recognised in other comprehensive income. See Note VII 22.

Note 2: The Company's subsidiary, Chaopi Trading, gained 600,000 stocks (RMB1 for each stock) from Luoyang Chundu for RMB1,188,000 in June 1993. As at 30 June 2014 and 31 December 2013, Chaopi Trading held 0.12% of its equity. As the change of operating condition of Luoyang Chundu, the Group took full provision for the equity investment whose recoverable amount is less than the carrying amount and the decrease is not expected to be recovered in the foreseeable future.

7. Fixed assets, construction in progress and investment properties

During the current period, the original book value for fixed assets and construction in progress purchased by the Group was RMB12,615,299 and RMB21,582,409, respectively. For the previous corresponding period, the original book value for fixed assets and construction in progress purchased by the Group was RMB82,541,805 and RMB67,470,469, respectively. In total, the Group has disposed its fixed assets amounted to RMB5,631,021 in the current period (the previous corresponding period: RMB13,678,282).

As at 30 June 2014, the fixed assets and investment properties with net book value of RMB135,492,851 and RMB7,201,296 (31 December 2013: RMB140,039,233 and RMB7,447,628) were pledged to secure certain of the Group's bank loans. See Note VII 12.

8. Intangible assets

During the current period, the Group has intangible assets with book value of RMB2,155,887 purchased (the previous corresponding period: RMB4,397,675), and intangible assets with book value of RMB4,817,669 transferred from investment property (the previous corresponding period: Nil).

As at 30 June 2014 and 31 December 2013, no land-use-right had been pledged or guaranteed.

9. Goodwill

As at 30 June 2014 and 31 December 2013, the balance of goodwill was arising from the purchase of Shoulian Supermarket and its subsidiaries ("Shouchao Group"), and Beijing Jingchao Commercial Company Limited ("Jingchao").

The impairment tests of goodwill acquired through the purchase of Shouchao Group and Jingchao were conducted on the group of assets in relation to the retailing business segment of the Shouchao Group after consolidation of Jingchao.

The recoverable amount of the group of assets had been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to calculate the present value of a future stream of cash flows was 12% (the previous corresponding period: 13%). The growth rate used to extrapolate the cash flows of the subsidiary beyond the five-year period was 3% (the previous corresponding period: 3%).

As at 30 June 2014 and 31 December 2013, the calculation of the present value of cash flow of Shouchao Group had certain key assumptions. Below are the key assumptions made by the management when forecasting the present value of a future stream of cash flows to conduct impairment tests of goodwill:

Budget gross profit – based on the prior year's average gross profit margin.

Discount rate – using the discount rate before tax that reflects Shouchao Group's specific risks.

The values assigned to key assumptions are consistent with external information sources.

10. Long-term prepaid expenses

During the current period, the addition of long-term prepaid expenses was RMB3,421,720 (the previous corresponding period: RMB48,001,713). This amount was transferred from construction in progress to the leasehold improvements.

11. Other non-current assets

RMB

Item	**2014.6.30 (unaudited)**	2013.12.31 (audited)
Long-term receivables from Shoulian Group *(Note 1)*	**111,000,000**	47,500,000
Long-term receivables from Hongchaoweiye *(Note VIII 4(1) – 1)*	**37,896,977**	45,476,373
Security deposits	**13,010,442**	13,712,683
Total	**161,907,419**	106,689,056

Note 1: As at 30 June 2014, such long-term receivables are consisted of borrowings lent by Shoulian Supermarket to Shoulian Group, due on 31 December 2015 as agreed upon. The long-term receivables bear interest at 6.00% per annum. Pieces of lands and related buildings of Shoulian Group with a total fair value not less than the balance of the long-term receivables has been pledged in favor of Shoulian Supermarket. The mortgage registration of such buildings and land use rights are still in the process.

12. Short-term borrowings and long-term borrowings

RMB

Item	**2014.6.30 (unaudited)**	2013.12.31 (audited)
Short-term borrowings	**1,882,291,791**	1,860,977,942
– accounts receivable secured loans *(Note 1)*	**26,350,718**	99,598,081
– guaranteed loans *(Note 2)*	**1,605,941,073**	1,611,379,861
– credit loans *(Note 3)*	**250,000,000**	150,000,000
Long-term borrowings due within one year	**10,000,000**	10,000,000
– secured loans *(Note 4)*	**10,000,000**	10,000,000
Long-term borrowings	**196,000,000**	234,000,000
– secured loans *(Note 4)*	**196,000,000**	234,000,000
Total	**2,088,291,791**	2,104,977,942

As at 30 June 2014, the Group's borrowings are denominated in RMB. The short-term borrowings bear annual interest rates ranging from 5.60% to 6.72% (31 December 2013: 5.04% to 7.20%), and the long-term borrowings bear annual interest rates at 5.84% (31 December 2013: 5.84%). All of the borrowings were repaid in time.

Note 1: As at 30 June 2014, the Group's subsidiary, Chaopi Trading obtained the short-term borrowings from HSBC (China) Ltd., secured by its accounts receivable from Beijing Wu-mart Comprehensive Supermarket Co., Ltd., Auchan (China) investment Co., Ltd., Beijing Carrefour Commercial Co., Ltd., and Beijing Lotus Supermarket Chain Store Co., Ltd amounted to RMB131,969,840 (31 December 2013: RMB206,767,979). See Note VII 2.

Note 2: As at 30 June 2014, among such short-term borrowings, RMB240,000,000 was borrowed by the Company upon a surety provided by the Chaopi Trading; RMB983,021,073 was borrowed by the Company's subsidiary, Chaopi Trading, upon a surety provided by the Company; and RMB382,920,000 was borrowed by the subsidiaries of Chaopi Trading upon sureties provided by Chaopi Trading.

As at 31 December 2013, among such short-term borrowings, RMB250,000,000 was borrowed by the Company upon a surety provided by Chaopi Trading; RMB980,431,697 was borrowed by the Company's subsidiary, Chaopi Trading, upon a surety provided by the Company; and RMB380,948,164 was borrowed by subsidiaries of Chaopi Trading upon sureties provided by Chaopi Trading.

Note 3: As at 30 June 2014, the credit loans included RMB100,000,000, RMB50,000,000 and RMB100,000,000 granted by Beijing Rural and Commercial Bank, Mizuho Bank (China) Ltd. and Industrial and Commercial Bank of China, respectively, on an unsecured basis.

As at 31 December 2013, the credit loans included RMB100,000,000 and RMB50,000,000 granted by Beijing Rural Commercial Bank and Mizuho Bank (China), Ltd., respectively on an unsecured basis.

Note 4: As at 30 June 2014, long-term borrowings of the Group were secured by certain of the Group's buildings with carrying amounts of RMB135,492,851 (31 December 2013: RMB140,039,233) and investment properties with carrying amounts of RMB7,201,296 (31 December 2013: RMB7,447,628).See Note VII 7.

13. Notes payable and accounts payable

RMB

Item	2014.6.30 (unaudited)	2013.12.31 (audited)
Notes payable	**204,485,730**	56,677,291
Accounts payable	**938,453,928**	1,138,958,035
Total	**1,142,939,658**	1,195,635,326

An aging analysis of notes payable and accounts payable, based on the invoice date, is as follows:

RMB

Item	2014.6.30 (unaudited)	2013.12.31 (audited)
Within 1 year	**1,135,653,917**	1,183,473,522
1 year to 2 years	**5,289,006**	10,050,700
Over 2 years	**1,996,735**	2,111,104
Total	**1,142,939,658**	1,195,635,326

The accounts payable and notes payable of the Group are non-interest-bearing, the accounts payable are normally settled on 60-day terms, and the notes payable are normally settled on 90-day-to-180-day terms.

As at 30 June 2014, the bank acceptance bills among notes payable of the Group amounted to RMB204,485,730 (31 December 2013: RMB56,677,291) were secured by certain of the Group's margin deposits amounted to RMB23,877,466 (31 December 2013: RMB11,335,458). See Note VII 1.

As at 30 June 2014, the extended letter of credit of the Group was nil (31 December 2013: RMB700,000). See Note VII 1.

14. Undistributed profits

RMB

Item	Amount
Six months ended 30 June 2014 (unaudited):	
Undistributed profits at the beginning of the period	**499,634,209**
Add: Net profits attributable to the shareholders of parent company for the period	**29,361,008**
Less: Dividends payable to ordinary shareholders	**41,222,000**
Undistributed profits at the end of the period	**487,773,217**
Six months ended 30 June 2013 (unaudited):	
Undistributed profits at the beginning of the period	**493,033,750**
Add: Net profits attributable to the shareholders of parent company for the period	**48,365,390**
Less: Dividends payable to ordinary shareholders	**41,222,000**
Undistributed profits at the end of the period	**500,177,140**

(1) *Dividend*

In the current period, a final dividend of RMB10 cents per share in respect of the year ended 31 December 2013 (the previous corresponding period: RMB10 cents per share in respect of the year ended 31 December 2012) was declared and paid to the shareholders of the Company. The aggregated amount of the final dividend declared and paid was RMB41,222,000 (the previous corresponding period: RMB41,222,000)

In the current period, the directors of the Company do not recommend the payment of an interim dividend (the previous corresponding period: Nil).

15. Operating income and operating costs

(1) *Operating income and operating costs*

RMB

Item	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
Principal operating income	**5,004,423,169**	4,709,149,979
Other operating income	**441,497,666**	388,253,164
Operating costs	**4,339,049,338**	4,025,156,342

(2) *Principal operating income (classified by industry segments)*

RMB

Item	Six months ended 30 June 2014 (unaudited)		Six months ended 30 June 2013 (unaudited)	
	Principal operating income	Principal operating costs	Principal operating income	Principal operating costs
Retailing	**2,419,208,698**	**2,020,458,775**	2,328,055,524	1,940,033,643
Wholesale	**2,574,359,604**	**2,306,206,519**	2,375,350,950	2,077,635,185
Others	**10,854,867**	**8,587,251**	5,743,505	4,512,343
Total	**5,004,423,169**	**4,335,252,545**	4,709,149,979	4,022,181,171

The principal operating income is mainly consisted of selling food, non-staple food, daily consumer goods, beverages and wine, etc.

16. Selling expenses

RMB

Item	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
Wages and salaries	**220,464,415**	220,353,479
Depreciation and amortization expenses	**95,669,406**	97,460,425
Lease expenses	**117,799,958**	119,722,563
Others	**337,781,253**	303,885,691
Total	**771,715,032**	741,422,158

17. Administrative expenses

RMB

Item	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
Wages and salaries	**112,775,166**	100,825,411
Depreciation and amortization expenses	**4,564,551**	4,373,947
Others	**24,209,143**	30,241,106
Total	**141,548,860**	135,440,464

18. Financial expenses

RMB

Item	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
Interest expenses	**86,903,212**	77,172,233
Less: Capitalised interest expenses	**704,916**	1,983,859
Interest income	**(6,995,042)**	(4,705,425)
Bank charges	**2,762,134**	4,291,094
Exchange losses (gains)	**179,308**	(103,830)
Total	**82,144,696**	74,670,213

19. Investment income

RMB

Item	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
Investment income from short-term financial products	**1,958,307**	188,293
Total	**1,958,307**	188,293

20. Income tax expenses

RMB

Item	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
Current income tax expenses calculated according to tax laws and relevant requirements	**30,997,713**	27,328,343
Deferred income tax expenses	**(7,086,268)**	589,410
Total	**23,911,445**	27,917,753

Reconciliation between income tax expenses and accounting profits is as follows:

Item	Six months ended 30 June 2014 (unaudited)	*RMB* Six months ended 30 June 2013 (unaudited)
Accounting profit	**79,871,404**	100,688,923
Income tax expenses calculated at tax rate of 25%	**19,967,851**	25,172,231
Tax effect of non-deductible expenses	**2,492,340**	2,092,853
Tax effect of non-taxable income	**(1,396,646)**	(1,503,024)
Effect of using previously unrecognised deductible losses	**–**	(151,618)
Effect of unrecognised deductible losses	**2,410,986**	1,673,561
Effect of funds borrowed from related party recognised as interest income	**436,914**	633,750
Total	**23,911,445**	27,917,753

Please refer to Note V for details of corporate income tax rate.

21. Other comprehensive income

Item	Six months ended 30 June 2014 (unaudited)	*RMB* Six months ended 30 June 2013 (unaudited)
Losses arising from available-for-sale financial assets	**1,204,000**	3,432,000
Less: Tax effects arising from available-for-sale financial assets	**301,000**	858,000
Total	**903,000**	2,574,000

22. Earnings per share

Item	Six months ended 30 June 2014 (unaudited)	*RMB* Six months ended 30 June 2013 (unaudited)
Profit for the period attributable to shareholders of the parent company	**29,361,008**	48,365,390
Number of ordinary shares used in the calculation of basic earnings per share	**412,220,000**	412,220,000

Item	Six months ended 30 June 2014 (unaudited)	*RMB* Six months ended 30 June 2013 (unaudited)
Calculated based on the net profit attributable to ordinary shareholders of the parent company:		
Basic earnings per share	**0.07**	0.12

Up to the reporting date, the Company does not have any dilutive potential ordinary shares.

23. Supplementary information to the cash flow statements

(1) Supplementary information to the cash flow statements

RMB

Supplementary information	**Six months ended 30 June 2014 (unaudited)**	Six months ended 30 June 2013 (unaudited)
1. Reconciliation of net profits and cash flow from operating activities:		
Net profits	**55,959,959**	72,771,170
Add: Provision for impairment losses of assets	**90,432**	–
Depreciation of fixed assets	**62,945,826**	60,478,520
Depreciation of investment properties	**2,426,987**	2,484,733
Amortization of intangible assets	**5,487,510**	4,308,038
Amortization of long-term prepaid expenses	**33,657,270**	40,497,159
Losses on disposal of non-current assets	**1,288,218**	1,288,191
Financial expenses (including exchange gains and losses)	**79,382,562**	70,729,119
Investment income	**(1,958,307)**	(188,293)
Amortization of asset-related government grants	**(508,633)**	(133,333)
Increase (decrease) in deferred tax liabilities	**(520,120)**	199,791
Decrease (increase) in deferred tax assets	**(6,566,148)**	389,619
Decrease in inventories	**70,194,926**	160,890,154
Decrease (increase) in receivables from operating activities	**247,859,625**	(454,393,555)
Increase (decrease) in payables from operating activities	**(47,689,072)**	537,842,558
Net cash flow from operating activities	**502,051,035**	497,163,871
2. Net change in cash and cash equivalents:		
Cash balance at the end of the period	**667,019,316**	704,315,812
Less: Cash balance at the beginning of the period	**589,553,313**	461,110,253
Increase (decrease) in cash and cash equivalents	**77,466,003**	243,205,559

(2) Composition of cash and cash equivalents

RMB

Item	**30 June 2014 (unaudited)**	30 June 2013 (unaudited)
Cash		
Including: Cash on hand	**28,396,163**	31,062,228
Bank deposits	**638,623,153**	673,253,584
Closing balance of cash and cash equivalents	**667,019,316**	704,315,812

24. Segment reporting

For the purpose of management, the Group classified the operations into three segments according to the products and services:

(a) the retailing segment engages in the distribution of food, non-staple food, daily necessities, alcoholic drinks and cigarettes, hardware and household appliances;

(b) the wholesaling segment engages in the wholesale supply of daily consumer products, including food, non-staple food, beverages, alcoholic drinks and daily necessities;

(c) the "others" segment comprises, principally, the production of plastic packing materials.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessments. Segment performance is evaluated based on reportable segment profit, which is measured consistently with the Group's profit before tax in the consolidated financial statements.

All the asset and liability has been allocated to respective segment. No unallocated assets and liabilities are centrally managed by the Group.

The pricing of inter-segment transactions is based on the market prices as well as the actual transaction prices.

Since all the business and assets of the Group allocate in China, no geographical segment report was disclosed.

For the six months ended 30 June 2014 (unaudited)

RMB

	Retailing	Wholesaling	Others	Inter-segment elimination	Total
Operating income					
External revenue	2,604,180,074	2,829,045,016	12,695,745	–	5,445,920,835
Inter-segment revenue	22,942,776	271,353,461	6,789,388	(301,085,625)	–
Total	2,627,122,850	3,100,398,477	19,485,133	(301,085,625)	5,445,920,835
Total profit	26,736,410	52,251,771	883,223	–	79,871,404
Income tax expenses	7,270,844	16,413,123	227,478	–	23,911,445
Net profit	19,465,566	35,838,648	655,745	–	55,959,959
Supplementary information:					
Depreciation and amortisation	92,648,375	11,848,617	20,601	–	104,517,593
Impairment loss on assets	90,432	–	–	–	90,432
Capital expenditures	32,385,575	4,419,823	10,468	–	36,815,866

For the six months ended 30 June 2013 (unaudited)

RMB

	Retailing	Wholesaling	Others	Inter-segment elimination	Total
Operating income					
External revenue	2,511,200,554	2,580,295,892	5,906,697	–	5,097,403,143
Inter-segment revenue	18,972,633	270,715,124	9,765,887	(299,453,644)	–
Total	2,530,173,187	2,851,011,016	15,672,584	(299,453,644)	5,097,403,143
Total profit	29,078,216	69,084,453	2,526,254	–	100,688,923
Income tax expenses	6,474,267	20,805,030	638,456	–	27,917,753
Net profit	22,603,949	48,279,423	1,887,798	–	72,771,170
Supplementary information:					
Depreciation and amortisation	96,792,290	10,959,608	16,552	–	107,768,450
Capital expenditures	140,143,061	14,149,209	117,679	–	154,409,949

30 June 2014 (unaudited)

RMB

	Retailing	**Wholesaling**	**Others**	**Inter-segment elimination**	**Total**
Total assets	**3,834,081,868**	**3,679,285,980**	**17,767,385**	**(687,608,269)**	**6,843,526,964**
Total liabilities	**2,821,663,962**	**2,646,946,230**	**8,970,518**	**(687,608,269)**	**4,789,972,441**

31 December 2013 (audited)

RMB

	Retailing	Wholesaling	Others	Inter-segment elimination	Total
Total assets	4,166,122,378	3,771,491,805	16,824,133	(804,379,967)	7,150,058,349
Total liabilities	3,171,872,601	2,697,531,678	8,683,011	(804,379,967)	5,073,707,323

The Group's businesses are principally retailing and wholesaling in Beijing, the PRC. The mainly identifiable assets are located in Beijing and Hebei Province.

In the current period, the Group has not placed reliance on any single external customer.

25. Net current assets

RMB

Item	**2014.6.30 (unaudited)**	2013.12.31 (audited)
Current assets	**4,374,123,797**	4,667,991,529
Less: current liabilities	**3,815,074,108**	4,064,904,393
Net current assets	**559,049,689**	603,087,136

26. Total assets less current liabilities

Item	2014.6.30 (unaudited)	RMB 2013.12.31 (audited)
Total assets	**6,843,526,964**	7,150,058,349
Less: current liabilities	**3,815,074,108**	4,064,904,393
Total assets less current liabilities	**3,028,452,856**	3,085,153,956

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. Information of the parent company

The Company's ultimate holding company is Chaoyang Auxiliary.

2. Information of subsidiaries

Detailed information of the subsidiaries is disclosed in Note VI – Business Combination and Consolidated Financial Statements.

3. Information of other related party

Name of other related party	Relationship with the Company	Organization Code
Beijing Tengyuan Xingye Motor Service Company Limited ("Tengyuan Xingye")	Company controlled by the same parent	10169570-2

4. Related party transaction

(1) Related party's lease transaction and relocation compensation

Lessor	Lessee	Type of lease	Pricing basis of related party transaction	*Notes*	Six months ended 30 June 2014 (unaudited)	RMB Six months ended 30 June 2013 (unaudited)
Chaoyang Auxiliary	The Company	Rental expense	Price negotiated	*Note 1*	**663,172**	663,172
Chaoyang Auxiliary	Xinyang Tongli	Relocation compensation	Price negotiated	*Note 2*	**–**	1,653,398
Tengyuan Xingye	The Company	Rental and property management expense	Price negotiated	*Note 3*	**1,601,967**	1,601,967

Note 1: Pursuant to property lease agreements and supplementary agreements between the Group and Chaoyang Auxiliary, the Company and Chaopi Trading leased certain properties from Chaoyang Auxiliary for the purpose of operation, with lease terms ranging from 10 to 20 years.

On 30 June 2011, except for the properties used by five stores of the Company and the five properties for which lease agreements were terminated, the State-owned Assets Supervision and Administration Commission of Beijing Chaoyang District approved the transfer of the land and properties used by the Company and Chaopi Trading (the "transferred assets") from Chaoyang Auxiliary to Hongchao Weiye Company Limited ("Hongchao Weiye"). Subsequently, the Company and Chaopi Trading entered into a series of lease agreements and supplementary agreements with Hongchao Weiye, respectively, to lease the aforesaid properties for operation purposes. The rent paid to Hongchao Weiye by the Company and Chaopi Trading was aggregated to RMB14,902,683 for the current period (the previous corresponding period: RMB14,902,683).

On 1 December 2013, the Company entered into supplementary agreements to the aforesaid lease contract with Hongchao Weiye. Considering that the Company paid relevant construction fees on the re-build project of certain of the properties in previous years and the renovation project conducted by the Company on behalf of Hongchao Weiye, Hongchao Weiye would compensate the Company for the relevant construction costs and related tax paid ("agent construction fees") on property renovation project and re-build project according to the price and progress agreed upon. As at 30 June 2014, such agent construction fees were RMB87,943,628 (31 December 2013: RMB86,742,211), including RMB50,046,651 (31 December 2013: RMB41,265,838) recorded in other receivables, and RMB37,896,977 (31 December 2013: RMB45,476,373) recorded in long-term receivables. Meanwhile, according to the agreements, agent construction fees receivables of RMB33,601,163 recorded in other receivables would offset the rent payable to Hongchao Weiye on 30 June 2014 (31 December 2013: RMB22,197,108).

Note 2: On 30 April 2004, the Company's subsidiary, Xinyang Tongli, leased a property located at No.1, Tuofangying, Jiuxianqiao of Chaoyang District, Beijing from Chaoyang Auxiliary with annual rent of RMB16,257, for a term from 1 January 2004 to 31 December 2023. On 14 December 2012, a compensation agreement was entered into between Chaoyang Auxiliary and Xinyang Tongli, pursuant to which compensation amounted to RMB6,349,040 should be paid to Xinyang Tongli as determined after taking into account its loss in equipment and fixtures and loss of business interruption, etc. arising from the termination of the lease agreement. Xinyang Tongli received the aforesaid compensation on 18 January 2013. According to the reallocation progress at the end of relevant periods, the compensation recognised as an income by Xinyang Tongli was nil for the current period (the previous corresponding period: RMB1,653,398).

Note 3: Pursuant to the lease agreement signed between the Company and Tengyuan Xingye, the Company leased a property from Tengyuan Xingye for operation purposes. For the current period, the aggregated amount for rental expenses, occupancy fee and property management expenses paid to Tengyuan Xingye by the Company was RMB1,601,967 (the previous corresponding period: RMB1,601,967).

(2) Emolument of key management

RMB

Item	**Six months ended 30 June 2014 (unaudited)**	Six months ended 30 June 2013 (unaudited)
Emolument of key management	**5,936,937**	6,179,709

5. Receivables and payables with related parties

The Group had no receivables or payables balance with related parties as at 30 June 2014 and 31 December 2013.

6. Commitments between the Group and related parties

The Company had signed lease contracts with Chaoyang Auxiliary and Tengyuan Xingye for store operation and storage.

The anticipated future rent paid by the Group:

RMB

	2014.6.30 (unaudited)	2013.12.31 (audited)
First year from the balance sheet date	**4,530,278**	4,530,278
Second year from the balance sheet date	**4,530,278**	4,530,278
Third year from the balance sheet date	**4,530,278**	4,530,278
Subsequent years	**24,963,024**	27,228,163
Total	**38,553,858**	40,818,997

IX. COMMITMENTS

1. Capital commitments

RMB

	2014.6.30 (unaudited)	2013.12.31 (audited)
Acquisition of fixed assets		
Authorised but not contracted for	**228,071,812**	93,687,767
Contracted for but not provided	**136,952,403**	136,735,792
Total	**365,024,215**	230,423,559

2. Operating lease commitments

As at 30 June 2014 and 31 December 2013, the Group had the following commitments in respect of non-cancellable operating leases:

(a) As the lessee

RMB

	2014.6.30 (unaudited)	2013.12.31 (audited)
Minimum lease payments under non-cancellable operating leases:		
First year from the balance sheet date	**225,501,200**	222,302,230
Second year from the balance sheet date	**228,342,131**	215,016,809
Third year from the balance sheet date	**230,169,421**	221,843,607
Subsequent years	**1,757,392,410**	1,801,096,633
Total	**2,441,405,162**	2,460,259,279

(b) *As the lessor*

	2014.6.30 (unaudited)	*RMB* 2013.12.31 (audited)
Minimum lease receivables under non-cancellable operating leases:		
First year from the balance sheet date	**77,389,434**	79,350,294
Second year from the balance sheet date	**48,635,449**	71,687,761
Third year from the balance sheet date	**40,911,659**	62,025,898
Subsequent years	**66,933,559**	147,123,072
Total	**233,870,101**	360,187,025

X. EVENTS AFTER THE BALANCE SHEET DATE

Except for the events disclosed in Note VI, as at the approval date of the interim financial statements, the Group has no other events to disclose.

XI. NOTES TO THE COMPANY'S INTERIM FINANCIAL STATEMENTS

1. Accounts receivable

The Company normally allows a credit period of no more than 90 days to its customers. A longer credit period is granted to its major customers with 180 days. Accounts receivable bear no interest except the amount due from Shoulian Group, which bears interest at a rate of 6.40% per annum during the current period (the previous corresponding period: 6.40% per annum).

The aging analysis of the accounts receivable, based on the invoice date, is as follows:

Aging	2014.6.30 (unaudited)	*RMB* 2013.12.31 (audited)
Within 1 year	**163,532,363**	189,182,947
3-4 years	**80,000,000**	80,000,000
Total	**243,532,363**	269,182,947

As at 30 June 2014, accounts receivable of the Company amounted to RMB80,000,000 (31 December 2013: RMB80,000,000) due from Shoulian Group were overdue for more than 2 years. In the opinion of the directors, no impairment is necessary in view of the following consideration: the accounts receivable bear interest at the rate stated above, and all the interest has been received in full. Moreover, Shoulian Group has pledged one piece of land and related buildings with a total value of not less than the overdue accounts receivable in favor of the Company.

As at 30 June 2014, allowance for bad debts was RMB1,890,579 (31 December 2013: RMB1,890,579).

2. **Inventories**

Item	2014.6.30 (unaudited)	*RMB* 2013.12.31 (audited)
Merchandise	**255,691,951**	329,822,407
Raw materials	**1,941,210**	6,474,894
Low-valued consumables	**353,451**	601,149
Total	**257,986,612**	336,898,450

As at 30 June 2014, provision for decline in value of inventory was RMB380,888 (31 December 2013: RMB290,456). As at 30 June 2014 and 31 December 2013, no inventory was pledged or guaranteed.

3. **Other current assets**

Item	2014.6.30 (unaudited)	*RMB* 2013.12.31 (audited)
Short-term investment *(Note VII. 5 (1))*	**–**	20,000,000
Tax credit	**71,190,641**	76,284,853
Prepaid rental expenses	**16,970,854**	17,857,980
Other prepaid expenses *(Note 1)*	**2,458,788**	3,477,203
Total	**90,620,283**	117,620,036

Note 1: Other prepaid expenses mainly consist of heating fees, cooling fees, property fees, cleaning fees and security fees.

4. **Fixed assets, construction in progress, and investment properties**

During the current period, the original book value of fixed assets and construction in progress purchased by the Company was RMB6,368,575 and RMB17,807,748, respectively. For the previous corresponding period, the original book value of fixed assets and construction in progress purchased by the Company was RMB40,805,082 and RMB60,154,760, respectively. During the current period, the Company disposed its fixed assets amounted to RMB2,897,911 (the previous corresponding period: RMB10,780,201).

As at 30 June 2014, the fixed assets and investment properties with net book value of RMB135,492,851 and RMB7,201,296 (31 December 2013: RMB140,039,233 and RMB7,447,628) were pledged to secure certain of the Company's bank loans. See Note XI 6.

5. **Other non-current assets**

Item	2014.6.30 (unaudited)	2013.12.31 (audited)
Long-term receivables from Hongchao Weiye *(Note VIII.4(1)-1)*	**37,896,977**	45,476,373
Security Deposits	**5,262,495**	5,318,721
Total	**43,159,472**	50,795,094

6. Short-term borrowings and long-term borrowings

RMB

Item	2014.6.30 (unaudited)	2013.12.31 (audited)
Short-term borrowings	**490,000,000**	400,000,000
– guaranteed loans *(VII.12 Note 2)*	**240,000,000**	250,000,000
– credit loans *(VII.12 Note 3)*	**250,000,000**	150,000,000
Long-term borrowings due within one year	**10,000,000**	10,000,000
– secured loans *(Note 1)*	**10,000,000**	10,000,000
Long-term borrowings	**196,000,000**	234,000,000
– secured loans *(Note 1)*	**196,000,000**	234,000,000
Total	**696,000,000**	644,000,000

As at 30 June 2014, the Company's borrowings are denominated in RMB. The short-term borrowings bear annual interest rates ranging from 5.60% to 6.00% (31 December 2013: 5.40%), and the long-term borrowings bear annual interest rates at 5.84% (31 December 2013: 5.84%). All of the borrowings were repaid in time.

Note1: As at 30 June 2014, long-term borrowings of the Company were secured by certain of the Company's buildings and land-use-right with net book value amounted to RMB135,492,851 (31 December 2013: RMB140,039,233) and investment properties with net book value amounted to RMB7,201,296 (31 December 2013: RMB7,447,628).

7. Operating income and operating costs

RMB

Item	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
Principal operating income	**2,247,262,652**	2,185,382,942
Other operating income	**167,881,455**	170,879,987
Operating Costs	**1,918,411,562**	1,865,371,047

The Company's operating income is mainly from retailing. The principal operating income mainly consists of selling food, non-staple food, daily consumer goods, beverage and wine, etc.

8. Financial expenses

RMB

Item	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
Interest expenses	**41,243,745**	31,106,609
Less: Capitalised interest expenses	**704,916**	1,398,946
Interest income	**(18,264,982)**	(13,964,109)
Bank charges	**1,643,122**	3,072,813
Exchange losses (gains)	**189,539**	(103,830)
Total	**24,106,508**	18,712,537

9. Income tax expenses

RMB

Item	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
Current income tax expenses calculated according to tax laws and relevant requirements	**5,976,595**	5,688,460
Deferred income tax expenses	**(327,058)**	(327,058)
Total	**5,649,537**	5,361,402

Reconciliation between income tax expenses and accounting profits is as follows:

RMB

Item	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
Accounting profit	**63,131,898**	84,585,973
Income tax expenses calculated at tax rate of 25%	**15,782,975**	21,146,493
Tax effect of non-deductible expenses	**1,244,683**	410,783
Tax effect of non-taxable income	**(11,378,121)**	(16,195,874)
Total	**5,649,537**	5,361,402

Please refer to Note V for details of corporate income tax rate.

10. Related party transaction

(1) Inter-group transactions

1 Sales of goods to subsidiaries

RMB

Name of Subsidiaries	Pricing basis of related party transaction	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
Jingkelong Langfang	Price negotiated	**110,432,119**	90,339,595
Jingkelong Tongzhou	Price negotiated	**69,765,751**	70,581,601
Shouchao Group	Price negotiated	**185,499,964**	193,960,431

2 Purchase of goods/receipts of services from subsidiaries

RMB

Name of Subsidiaries	Pricing basis of related party transaction	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
Xinyang Tongli	Price negotiated	**3,798,170**	9,765,887
Chaopi Trading	Price negotiated	**121,652,623**	131,062,558
Chaopi Shuanglong	Price negotiated	**18,977,567**	21,726,864
Chaopi Flavourings	Price negotiated	**31,996,501**	30,961,933
Chaopi Jinglong Oil Sales	Price negotiated	**17,069,183**	18,811,200
Chaopi Huaqing	Price negotiated	**43,471,480**	38,916,662
Chaopi Zhongde	Price negotiated	**35,304,723**	28,628,071
Chaopi Shenglong	Price negotiated	**2,881,383**	607,836

3 Leases to the subsidiary

RMB

Name of Subsidiary	Pricing basis of related party transaction	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
Jingkelong Langfang	Price negotiated	**849,600**	849,600

4 Interest income from entrusted loans

RMB

Name of Subsidiary	Pricing basis of related party transaction	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
Chaopi Trading	Prevailing interest rate of bank loans	**15,394,806**	10,849,664

5 Others – promotion income

RMB

Name of Subsidiaries	Pricing basis of related party transaction	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
Chaopi Trading	Price negotiated	**17,598,043**	14,937,322
Chaopi Shuanglong	Price negotiated	**59,806**	555
Chaopi Flavourings	Price negotiated	**485,850**	237,838
Chaopi Jinglong Oil Sales	Price negotiated	**373,106**	672,396
Chaopi Huaqing	Price negotiated	**815,230**	678,115
Chaopi Zhongde	Price negotiated	**3,590,441**	2,446,407
Chaopi Shenglong	Price negotiated	**20,300**	–

(2) Other related party balances

1 Accounts receivable

Name of Subsidiaries	**2014.6.30 (unaudited)**	*RMB* 2013.12.31 (audited)
Jingkelong Langfang	**85,521,350**	90,845,680
Jingkelong Tongzhou	**14,968,670**	20,509,866
Shouchao Group	**45,735,134**	56,272,182

2 Other receivables

Name of Subsidiaries	**2014.6.30 (unaudited)**	*RMB* 2013.12.31 (audited)
Jingkelong Tongzhou	**25,332,607**	25,993,303
Chaopi Trading	**140,072,234**	63,560,042
Chaopi Shuanglong	**57,481**	124,377
Chaopi Flavourings	**912,919**	611,727
Chaopi Jinglong Oil Sales	**553,269**	236,344
Chaopi Huaqing	**527,639**	448,614
Chaopi Zhongde	**1,702,759**	955,199
Chaopi Shenglong	**114,896**	–
Shouchao Group	**45,000,000**	22,781

3 Entrusted loans

Name of Subsidiary	**2014.6.30 (unaudited)**	*RMB* 2013.12.31 (audited)
Chaopi Trading	**420,000,000**	600,000,000

4 Other current assets

Name of Subsidiary	**2014.6.30 (unaudited)**	*RMB* 2013.12.31 (audited)
Chaopi Trading	**–**	187,917

5 Prepayments

Name of Subsidiary	**2014.6.30 (unaudited)**	*RMB* 2013.12.31 (audited)
Xinyang Tongli	**611,168**	–

6 Interest receivable

Name of Subsidiary	**2014.6.30 (unaudited)**	*RMB* 2013.12.31 (audited)
Chaopi Trading	**170,833**	–

7 Accounts payable

Name of Subsidiaries	**2014.6.30 (unaudited)**	*RMB* 2013.12.31 (audited)
Xinyang Tongli	**–**	811,060
Chaopi Trading	**50,332,296**	61,750,644
Chaopi Shuanglong	**6,974,197**	15,186,930
Chaopi Flavourings	**17,783,904**	14,396,973
Chaopi Jinglong Oil Sales	**5,966,501**	8,774,234
Chaopi Huaqing	**20,005,594**	16,345,633
Chaopi Zhongde	**18,063,667**	17,184,816
Chaopi Shenglong	**1,746,556**	571,958

8 Other payables

Name of Subsidiary	**2014.6.30 (unaudited)**	*RMB* 2013.12.31 (audited)
Xinyang Tongli	**2,060,724**	2,402,481

9 Advances from customer

Name of Subsidiary	**2014.6.30 (unaudited)**	*RMB* 2013.12.31 (audited)
Shouchao Group	**–**	4,038,872

(3) Guarantees with inter-group related party

As at 30 June 2014 and 31 December 2013, no obligation of guarantees was provided by the Company in respect of its subsidiaries' borrowings.

As at 30 June 2014 and 31 December 2013, the Company provided sureties for its subsidiary, Chaopi Trading's short-term loans. See Note VII 12 (2).

Except for the eliminated inter-group transactions mentioned above, please refer to Note VIII for details of other related party transactions and balances.

XII. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The Company's and consolidated interim financial statements were approved by the board of directors on 22 August 2014.