IMPORTANT

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

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

Beijing Jingkelong Company Limited*

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

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

BY WAY OF PLACING AND PUBLIC OFFER OF H SHARES

Number of Offer Shares	**:**	**132,000,000 H Shares, comprising 120,000,000 new H Shares and 12,000,000 Sale H Shares (subject to the Over-allotment Option)**
Number of Placing Shares	**:**	**118,800,000 H Shares, comprising 106,800,000 new H Shares and 12,000,000 Sale H Shares (subject to the Over-allotment Option and re-allocation)**
Number of Public Offer Shares	**:**	**13,200,000 new H Shares (subject to re-allocation)**
Offer Price	**:**	**Not more than HK$4.50 and expected to be not less than HK$3.90 for each Offer Share, payable in full upon application and subject to refund**
Nominal value	**:**	**RMB1.00 per Share**
Stock code	**:**	**8245**

Global Coordinator, Bookrunner, Lead Manager and Sponsor

DBS

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified under the paragraph headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance. The SFC and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Global Coordinator and the Company on the Price Determination Date. The Price Determination Date is expected to be on 16 September 2006 or such other date as the parties may agree, but in any event not later than 21 September 2006. The Offer Price per H Share will be not more than HK$4.50 and is expected to be not less than HK$3.90. Applicants for the Public Offer Shares are required to pay, upon application and subject to refund, the indicative maximum Offer Price of HK$4.50 per H Share, together with 1% brokerage, 0.005% SFC transaction levy and 0.005% Stock Exchange trading fee.

The Global Coordinator may with the consent of the Company reduce the indicative Offer Price range below that stated in this prospectus at any time prior to the morning on the day the Application Lists close. In such a case, a notice of reduction of the indicative Offer Price range will be published on the GEM website at www.hkgem.com not later than the day on which the Application Lists close. If applications for the Public Offer Shares have been submitted prior to such day, then even if the indicative Offer Price range is so reduced, such applications cannot be withdrawn. If, for whatever reason, the Global Coordinator and the Company are not able to agree on the Offer Price by the Price Determination Date, the Share Offer will not proceed and will lapse.

Prospective investors of the Offer Shares should note that the Underwriters are entitled to terminate their obligations under the Underwriting Agreement by notice in writing to be given by the Global Coordinator (acting on behalf of all Underwriters) upon the occurrence of any of the events set forth under "Grounds for termination" in the section headed "Underwriting arrangements and expenses" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (the "Termination Time"). Such events include, without limitation, any act of God, military action, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out. Accordingly, any certificate relating to the Offer Shares issued by the Company or deposited into CCASS prior to the Termination Time will not constitute evidence of title to the Offer Shares. Investors who trade the Offer Shares on the basis of publicly available allocation results or other information prior to the Termination Time will do so entirely at their own risk.

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

12 September 2006

* *for identification only*

CHARACTERISTICS OF GEM

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

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

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

The Company will issue an announcement in Hong Kong to be published on the GEM website at www.hkgem.com if there is any change in the following expected timetable of the Share Offer.

	2006[(1)]
Latest time for lodging **WHITE** and **YELLOW** Application Forms[(2)]	12:00 noon on Friday, 15 September
Latest time to give **Electronic Application Instructions**[(2) & (3)]	12:00 noon on Friday, 15 September
Application Lists open[(2)]	11:45 a.m. on Friday, 15 September
Application Lists close[(2)]	12:00 noon on Friday, 15 September
Price Determination Date[(4)]	Saturday, 16 September
Announcement of the Offer Price, indication of the level of interest in the Placing, results of applications under the Public Offer and the basis of allotment of the Public Offer Shares to be published on the GEM website at *www.hkgem.com* on or before	Friday, 22 September
Refund cheques[(5)] in respect of wholly or partially unsuccessful applications under the Public Offer to be posted on or before[(6)]	Friday, 22 September
Despatch of the H Share certificates of the Offer Shares or deposit of the H Share certificate(s) of the Offer Shares into CCASS on or before[(6)]	Friday, 22 September
Dealings in H Shares on GEM to commence on	9:30 a.m. on Monday, 25 September

Notes:–

1. All times refer to Hong Kong local time.

2. If there is a "black" rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 15 September 2006, the Application Lists will not open on that day. Particulars of the arrangements are set forth under ''Effect of bad weather on the opening of the Application Lists'' in the section headed ''How to apply for the Public Offer Shares'' in this prospectus.

3. Applicants who apply for the Public Offer Shares by giving **Electronic Application Instructions** should refer to the instructions set forth under ''Applications by giving electronic application instructions'' in the section headed ''How to apply for the Public Offer Shares'' in this prospectus.

4. The Price Determination Date is expected to be on Saturday, 16 September 2006 or such other date as the parties may agree, but in any event, not later than Thursday, 21 September 2006. If, for whatever reason, the Global Coordinator and the Company are not able to agree on the Offer Price by the Price Determination Date, the Share Offer will not proceed and will lapse.

5. Part of the Hong Kong identity card number/passport number of an applicant, or, if there are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by the respective applicant may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. The banker of the relevant applicant may require verification of his/her Hong Kong identity card number/passport number before encashment of the refund cheque. Inaccurate completion of Hong Kong identity card number/passport number may lead to delay in encashment of, or may even invalidate, the refund cheque.

6. If an applicant is using a **WHITE** Application Form to apply for 1,000,000 Public Offer Shares or more and has indicated on the relevant Application Form to collect the H Share certificate and/or the refund cheque (if any) in person, such H Share certificate and/or the refund cheque may be collected in person from the Hong Kong share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, between 9:00 a.m. and 1:00 p.m. on Friday, 22 September 2006 or on the date notified by the Company on the GEM website as the date of despatch of the H Share certificates and the refund cheques. Individual applicants who opt for collection in person must not authorise any other person to collect on their behalf. Corporate applicants which opt for collection in person must attend by their authorised representatives bearing letters of authorisation from the corporations stamped with the corporations' chops. Both individuals and authorised representatives, as the case may be, must produce at the time of collection evidence of identity acceptable to the Hong Kong share registrar and transfer office of the Company. If an applicant has opted for collection in person but does not collect the H Share certificate and/or the refund cheque (if any) by 1:00 p.m. on the Despatch Date, the H Share certificate and/or the refund cheque (if any) will be sent to the address as appeared on the relevant Application Form in the afternoon on the Despatch Date by ordinary post at the applicant's own risk. If an applicant applies for less than 1,000,000 Public Offer Shares or has applied for 1,000,000 Public Offer Shares or more and has not indicated on the Application Form that the H Share certificate and/or the refund cheque (if any) will be collected in person, the H Share certificate and/or the refund cheque (if any) will be sent to the address as appeared on the relevant Application Form on the Despatch Date by ordinary post at the applicant's own risk.

   If an applicant is using a **YELLOW** Application Form or giving **Electronic Application Instructions**, the relevant arrangements are set forth under ''Despatch/collection of H Share certificates and refund of application money'' in the section headed ''How to apply for the Public Offer Shares'' in this prospectus.

Prospective investors of the Offer Shares should note that the Underwriters are entitled to terminate their obligations under the Underwriting Agreement by notice in writing to be given by the Global Coordinator (acting on behalf of all Underwriters) upon the occurrence of any of the events set forth under "Grounds for termination" in the section headed "Underwriting arrangements for the Share Offer'' in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such events include, without limitation, any act of God, military action, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out. Accordingly, any H Share certificate relating to the Offer Shares issued by the Company pursuant to the offer of new H Shares or transfer of Sale H Shares, including the H Shares certificate(s) deposited into CCASS, prior to the Termination Time will not constitute evidence of title to the Offer Shares. Investors who trade the Offer Shares on the basis of publicly available allocation results or other information prior to the Termination Time will do so entirely at their own risk.

TABLE OF CONTENTS

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision.

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

Any information or representation not made in this prospectus and the Application Forms must not be relied on by you as having been authorised by the Company, Chaoyang Auxillary, the Sponsor, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other party involved in the Share Offer.

TABLE OF CONTENTS

Page

TABLE OF CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. As the following is a summary, it does not contain all the information that is important to you. You should read the entire prospectus before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in the section headed "Risk factors" in this prospectus. You should read that section carefully before making any decision to invest in the Offer Shares.

BUSINESS OVERVIEW

The Group is one of the leading distributors of daily consumer products in the Greater Beijing Region, with a turnover of more than RMB4.1 billion for the year ended 31 December 2005. The Group operates its distribution business under the well-known brands of "京客隆" and "朝批". According to China Chain Store & Franchise Association, the Group was ranked 21st among the top 100 fast-moving consumer goods retail chains in China and 34th among the top 100 chain enterprises in China in 2005.

The distribution network of the Group spans across retail and wholesale distribution channels. As at 30 June 2006, the retail distribution network of the Group comprised 169 Retail Outlets, of which 68 were directly-operated and 101 were under franchise arrangements; and the Group's directly-operated Retail Outlets comprised four hypermarkets, 29 supermarkets and 35 convenience stores, while the Group's franchised Retail Outlets comprised five supermarkets and 96 convenience stores. The Group also operates a wholesale distribution business through Chaopi Trading and its subsidiaries and associated companies under the well known "朝批" brandname for the wholesale supply of daily consumer products to customers including the Retail Outlets and other retail operators and trading companies. Operating in these retail and wholesale distribution formats, the Group has positioned itself to cater to the needs of a diverse range of customers, ranging from retail operators to end consumers.

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

Retail distribution channels

The retail distribution channels of the Group comprise hypermarkets, supermarkets and convenience stores, with a geographical focus in the Greater Beijing Region. Leveraging on the established "京客隆" brandname of the Group, the Group has expanded its business model into managing and operating supermarket and convenience store franchises. The daily consumer products distributed through the retail distribution channels include live and fresh produce, dry products, beverages, processed food and daily necessities.

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

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

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

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

Both of these two Logistics Centres are connected to the Group's intranet ordering system thus enabling the directly-operated Retail Outlet to place their orders with such centres electronically through the intranet system. This enables the Group to achieve maximum flexibility in delivering goods without fixed schedules within 24 hours of receiving an order. The Group is thus able to meet various demand conditions at the Retail Outlets efficiently, hence minimizing disruptions to the flow of daily consumer products.

The table below sets out the locations of the Retail Outlets as at 30 June 2006:–

	Hypermarkets		Supermarkets		Convenience stores		Total	
	Number of stores	Net operating area *(sq.m.)*	Number of stores	Net operating area *(sq.m.)*	Number of stores	Net operating area *(sq.m.)*	Number of stores	Net operating area *(sq.m.)*
Directly operated by the Group								
朝陽區 (Chaoyang District)	2	19,450	23	56,774	35	8,065	60	84,289
	–	–	–	–	1[(1)]	400	1	400
密雲縣 (Miyun County)	–	–	1	4,580	–	–	1	4,580
廊坊市 (Langfang City)	1	9,381	1	2,620	–	–	2	12,001
昌平區 (Changping District)	1	9,807	–	–	–	–	1	9,807
順義區 (Shunyi District)	–	–	1	1,390	–	–	1	1,390
通州區 (Tongzhou District)	–	–	8[(1)]	12,590	1[(1)]	124	9	12,714
東城區 (Dongcheng District)	–	–	1	1,800	–	–	1	1,800
西城區 (Xicheng District)	–	–	1	2,400	–	–	1	2,400
海淀區 (Haidian District)	–	–	1	2,845	–	–	1	2,845
Sub-total	4	38,638	37	84,999	37	8,589	78	132,226
Operated by franchisees								
朝陽區 (Chaoyang District)	–	–	3	2,580	75	14,506	78	17,086
房山區 (Fangshan District)	–	–	1	1,350	–	–	1	1,350
昌平區 (Changping District)	–	–	–	–	2	436	2	436
海淀區 (Haidian District)	–	–	–	–	2	568	2	568
豐台區 (Fengtai District)	–	–	–	–	7	1,512	7	1,512
通州區 (Tongzhou District)	–	–	–	–	2	500	2	500
順義區 (Shunyi District)	–	–	–	–	3	754	3	754
大興區 (Daxing District)	–	–	–	–	3	695	3	695
宣武區 (Xuanwu District)	–	–	–	–	2	109	2	109
延慶縣 (Yanqing County)	–	–	1	1,900	–	–	1	1,900
Sub-total	–	–	5	5,830	96	19,080	101	24,910
Total	4	38,638	42	90,829	133	27,669	179	157,136

[(1)] *Lease agreements have been signed and the relevant outlets have or will be opened in the second half of 2006.*

Wholesale distribution channels

The Group's wholesale distribution network is operated through Chaopi Trading and its subsidiaries and associated companies under the "朝批" brandname, and is supported by its Distribution Centres, which provide wholesale supply of daily consumer products to the Retail Outlets and its other customers comprising, principally, retail operators and trading companies.

The Group operates two Distribution Centres, one in the Chaoyang District of Beijing and the other in Tianjin. The daily consumer products distributed through the Distribution Centres include processed food products, beverages, wine products, non-staple food and non-food products. The Distribution Centres do not distribute fresh or frozen food products.

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

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

Complementary operations of Logistics Centres and Distribution Centres

All Logistics Centres and Distribution Centres are able to support and supplement each other in terms of order fulfilment and replenishing the needs of the Group's retail and wholesale distribution networks. For example, a Distribution Centre may utilise part of its capacity to assist the dry product Logistics Centre, especially during peak seasons. The Directors believe that such inter-transferability of capacity between the Group's Logistics Centres and Distribution Centres can enhance distribution efficiency.

COMPETITIVE STRENGTHS

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

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

BUSINESS OBJECTIVES AND STRATEGIES

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

- Expanding distribution network
- Increasing operating efficiency
- Further brand-building

RISK FACTORS

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

RISKS RELATING TO THE GROUP

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

– Resumption of Retail Outlets and neighbourhood property

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

– Inability to successfully implement its strategy for future growth

– Potential failure on software and hardware systems

– Keen competition in the distribution business

– Potential change of distribution method by suppliers and manufacturers

– Inability to obtain all requisite licences on time

– Product liability

– Quality control on franchisees' operations

– Reliance on key management personnel

– Stock control

– Intellectual property protection and infringement

– Certain loans to the Group

– The use of the Jingkelong cards and the membership reward cards

– Net current liabilities

– Future dividends

RISKS RELATING TO THE PRC DISTRIBUTION INDUSTRY

– Domestic competition

– Foreign competition

– Change in consumer preferences and/or purchasing power

RISKS RELATING TO THE PRC

– Political and economic policies of the PRC government

– The PRC legal system

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

– Taxation of holders of H Shares

– Changes in foreign exchange regulations and fluctuation of the RMB

– Payment of dividends subject to restrictions under PRC law

– Domestic Shares may be converted into H Shares

RISKS RELATING TO THE H SHARES

– Development of an active market for the H Shares

– Potential dilution of the H Shares

FINANCIAL INFORMATION

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

	Year ended 31 December 2003			Year ended 31 December 2004			Year ended 31 December 2005			Six months ended 30 June 2005			Six months ended 30 June 2006		
	Continuing operations *RMB'000*	Discontinued operations[1] *RMB'000*	Total *RMB'000*	Continuing operations *RMB'000*	Discontinued operations[1] *RMB'000*	Total *RMB'000*	Continuing operations *RMB'000*	Discontinued operations[1] *RMB'000*	Total *RMB'000*	Continuing operations *RMB'000* (Unaudited)	Discontinued operations[1] *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)	Continuing operations *RMB'000*	Discontinued operations[1] *RMB'000*	Total *RMB'000*
Revenue	2,894,108	364,926	3,259,034	3,568,865	97,893	3,666,758	4,121,748	–	4,121,748	2,053,799	–	2,053,799	2,161,105	–	2,161,105
Cost of sales	(2,544,695)	(326,157)	(2,870,852)	(3,164,852)	(89,137)	(3,253,989)	(3,621,667)	–	(3,621,667)	(1,808,520)	–	(1,808,520)	(1,898,019)	–	(1,898,019)
Gross profit	349,413	38,769	388,182	404,013	8,756	412,769	500,081	–	500,081	245,279	–	245,279	263,086	–	263,086
Other income	111,191	2,145	113,336	154,700	1,362	156,062	143,668	–	143,668	83,375	–	83,375	93,566	–	93,566
Selling and distribution costs	(280,309)	(22,767)	(303,076)	(317,899)	(7,232)	(325,131)	(369,764)	–	(369,764)	(179,580)	–	(179,580)	(182,612)	–	(182,612)
Administrative expenses	(92,102)	(12,048)	(104,150)	(88,285)	(1,358)	(89,643)	(88,924)	–	(88,924)	(50,337)	–	(50,337)	(61,921)	–	(61,921)
Other expenses	(5,967)	(1,571)	(7,538)	(5,800)	(1,422)	(7,222)	(20,452)	–	(20,452)	(9,399)	–	(9,399)	(11,024)	–	(11,024)
Profit from operating activities	82,226	4,528	86,754	146,729	106	146,835	164,609	–	164,609	89,338	–	89,338	101,095	–	101,095
Finance costs	(20,183)	(2,761)	(22,944)	(20,988)	(130)	(21,118)	(19,073)	–	(19,073)	(10,547)	–	(10,547)	(8,687)	–	(8,687)
Share of net profits and losses of associates	3,725	(334)	3,391	2,177	508	2,685	(32)	–	(32)	(60)	–	(60)	(10)	–	(10)
Profit before tax	65,768	1,433	67,201	127,918	484	128,402	145,504	–	145,504	78,731	–	78,731	92,398	–	92,398
Tax	(20,519)	(658)	(21,177)	(44,127)	(106)	(44,233)	(47,158)	–	(47,158)	(26,794)	–	(26,794)	(33,277)	–	(33,277)
Profit for the year/period	45,249	775	46,024	83,791	378	84,169	98,346	–	98,346	51,937	–	51,937	59,121	–	59,121
Attributable to:															
Equity holders of the Parent	38,172	695	38,867	73,167	361	73,528	75,098	–	75,098	38,422	–	38,422	47,305	–	47,305
Minority interests	7,077	80	7,157	10,624	17	10,641	23,248	–	23,248	13,515	–	13,515	11,816	–	11,816
	45,249	775	46,024	83,791	378	84,169	98,346	–	98,346	51,937	–	51,937	59,121	–	59,121
Dividends			29,133			39,505			56,367			–			–
Earnings per Share [2] – basic for profit for the year/period (RMB)			15.8 cents			29.8 cents			30.5 cents			15.6 cents			19.2 cents
– basic for profit from continuing operations (RMB)			15.5 cents			29.7 cents			30.5 cents			15.6 cents			19.2 cents

(1) *The pharmaceutical and motor vehicle and repair operations were discontinued in 2003 and 2004, respectively. For details, please refer to section headed "History and Development and Reorganisation" in this prospectus.*

(2) *Earnings per Share for each financial year/period in the Track Record Period have been computed by dividing the net profit attributable to equity holders of the parent for each year/period by the number of Shares in issue during the Track Record Period on the assumption that the 246,620,000 Shares in issue as at the date of the Accountants' Report had been in issue throughout the Track Record Period.*

OFFER STATISTICS

	Based on an Offer Price of HK$3.90	Based on an Offer Price of HK$4.50
Market capitalisation of the H Shares(1)	HK$514.8 million	HK$594.0 million
Historical price/earnings multiple(2)	13.0 times	15.0 times
Unaudited pro forma adjusted net tangible asset per Share(3)	HK$2.10 (RMB2.14)	HK$2.28 (RMB2.33)

(1) The calculation of market capitalisation is based on 132,000,000 H Shares expected to be in issue following completion of the Share Offer, assuming the Over-allotment Option will not be exercised.

(2) The calculation of the price/earnings multiple is based on the historical earnings per share of approximately RMB30.5 cents for the year ended 31 December 2005 and the respective Offer Prices of HK$3.90 and HK$4.50 per H Share.

(3) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in the paragraph headed "Unaudited pro forma financial information" in Appendix II to this prospectus and on the basis of a total of 366,620,000 Shares expected to be in issue following the completion of the Share Offer. This calculation assumes that the Over-allotment Option will not be exercised.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

The Group estimates that the net proceeds of the Share Offer accruing to the Company, after deducting relevant expenses payable by the Company in relation thereto, and assuming the Over-allotment Option will not be exercised, will amount to approximately HK$462.0 million based on an Offer Price of HK$4.20 per H Share (being the mid-point of the indicative Offer Price range of HK$3.90 to HK$4.50). The Directors presently intend to use such net proceeds as follows:

- approximately HK$281.8 million for the expansion of the Group's retail network in the PRC;

- approximately HK$138.6 million for the improvement and development of the Group's information and logistics systems; and

- approximately HK$41.6 million for general working capital purposes, including but not limited to brand building.

If the Over-allotment Option is exercised in full, the additional estimated net proceeds of approximately HK$73.0 million to be received by the Company will primarily be used, as to HK$44.5 million, for expanding the Group's retail network in the PRC, as to HK$21.9 million for the improvement and development of the Group's information and logistics systems, and as to HK$6.6 million for general working capital purposes.

In the event that the Offer Price is fixed at HK$3.90 per H Share, being the lowest point of the indicative price range, the net proceeds accruing to the Company (compared to that based on the mid-point of the Offer Price range as stated above and assuming to Over-allotment Option is not exercised) will be reduced by approximately HK$34.7 million. In such circumstances, the Directors intend to reduce the application of the proceeds for expanding and improving the Group's retail network in the PRC by HK$21.2 million, for the improvement and development of the Group's information and logistics systems by HK$10.4 million, and for general working capital purposes by HK$3.1 million.

In the event that the Offer Price is fixed at HK$4.50 per H Share, being the highest point of the indicative price range, the net proceeds accruing to the Company (compared to that based on the mid-point of the Offer Price range as stated above and assuming to Over-allotment Option is not exercised) will increase by approximately HK$34.7 million. In such circumstances, the Directors intend to increase the application of proceeds for expanding and improving the Group's retail network in the PRC by HK$21.2 million, for the improvement and development of the Group's information and logistics systems by HK$10.4 million, and for general working capital purposes by HK$3.1 million.

As set out in the paragraph headed "Implementation plan" in the "Statement of business objectives" section, the Directors estimate that the total costs for the implementation of the Group's business plan will be approximately HK$616.6 million. The Directors intend to meet the remaining funding requirements of approximately HK$154.6 million for the implementation of the Group's business plan from internally-generated cash flow from the Group's operations, bank borrowings and/or other borrowings. To the extent that the net proceeds of the Share Offer accruing to the Company are not immediately applied for the uses set out above, the Group intends that such portion of the proceeds, to the extent permitted by relevant PRC laws and regulations, be placed into interest-bearing accounts with banks in Hong Kong or China.

The net proceeds from the sale of the Sale H Shares in the Share Offer (after deducting underwriting fees and estimated expenses payable by Chaoyang Auxillary in connection with the Share Offer), assuming an Offer Price of HK$4.20 per H Share, being the mid-point of the indicative Offer Price range, will be approximately HK$48.6 million or (if the Over-allotment is exercised in full) approximately HK$55.9 million. The Company will not receive any of such proceeds. In accordance with the relevant PRC laws and regulations, such net proceeds will be required to be remitted to the NSSF Council.

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

"affiliated company"	has the meaning as ascribed to it in the GEM Listing Rules
"Application Form(s)"	**WHITE** and **YELLOW** Application Form(s) in relation to the Public Offer, or if the context so requires, any of them
"Application Lists"	the application lists for the Public Offer
"Articles" or "Articles of Association"	the articles of association of the Company adopted by resolutions of its Shareholders on 18 February 2005, and as amended from time to time, a summary of the current version of which is set out in Appendix IV to this prospectus
"associate(s)"	has the meaning as ascribed to it in the GEM Listing Rules
"Audit Committee"	the audit committee of the Board
"BDRC"	北京市發展和改革委員會 (Beijing Municipal Development and Reform Committee)
"Beijing Gaoya"	北京高雅華立科貿有限公司(Beijing Gaoya Huali Kemao Company Limited), a company incorporated in the PRC and is one of the Promoters
"Beijing Jiazeng"	北京加增工貿有限公司(Beijing Jiazeng Gongmao Company Limited), a company incorporated in the PRC and is one of the Promoters
"Beijing SASAC"	北京市人民政府國有資產監督管理委員會(Beijing Municipal Government State-owned Assets Supervision and Administration Commission)
"Board"	the board of Directors
"Business Day"	a day that is not a Saturday, Sunday or a public holiday in Hong Kong
"CAGR"	compounded annual growth rate
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC

"CCASS Broker Participant"	a person admitted to participate in CCASS as a broker participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Broker Participant or a CCASS Custodian Participant or a CCASS Investor Participant
"Chaopi Flavourings"	北京市朝批調味品有限責任公司(Beijing Chaopi Flavourings Company Limited), a limited liability company incorporated in the PRC on 29 April 2001 and an approximately 52.63%-held subsidiary of Chaopi Trading
"Chaopi Huaqing"	北京市朝批華清飲料有限責任公司(Beijing Chaopi Huaqing Beverage Company Limited), a limited liability company incorporated in the PRC on 13 December 2000 and an approximately 52.22%-held subsidiary of Chaopi Trading
"Chaopi Jinglong"	北京朝批京隆油脂銷售有限公司(Beijing Chaopi Jinglong Oil Sales Company Limited), a limited liability company incorporated in the PRC on 9 May 2005 and an approximately 54.23%-held subsidiary of Chaopi Trading
"Chaopi Qingdao"	青島朝批錦隆商貿有限公司 (Qingdao Chaopi Jinlong Trading Company Limited), a limited liability company incorporated in the PRC on 28 September 2005 and an approximately 59.00%-held subsidiary of Chaopi Trading
"Chaopi Shijiazhuang"	石家庄朝批鑫隆商貿有限公司 (Shijiazhuang Chaopi Xinlong Trading Company Limited), a limited liability company incorporated in the PRC on 12 September 2005 and an approximately 59.00%-held subsidiary of Chaopi Trading
"Chaopi Shuanglong"	北京市朝批雙隆酒業銷售有限責任公司(Beijing Chaopi Shuanglong Alcohol Sales Company Limited), a limited liability company incorporated in the PRC on 29 August 2002 and an approximately 59.00%-held subsidiary of Chaopi Trading

"Chaopi Tianxing"	北京市朝批天興果菜有限責任公司(Beijing Chaopi Tianxing Vegetables Company Limited), a limited liability company incorporated in the PRC on 31 July 2002 and owned as to approximately 35.48% by Chaopi Trading
"Chaopi Trading"	北京朝批商貿有限公司(Beijing Chaopi Trading Company Limited), a limited liability company incorporated in the PRC on 31 May 2002 and an approximately 76.42%-held subsidiary of the Company
"Chaopi Ziguang"	北京朝批紫光商貿有限公司(Beijing Chaopi Ziguang Trading Company Limited), a limited liability company incorporated in the PRC on 8 December 2003 and owned as to approximately 45.45% by Chaopi Trading
"Chaoyang Auxillary"	北京市朝陽副食品總公司(Beijing Chaoyang Auxillary Food Company), a state-owned enterprise under the jurisdiction of SASAC of Chaoyang District and the controlling shareholder of the Company and one of the Promoters. After the completion of the Chaoyang Auxillary State Owned Assets Restructuring in June 2004, the principal business of Chaoyang Auxillary is investment holding in the Company, Tengyuan and Beijing Chaofu Labour Society (北京市朝富勞務服務社), and provision of property management and property leasing to the Group and Independent Third Parties, including the properties leased to the Group as disclosed in the "Connected Transactions" section in this prospectus
"Chaoyang Auxillary State Owned Assets Restructuring"	the restructuring undergone by Chaoyang Auxillary to segregate its operating/performing assets from its non-operating/non-performing assets, and rationalising its various business units and holding structure, details of which are set out in the section headed "History and development and Reorganisation" in this prospectus
"China Chain Operators Research Report"	二零零四年中國連鎖經營企業經營狀況分析報告(the 2004 China Chain Operators Research Report) published in May 2005 by 中國連鎖經營協會 (the China Chain Store and Franchise Association), an Independent Third Party
"Company"	北京京客隆商業集團股份有限公司(Beijing Jingkelong Company Limited), a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company

"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended and in force from time to time
"Company Law"	中華人民共和國公司法(the Company Law of the PRC) enacted by the Standing Committee of the 8th National People's Congress on 29 December 1993, and which became effective on 1 July 1994, as amended, supplemented or otherwise modified and in force from time to time
"CSRC"	中國證券監督管理委員會(the China Securities Regulatory Commission), a regulatory body responsible for the supervision and regulation of the PRC's securities markets
"DBS Asia", "Global Coordinator", "Sponsor" or "Bookrunner"	DBS Asia Capital Limited, a corporation licensed under the SFO to engage in types 1, 4, and 6 of the regulated activities (as defined under the SFO) and a GEM-approved sponsor, acting as the global coordinator, bookrunner and lead manager of the Share Offer, and the sponsor to the Listing
"Despatch Date"	the date on which H Share certificates for the Offer Shares are despatched to/collected by applicants and/or deposited into CCASS for credit to the respective CCASS participants' stock accounts designated by the placees or purchasers under the Share Offer
"Director(s)"	the director(s) of the Company
"Distribution Centre(s)"	the wholesale distribution centre(s) operated by the Group
"Distribution Outlet(s)"	Retail Outlet(s) and Distribution Centre(s)
"Domestic Share(s)"	ordinary share(s) in the capital of the Company, with a RMB denominated par value of RMB1.00 each, which were subscribed by domestic shareholders and credited as fully paid up in RMB, which shall include the State-owned Domestic Shares. For the avoidance of doubt, no application has been made for the listing of, and the permission to deal in, the Domestic Shares on GEM and therefore the Domestic Shares will not be eligible for trading on GEM immediately after completion of the Share Offer
"Effective Date"	1 November 2004, the date on which the Company was converted into a joint stock limited company
"Electronic Application Instruction(s)"	instruction(s) given by a CCASS Participant electronically via CCASS to HKSCC for an application to be made on its behalf for the Public Offer Shares and for the payment and refund of application moneys, in each case in accordance with the General Rules of CCASS, CCASS Operational Procedures and terms and conditions for CCASS Investor Participants in effect from time to time
"GDP"	gross domestic product

"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Committee"	the listing committee of the board of directors of the Stock Exchange with responsibility for GEM
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Greater Beijing Region"	the region covering the whole Beijing city and certain parts of Northern China peripheral to Beijing
"Group"	the Company and its subsidiaries or, where the context so requires in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company or some or any of them, as the case may be
"HK$" or "Hong Kong Dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRSs"	Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"H Share(s)"	overseas listed foreign share(s) of nominal value RMB1.00 each in the share capital of the Company, which are to be listed on GEM and subscribed for/purchased and traded in Hong Kong dollars
"Independent Third Party" or "Independent Third Parties"	a person or company who/which is not a Director, Supervisor, Promoter, chief executive, Significant Shareholder, Substantial Shareholder or Initial Management Shareholder of the Company or any of its subsidiaries or any of their respective associates
"Individual Promoters"	16 PRC individuals, namely Li Shunxiang, Yang Baoqun, Liu Yanli, Xia Wensheng, Gao Jiaqiang, Gu Hanlin, Wei Tingzhan, Dai Jing, Bai Xianrong, Chen Limin, Zhao Weili, Li Jianwen, Gao Jingsheng, Tian Junying, Qu Xinhua and Li Chunyan, all of them being promoters of the Company

"Initial Management Shareholder(s)"	has the same meaning as ascribed to it in the GEM Listing Rules. For further details, please refer to the section headed "Substantial Shareholders, Initial Management Shareholders and Significant Shareholders" in this prospectus
"Jin Chaoyang"	北京金朝陽商貿國有資本營運公司 (Beijing Jin Chaoyang State-owned Capital Trading Company), a company incorporated on 1 July 1993 in the PRC as a state-owned enterprise. Pursuant to the notice issued in 2004 by the People's Government of Chaoyang District titled《關於區國資委監管範圍及監管方式的通知》(Notice in relation to the scope and methods of supervision by district SASAC), Jin Chaoyang, Chaoyang Auxillary and the Company were listed as entities within the jurisdiction of the SASAC of Chaoyang District. Jin Chaoyang is an Independent Third Party principally engaged in the administration and management of state-owned assets entrusted by the regional government into the trading system of the Chaoyang District
"Jingkelong Chain"	北京京客隆超市連鎖有限公司 (Beijing Jingkelong Supermarket Chain Company Limited), a limited liability company incorporated in the PRC on 5 July 2006 and a wholly-owned subsidiary of the Company
"Jingkelong Langfang"	北京京客隆(廊坊)有限公司(Beijing Jingkelong (Langfang) Company Limited), a limited liability company incorporated in the PRC on 26 April 2000 and a 80%-held subsidiary of the Company
"Jingkelong Shang Sha"	京客隆商廈 (Beijing Jingkelong Shang Sha), a State-owned enterprise incorporated in the PRC whose establishment in the PRC was approved by Administration for Industry and Commerce of Chaoyang District, Beijing on 12 May 1994 and the predecessor of Jingkelong Supermarket
"Jingkelong Supermarket"	北京京客隆超市連鎖集團有限公司(Beijing Jingkelong Supermarket Chain Group Company Limited), a State-owned holding enterprise incorporated in the PRC whose establishment in the PRC was approved by Beijing Administration for Industry and Commerce on 20 May 2002 and the predecessor of the Company. Prior to 6 December 2002, the name of Jingkelong Supermarket was 北京京客隆超市連鎖有限公司 (Beijing Jingkelong Supermarket Chain Company Limited)
"km"	kilometre(s)
"Latest Practicable Date"	5 September 2006, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained in this prospectus

"Listing"	the listing of the H Shares on GEM
"Listing Date"	the date on which dealings in the H Shares shall first commence on GEM (currently expected to be 25 September 2006)
"Logistics Centre(s)"	the retail logistics centre(s) operated by the Group
"m"	metre(s)
"Mandatory Provisions"	到境外上市公司章程必備條款(the Mandatory Provisions for the Articles of Association of Companies Seeking a Listing Outside the PRC) promulgated on 27 August 1994 by the Securities Commission and the SCRES, as amended, supplemented or otherwise modified from time to time
"Nomination Committee"	nomination committee of the Board
"NSSF Council"	全國社會保障基金理事會(The National Social Security Fund Council of the PRC), an organisation authorised by the State Council and is responsible for the administration of the State's national social security fund
"Offer Price"	the offer price per Offer Share (before brokerage of 1%, SFC transaction levy of 0.005% and Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed or purchased pursuant to the Share Offer and to be determined on or before the Price Determination Date, which price will not be higher than HK$4.50 per Offer Share and is currently expected to be not less than HK$3.90 per Offer Share
"Offer Share(s)"	the Placing Shares and the Public Offer Shares
"Over-allotment Option"	the option granted by the Company and Chaoyang Auxillary to DBS Asia and exercisable by DBS Asia (on behalf of the Placing Underwriters), pursuant to which the Company may be required to issue, and Chaoyang Auxillary may be required to sell, up to an aggregate of additional 19,800,000 H Shares (comprising new H Shares to be issued by the Company and H Shares to be converted from the State-owned Domestic Shares held by Chaoyang Auxillary for the NSSF Council in the proportion of approximately 90.91% and 9.09%, respectively) (representing 15% of the H Shares initially being offered in the Share Offer) to cover over-allocation (if any) in the Placing, details of which are described in the section headed "Structure and conditions of the Share Offer" in this prospectus

"Over-allotment Shares"	up to an aggregate of 19,800,000 H Shares, comprising up to an aggregate of 18,000,000 new H Shares which will be allotted and issued by the Company and up to an aggregate of 1,800,000 H Shares which will be converted from the State-owned Domestic Shares held by Chaoyang Auxillary (for the NSSF Council), upon the exercise of the Over-allotment Option
"PBOC"	中國人民銀行 (the People's Bank of China), the central bank of the PRC
"Placing"	the conditional placing of the Placing Shares by the Placing Underwriters at the Offer Price with professional, institutional and individual investors in certain jurisdictions as described in the section headed "Structure and conditions of the Share Offer" in this prospectus
"Placing Share(s)"	106,800,000 new H Shares and 12,000,000 Sale H Shares initially offered under the Placing, representing approximately 90% of the initial number of the Offer Shares, subject to the Over-allotment Option and re-allocation as described in the section "Structure and conditions of the Share Offer" in this prospectus
"Placing Underwriters"	the underwriters of the Placing Shares whose names are set forth in the section headed "Underwriting arrangements for the Share Offer" in this prospectus
"PRC" or "China"	the People's Republic of China which, for the purposes of this prospectus, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"PRC GAAP"	generally accepted accounting principles in the PRC
"Price Determination Date"	the date (currently expected to be on Saturday, 16 September 2006 or such other date may be agreed between the parties, but in any event no later than Thursday, 21 September 2006), on which the Offer Price is finalised
"Promoters"	Chaoyang Auxillary, Shanxi Trust, Beijing Gaoya, Beijing Jiazeng, Tianjin Jinganghua and the Individual Promoters, all of them being promoters of the Company
"Promoter Shares"	the Domestic Shares held by the Promoters
"Promoters' Agreement"	the promoters' agreement dated 12 August 2004 entered into by the Promoters in relation to, among other matters, the rights and obligations of the Promoters in connection with capital injection and the conversion into and establishment of the Company as a joint stock limited company

"Public Offer"	the conditional offer for subscription of the Public Offer Shares to the members of the public in Hong Kong for cash at the Offer Price as described in the section headed "Structure and conditions of the Share Offer" in this prospectus
"Public Offer Share(s)"	the 13,200,000 new H Shares initially offered for subscription under the Public Offer, representing 10% of the initial number of the Offer Shares, subject to re-allocation as described in the section headed "Structure and conditions of the Share Offer" in this prospectus
"Public Offer Underwriters"	the underwriters of the Public Offer named in the paragraph headed "Public Offer Underwriters" in the section headed "Underwriting arrangements for the Share Offer" in this prospectus
"Relevant Securities"	has the meaning as defined in Rule 13.15(4) of the GEM Listing Rules
"Reorganisation"	the corporate reorganisation which the Group underwent in preparation for the listing of the H Shares on GEM, details of which are set out in the paragraph headed "The Reorganisation" in Appendix V to this prospectus
"Retail Outlet(s)"	any hypermarket(s), supermarket(s) and/or convenience store(s) of the Group, whether directly-operated or franchised
"Remuneration Committee"	remuneration committee of the Board
"RMB" or "Renminbi"	Renminbi yuan, the lawful currency of the PRC
"SAFE"	中華人民共和國國家外滙管理局 (the State Administration for Foreign Exchange of the PRC)
"Sale H Shares"	initially a total of 12,000,000 H Shares to be converted from an equal number of State-owned Domestic Shares held by Chaoyang Auxillary (but allocated by SASAC to the NSSF Council) to be offered for sale by Chaoyang Auxillary at the Offer Price under the Placing, representing approximately 9.09% of the initial number of the Offer Shares, subject to the Over-allotment Option
"SASAC"	國務院國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of the State Council)

"SCRES"	中國國家經濟體制改革委員會(the State Commission for Restructuring the Economic System of the PRC), which was dissolved in March 1998, and its successor, 中華人民共和國國家發展和改革委員會(the National Development and Reform Commission), responsible for matters relating to the restructuring of the economic system in the PRC
"Securities Commission"	中國國務院證券委員會(the Securities Commission of the State Council of the PRC), a regulatory body established in October 1992 responsible for overseeing the PRC securities markets from a macro-perspective and which was rescinded in March 1998 pursuant to a resolution of the State Council whilst its functions were assumed by CSRC thereafter
"Selling Shareholder"	Chaoyang Auxillary
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shanxi Trust"	山西信託投資有限責任公司(Shanxi Trust Investment Company Limited), a company incorporated in the PRC and is one of the Promoters
"Share Offer"	the Public Offer and the Placing
"Share(s)"	Domestic Share(s) and/or H Share(s) of RMB1.00 each in the share capital of the Company, as the case may be
"Shareholder(s)"	the holder(s) of Share(s)
"Significant Shareholder(s)"	has the same meaning assigned to it in the GEM Listing Rules. For further details, please refer to the section headed "Substantial Shareholders, Initial Management Shareholders and Significant Shareholders" in this prospectus
"Special Regulations"	國務院關於股份有限公司境外募集股份及上市的特別規定(the PRC Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies), issued by the State Council on 4 August 1994, as amended, supplemented or otherwise modified from time to time
"sq.m."	square metre(s)
"State" or "PRC Government"	the government of the PRC
"State Council"	中華人民共和國國務院 (the State Council of the PRC)
"State-owned Domestic Share(s)"	183,969,808 Domestic Share(s) held by Chaoyang Auxillary, representing approximately 74.60% of the existing share capital of the Company immediately prior to the Share Offer

"State Restructuring Commission"	中華人民共和國國務院經濟體制改革辦公室 (the State Council Office for Restructuring the Economic System of the PRC)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder"	Chaoyang Auxillary
"Supervisor(s)"	member(s) of the supervisory committee of the Company
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Tengyuan"	北京市騰遠興業汽車服務有限公司 (Beijing City Tengyuan Xingye Vehicle Service Limited Company), a company incorporated in the PRC and an approximately 62.73% subsidiary of the Company prior to the disposal on 22 June 2004, and the Company ceased to have any interest therein with effect from 23 June 2004
"Tianjin Jinganghua"	天津市金港華建築藝術裝飾工程有限公司 (Tianjin Jinganghua Jianzhu Art Decoration Work Company Limited), a company incorporated in the PRC and is one of the Promoters
"Track Record Period"	the periods comprising the three financial years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006
"Underwriters"	the Placing Underwriters and the Public Offer Underwriters
"Underwriting Agreement"	the conditional underwriting agreement dated 11 September 2006 and entered into, amongst other, between the Company, Chaoyang Auxillary and the Underwriters relating to the Share Offer, details of which are set out in the section headed "Underwriting arrangements for the Share Offer" in this prospectus
"US"	the United States of America
"US dollars" or "US$"	United States dollars, the lawful currency of the US
"WTO"	the World Trade Organisation
"Xinyang Tongli"	北京欣陽通力商業設備有限公司(Beijing Xinyang Tongli Commercial Facilities Company Limited), a limited liability company incorporated in the PRC on 31 May 2002 and an approximately 52.03%-held subsidiary of the Company

"Yiyuantang"	北京嘉事朝陽醫藥有限公司(Beijing Jiashi Chaoyang Medicine Company Limited) (formerly known as 北京一元堂醫藥連鎖有限公司 (Beijing Yiyuantang Medicine Chain Company Limited)), a company incorporated in the PRC and an approximately 70.13%-held subsidiary of the Company prior to 8 July 2003, and an approximately 35.07%-held associate of the Company during the period from 8 July 2003 to 22 June 2004, and the Company ceased to have any interest therein with effect from 23 June 2004
"%"	per cent.

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

Unless otherwise specified in this prospectus, amounts denominated in RMB have been converted, for the purpose of illustration only, into Hong Kong Dollars at a rate of HK$1.00 = RMB1.02. No representation is made that any amounts in HK$ or RMB could have been or could be converted at the above rate or at any other rates or at all.

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

RISKS RELATING TO THE GROUP

Locations of Distribution Outlets, rental exposure and renewal of leases

The Group's retail distribution network depends significantly on its ability to deploy Retail Outlets at accessible and convenient locations where there is a high population density and pedestrian flow. Given the scarcity of such locations and their relatively high rental, particularly in downtown Beijing, there is no assurance that the Group could secure or obtain such locations on favourable terms. As at 30 June 2006, 64 of the Group's directly-operated Retail Outlets were operated at leased properties whilst four of its directly-operated Retail Outlets were operated at properties owned by the Group. Failure to successfully deploy the Group's existing and future Retail Outlets at such accessible and convenient locations with high population density and pedestrian flow may lead to reduced sales and hence may have an adverse effect on the Group's financial position and its future growth.

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

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

During the Track Record Period, the total rental costs of the Group's Distribution Outlets amounted to approximately RMB18.9 million, RMB34.2 million, RMB39.5 million and RMB22.1 million respectively, (representing approximately 0.65%, 0.96%, 0.96% and 1.02% respectively of the Group's revenue of continuing operations).

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

In an effort to control its exposure to rising rental rates, as at 30 June 2006, the Group had negotiated and entered into long-term leases of ten or over ten years for all of its directly-operated Retail Outlets except for five leases of five years, five years, seven and a half years, eight years and nine and a half years respectively. In relation to the Distribution Centres, the Group had negotiated and entered into leases of five years and 10 years respectively with lessors who are Independent Third Parties. There is no assurance that the Group would be able to renew such leases or negotiate new leases on similar or favourable terms (including, without limitation, on similar tenure and on similar rental charges) in the future or that any such lease would not be terminated early. To the extent that the Group is required to find alternative locations for its Distribution Outlet, there is no assurance that it would be able to secure comparable locations or negotiate leases on comparable terms. This may, in turn, have an adverse effect on the Group's business, financial position and its future growth potential.

Resumption of Retail Outlets and neighbourhood property

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

During the Track Record Period, six of the Retail Outlets were closed down primarily as a result of the State's resumption of land. The contributions of revenue and net profits from these six self-owned Retail Outlets to the Group during the Track Record Period were RMB134.1 million and RMB4.4 million, RMB93.0 million and RMB3.6 million, RMB31.8 million and RMB0.9 million, and nil and nil, respectively. Although the State and the demolition and removal party paid compensation to the Group in respect of the closure of such Retail Outlets and the Group recorded income from net compensation for demolished Retail Outlets of approximately RMB22.0 million, RMB12.0 million, RMB11.1 million and RMB5.7 million respectively during the Track Record Period, and also recorded a gain of exchange of property of RMB27.5 million for the year ended 31 December 2004, the Group has no control over the State's land resumption plans and there is no assurance that any compensation or financial assistance offered by the State and the demolition and removal party in future would be sufficient to even cover the Group's investment costs in respect of any Retail Outlet which had to close. The Directors confirmed that the compensations received during the Track Record Period were sufficient to cover the Group's investment costs. To the extent that the Group is obliged to close down any of its Retail Outlets due to such land resumption and/or to the extent that any resultant compensation or financial assistance offered by the State and the demolition and removal party is insufficient to cover the Group's investment costs for any such Retail Outlet, and if the Group could not find alternative location with comparable operating environment, the Group's business plans and financial position may be adversely affected.

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

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

As at 30 June 2006, the tenancy agreements of five Retail Outlets in operation, including four supermarkets and one convenience store, have not been registered with the relevant PRC authorities as required under the PRC laws and regulations. For the aforementioned Retail Outlets, the respective lessors have not yet obtained the relevant building ownership certificates.

The convenience store recorded revenue of less than 1% of the turnover of the Group during the Track Record Period. One of the supermarkets commenced operations in July 2005 with a turnover in 2005 of approximately RMB6.3 million representing less than 1% of the turnover of the Group for the year ended 31 December 2005. The other three supermarkets commenced operations in January 2006. The Directors confirm that the revenue generated by each of the Retail Outlets situated in the abovementioned properties accounted for less than 1% of the turnover of the Group for the six months ended 30 June 2006. Therefore, the Directors confirm that these properties are not significant to the overall business activities of the Group.

In addition, with respect to the tenancy agreements of ten Retail Outlets (consisting eight supermarkets and two convenience stores) entered into before 30 June 2006, nine of them (in respect of seven supermarkets and two convenience stores) have not been registered with the relevant Chinese authorities. For six of the ten Retail Outlets, the lessors have not as yet obtained the relevant building ownership certificates.

Subsequent to 30 June 2006, the Group has signed five tenancy agreements for the establishment of four supermarkets and one hypermarket. All of them have not been registered with the relevant Chinese authorities. For three of the five Retail Outlets, the lessors have not as yet obtained the relevant building ownership certificates.

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

The lessor of Chaopi Trading's Distribution Centre in Beijing has not obtained the relevant building ownership certificate. In addition, the tenancy agreements entered into by Chaopi Trading and the lessor in respect of the Distribution Centre have not been registered with the relevant PRC authorities as required under the PRC laws and regulations. This Distribution Centre was leased by Chaopi Trading under three tenancy agreements. As the respective landlords cannot produce the proper property title deeds, the relevant tenancy agreements cannot be registered with the relevant PRC authorities as required under the relevant PRC laws and regulations. Though the wholesale distribution business contributed to over 35% of revenue of the Group' continuing operations during each of the Track Record Period, the Directors consider that the defects in title would not have a material adverse impact to the Group should Chaopi Trading be evicted from such premises due to (i) such Distribution Centre being a warehouse in nature; (ii) the dry product Logistic Centre can support part of such Distribution Centre's function; (iii) such Distribution Center is located in rural area of Chaoyang District and a site with similar area and location can be easily identified; (iv) most of the fixed assets installed, for example loading systems, are movable in nature and the costs incurred for relocation would be minimal; and (v) Chaoyang Auxillary has undertaken to indemnify the Company against any costs, expenses, losses and claims that the Company may suffer as a result of such eviction.

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

Inability to successfully implement its strategy for future growth

The Directors believe that the success of the Group in the future will substantially depend on, inter alia, the Group's success in expanding its distribution networks. As at 30 June 2006, the Group directly-operated a distribution network of four hypermarkets, 29 supermarkets and 35 convenience stores, and two Logistics Centres and two Distribution Centres. It had also entered into franchise arrangements with third party franchisees for five supermarkets and 96 convenience stores.

The Group has formulated plans to further establish not less than 83 Retail Outlets, including approximately 43 directly-operated Retail Outlets and 40 Retail Outlets under franchise arrangements, respectively, during the period from the Latest Practicable Date to 31 December 2008. The Group also hopes to expand the coverage of its wholesale distribution network by establishing additional Distribution Centres. There is no assurance that any such expansion plans will become successful or materialise.

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

- the Group's ability to manage such expansion, and to recruit and train appropriate staff
- the Group's ability to identify strategic locations for establishing Distribution Outlets and secure the relevant lease and/or purchase such locations on favorable terms
- changes in consumer preference and/or purchasing power
- the availability of funds to finance the Group's expansion plans
- the availability of suitable investment opportunities and whether the return on such investments can meet the Directors' expectations

- whether the PRC consumer product industry will continue to grow at a pace expected by the Directors

- the level of the competition, domestic and foreign, in the retail and wholesale distribution industries in which the Group operate

- whether the Group is able to effectively complement and coordinate both its retail and wholesale distribution networks, and capitalise on any business opportunities arising from the sharing of data between the distribution networks

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

Potential failure on software and hardware systems

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

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

Keen competition in the distribution business

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

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

Potential change of distribution method by suppliers and manufacturers

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

Inability to obtain all requisite licences on time

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

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

Product liability

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

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

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

Quality control on franchisees' operations

As at 30 June 2006, the Group had franchise arrangements with five supermarkets and 96 convenience stores operating in the Greater Beijing Region under the service mark of "京客隆". All of these franchised Retail Outlets are independent legal entities with the capacity to bear civil responsibilities independently. Pursuant to its standard franchise agreements, the Group's franchisees are solely liable for their wrongdoings and/or misuse of the Group's service logos, and the Group is entitled to claim compensation for any loss it suffers from such wrongdoings/misuse by the franchisees under the default clauses of the franchise agreements. The Group may also be able to claim compensation for losses suffered by taking other civil actions.

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

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

Reliance on key management personnel

The future success of the Group is significantly dependent on the strategies and vision of the Group's key management team, including Mr. Wei Tingzhan, Mr. Li Jianwen, Mr. Liu Yuejin, Ms. Chen Limin, Mr. Zhao Weili and Mr. Gao Jingsheng with solid experience in the local retail and wholesale distribution markets. Any unanticipated departure of the Group's key management personnel or other members of the Group's senior management could have a material adverse impact on the Group's business.

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

Stock control

As at 30 June 2006, the Group had stock of approximately RMB339.6 million. Stock provisions as at 31 December 2003, 2004 and 2005 and 30 June 2006 amounted to approximately RMB2.6 million, RMB3.3 million, RMB2.5 million and RMB2.0 million, respectively. The stock turnover days during the Track Record Period were 46 days, 41 days, 37 days and 34 days, respectively. The Group's stock represented approximately 23.4%, 19.6%, 17.8% and 16.4% of its total assets as at 31 December 2003, 2004 and 2005 and 30 June 2006 respectively. As the Group sells both live and fresh produce and room temperature daily consumer products in the ordinary course of its retail distribution business, it needs to constantly review and monitor its stock control methods and procedures in order to minimise spoilage and overstocking. A failure to do so may have an adverse impact on the Group's future performance. It is also essential for the Group to maintain sufficient inventory of both perishable and non-perishable goods to meet the demands of its customers within a stipulated delivery time. In the event that the Group could not do so, its profitability and reputation could be adversely affected. Furthermore, if the Group cannot sell its stock promptly, the Group's cash flow may be adversely affected. Moreover, if such stock could not be sold before their expiry date, the Group may have to write-off such stock, which may affect the Group's profitability.

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

Intellectual property protection and infringement

Uncertain protection

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

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

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

Infringement by the Group

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

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

Certain loans to the Group

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

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

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

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

The use of the Jingkelong cards and the membership reward cards

As part of the Group's marketing strategy for its retail operations to enhance customer loyalty, the Jingkelong card was launched in December 2003 and the membership reward card was launched in September 2004. As at 30 June 2006, the membership reward card scheme had over 530,000 members and the total amount of value stored in the Jingkelong cards was approximately RMB105 million. Both cards may only be used in the Group's Retail Outlets. Details of the Jingkelong card and the membership reward card are set out in the section headed "Business-marketing and promotion" of this prospectus. The Group has formulated internal controls and procedures in respect of its Jingkelong cards and membership reward cards. However, the operation of the Jingkelong card and the membership reward card programmes otherwise than in accordance with such internal controls and procedures may constitute a breach of the applicable PRC laws and regulations including but not limited to the Contract Law and the Law on Protection of Consumers' Rights and Interests. Such programmes also constitute a breach of the Law on the People's Bank of China and Regulation on Administration of Renminbi, and the Group may be subject to a fine of up to RMB200,000, in addition to being ordered to cease the operation of the programmes. The specific PRC laws are: Article 20 of Law on The People's Bank of China and Article 29 of Regulation on the Administration of Renminbi state that no organization or individual may print or issue promissory notes as substitutes for Renminbi for circulation in the open market. Article 45 of Law on The People's Bank of China further states that in the event that anyone prints or sells promissory notes as substitutes for Renminbi for circulation in the open market, The People's Bank of China shall order the cessation of the breaching actions and impose a fine of up to RMB200,000.

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

Net current liabilities

As at 31 December 2003, 2004 and 2005 and 30 June 2006, the Group had net current liabilities of approximately RMB327.0 million, RMB158.8 million, RMB278.8 million and RMB309.4 million, respectively, as the current liabilities exceeded current assets as at those dates. A significant portion of the Group's revenue is in the form of cash and the Group has been enjoying an average credit term longer than its inventory turnover days. Therefore, the Group has been able to make use of the longer term of trade payables to partially finance its operations, but there is no assurance that the Group can continue to do so in the future, and should that happen, the Group's financial position might be adversely affected.

As the operations of the Group expand, more funds are expected to be required. The Group may need to raise additional funds through debt or other forms of financing to repay such debts and/or finance its operations, and the costs of financing may increase significantly and affect its profitability. Additionally, if the Group is unable to service or repay its short-term bank loans, the relevant creditor may choose to demand repayment and take related actions, the result of which could adversely affect the operations and operating results of the Group.

Future dividends

Dividends declared by the Company amounted to approximately RMB29.1 million, RMB39.5 million and RMB56.4 million for the years ended 31 December 2003, 2004 and 2005, respectively.

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

RISKS RELATING TO THE PRC DISTRIBUTION INDUSTRY

Domestic competition

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

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

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

Foreign competition

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

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

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

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

Change in consumer preferences and/or purchasing power

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

RISKS RELATING TO THE PRC

Political and economic policies of the PRC government

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

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

The PRC legal system

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

The PRC has not entered into any treaty which provides for the reciprocal recognition and enforcement of judgments of courts with countries such as the United States, the United Kingdom and Singapore, and therefore the recognition and enforcement in PRC of judgments of a court in any of these jurisdictions may be difficult or impossible. The Articles and the GEM Listing Rules provide that most disputes between holders of H Shares and the Company, the Directors, the Supervisors or other officers or holders of Domestic Shares, arising out of the Articles or the Company Law of the PRC and related regulations concerning the Group's affairs or with respect to the transfer of the H Shares, are to be resolved through arbitration by arbitration organisations in

Hong Kong or PRC. On 21 June 1999, an arrangement was made between Hong Kong and PRC for the reciprocal recognition and enforcement of arbitral awards. This arrangement was approved by the Supreme People's Court of PRC and the Hong Kong Legislative Council, and became effective on 1 February 2000. The arrangement was made in accordance with the spirit of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958. Under the arrangement, awards that are made by Chinese arbitral authorities recognised under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Likewise, Hong Kong arbitration awards are also enforceable in the PRC. As far as the Directors are aware, no action has been brought in the PRC by any holder of H shares issued by any joint stock limited company established in the PRC to enforce an arbitral award that is made by Hong Kong arbitral authorities and, as such, the Directors are uncertain as to the outcome of any action to be brought in the PRC to enforce an arbitral award made in Hong Kong in favour of the Shareholders.

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

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

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

Although the Company will be subject to the GEM Listing Rules and, depending on the nature of the transactions concerned, the Hong Kong Codes on Takeovers and Mergers and Share Repurchases upon the listing of the H Shares on GEM, the holders of H Shares will be unable to bring actions on the basis of violations of the GEM Listing Rules and must rely on the Stock Exchange to enforce the GEM Listing Rules. The Hong Kong Codes on Takeovers and Mergers and Share Repurchases do not carry the force of law and provide merely standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong.

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

Taxation of holders of H Shares

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

Changes in foreign exchange regulations and fluctuation of the RMB

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

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

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

Payment of dividends subject to restrictions under PRC law

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

Domestic Shares may be converted into H Shares

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

RISKS RELATING TO THE H SHARES

Development of an active market for the H Shares

An active trading market for the H Shares may not develop and the trading price for the H Shares may be volatile. Prior to the Share Offer, there has been no public market for any of the H Shares. Although the Offer Price was determined based on several considerations, the market price after the Share Offer may be subject to significant volatility in response to, among other factors:

- investor's perceptions of the Group and its future expansion plans;
- the market price of and volume fluctuations in the H Shares;
- changes in the estimate of the Group's financial performance by securities analysts, newspapers and other media reports;

- variations in the operating results of the Group;
- the competitive landscape of the markets in which the Group operates;
- changes in the pricing and strategies made by the Group, its competitors or providers of alternative services; and
- general economic and other factors.

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

Potential dilution of the H Shares

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

CONNECTED TRANSACTIONS

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

The Company has applied for, and the Stock Exchange has granted the Company, a waiver with respect to the continuing connected transactions (as referred to in the section headed "Connected transactions" in this prospectus) from both the announcement requirement under Rule 20.47 and/or the independent shareholders' approval requirement under Rule 20.48 of the GEM Listing Rules, in each case for the financial years of the Company ending 31 December 2006, 2007 and 2008, on each occasion as such transactions arise following Listing, provided that the said continuing connected transactions are conducted in compliance with the conditions (including the respective applicable caps) imposed by the Stock Exchange. Further details of the above continuing connected transactions as well as the waiver granted by the Stock Exchange and the related caps and conditions are set out in the section headed "Connected transactions" in this prospectus.

ESCROW ARRANGEMENTS

Under Rule 13.16(1) of the GEM Listing Rules, every Initial Management Shareholder shall place in escrow with an escrow agent and on such terms as are acceptable to the Stock Exchange, all its/his/her Relevant Securities for a period (i) commencing on the date of this prospectus and ending on the date falling 12 months from the Listing Date, or (ii) where that Initial Management Shareholder's Relevant Securities represent no more than 1% of the issued share capital of the Company as at the Listing Date, commencing on the date of this prospectus and ending on the date falling six months from the Listing Date. Under Rule 13.17(1) of the GEM Listing Rules, every Significant Shareholder shall place in escrow with an escrow agent and on such terms as are acceptable to the Stock Exchange, all its/his/her Relevant Securities for a period commencing on the date of this prospectus and ending on the date falling six months from the Listing Date. All the Initial Management Shareholders and Significant Shareholders are therefore subject to the escrow arrangement under Rules 13.16(1) and 13.17(1) of the GEM Listing Rules.

Moreover, as the Domestic Shares held by the Initial Management Shareholders and the Significant Shareholders are in issue before the Share Offer and, under the relevant laws and regulations of the PRC, such Shares held by each of the Initial Management Shareholders and the Significant Shareholders (being relevant securities for the purposes of Rules 13.16(1) and 13.17(1)) are subject to Article 142 of the Company Law, which provides that the shares of a joint stock limited liability company established under the Company Law and in issue prior to a public offer shall not be transferable within one year after the shares of such company are listed for trading.

Given the above, the Company has applied for a waiver from strict compliance with Rules 13.16(1) and 13.17(1) of the GEM Listing Rules in respect of making physical escrow arrangements with respect to the Domestic Shares held by the Initial Management Shareholders and the Significant Shareholders, and a waiver has been granted by the Stock Exchange on the condition that the Initial Management Shareholders and the Significant Shareholders will undertake to the Company and the Stock Exchange that (i) with respect to the Initial Management Shareholders holding Relevant Securities which represent more than 1% of the issued share capital of the Company as at the Listing Date, they will not dispose of their respective Domestic Shares for a period commencing on the date of this prospectus and ending on the date falling 12 months from the Listing Date; (ii) with respect to the Initial Management Shareholders holding Relevant Securities which represent no more than 1% of the issued share capital of the Company as at the Listing Date, they will not dispose of their respective Domestic Shares for a period commencing on the date of this prospectus and ending on the date falling six months from the Listing Date; (iii) every Significant Shareholder will not dispose of its Relevant Securities for a period commencing on the date of this prospectus and ending on the date falling six months from the Listing Date; and (iv) in the event that any form of physical scrip or title documents representing the respective interests of the relevant Initial Management Shareholders and the Significant Shareholders in such Domestic Shares, whether as a result of any change of the applicable PRC laws and regulation or otherwise, is issued, the Initial Management Shareholders and the Significant Shareholders will comply with the escrow arrangement requirements under Rules 13.16(1) and 13.17(1) of the GEM Listing Rules.

In relation to Rules 13.16(2) and 13.17(2) of the GEM Listing Rules, each of the Initial Management Shareholders and the Significant Shareholders has undertaken to the Company and the Stock Exchange that he/she/it will not (a) dispose of (nor enter into any agreement to dispose of) nor permit the registered holder of the Relevant Securities to dispose of (or to enter into any agreement to dispose of) any of his/her/its direct or indirect interests in his/her/its Relevant Securities; or (b) otherwise create (nor enter into any agreement to create) nor permit the registered holder of the Relevant Securities to create (or to enter into any agreement to create) any options, right, interests or encumbrances in respect of any such interest, for his/her/its respective moratorium periods under the GEM Listing Rules as stated in this prospectus.

QUALIFICATION OF COMPANY SECRETARY

As a company secretary of the Company, Ms. Li Chunyan (“Ms. Li”) does not possess the qualification required under Rules 5.14 and 25.11 of the GEM Listing Rules, and therefore she does not meet all the requirements under Rules 5.14 and 25.11 of the GEM Listing Rules. The Company has appointed Mr. Keung Siu Fai (“Mr. Keung”), a qualified accountant and an employee of the Company, as a joint company secretary, to assist Ms. Li so as to enable her to acquire the relevant experience (required under Rule 5.14(2) of the GEM Listing Rules) to discharge the duties of a company secretary. Mr. Keung is engaged by the Company in the above capacity for a minimum period of three years commencing from the Listing Date. During his engagement, Mr. Keung will ensure that he will be available to provide assistance to Ms. Li as described above. In addition, the Company will provide Ms. Li with sufficient training through attending relevant external seminars and/or training courses. Upon expiry of the said three-year period, the ability of Ms. Li to discharge the duties of the company secretary of the Company will be further evaluated by the Company in order to determine whether the requirements as stipulated in the GEM Listing Rules can be satisfied.

The Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 5.14 and 25.11 of the GEM Listing Rules for a period of three years from the Listing Date. Further details of the waiver granted by the Stock Exchange are set out in the paragraph headed “Joint Company Secretaries and Qualified Accountant” in the section headed “Director, supervisors, senior management and staff” in this prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

(a) the information contained in this prospectus is accurate and complete in all material respects and not misleading;

(b) there are no other matters the omission of which would make any statement in this prospectus misleading; and

(c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The H Shares are offered solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Share Offer to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, Chaoyang Auxillary, the Sponsor, the Underwriters, any of their respective directors or any other person involved in the Share Offer.

CONSENT OF CSRC

On 23 March 2006, CSRC gave its approval for the offer of the H Shares and the listing of the H Shares on GEM. In granting such approval, CSRC accepts no responsibility for the financial soundness of the Company nor for the accuracy of any of the statements made or opinions expressed in this prospectus.

APPLICATION FOR LISTING ON GEM

The Company has applied to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the H Shares to be offered pursuant to the Share Offer including the H Shares which may be sold pursuant to the exercise of the Over-allotment Option.

No part of the Share or loan capital of the Company is listed or dealt in on any other stock exchange. At present, the Company is not seeking or proposing to seek listing of or permission to deal in such capital on any stock exchanges other than GEM.

DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by agreement between the Global Coordinator and the Company by the Price Determination Date. The Price Determination Date is expected to be on 16 September 2006 or such other date may be agreed by both parties, but in any event, not later than 21 September 2006. **If, for whatever reason, the Global Coordinator and the Company are not able to agree on the Offer Price, the Share Offer will not proceed and will lapse.**

OFFER SHARES ARE FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Public Offer, which forms part of the Share Offer. The Share Offer comprises the Public Offer of initially 13,200,000 H Shares and the Placing of initially 118,800,000 H Shares (comprising 106,800,000 new H Shares and 12,000,000 Sale H Shares) subject, in each case, to re-allocation on the basis described in the section headed ''Structure and conditions of the Share Offer'' in this prospectus. The number of the Offer Shares is subject to the Over-allotment Option.

The Listing is sponsored by the Sponsor and the Share Offer is managed by the Global Coordinator. Subject to the terms of the Underwriting Agreement, the Public Offer Shares are fully underwritten by the Public Offer Underwriters and the Placing Shares are fully underwritten by the Placing Underwriters. Particulars of the Underwriters and the underwriting arrangements are set forth in the section headed ''Underwriting arrangements for the Share Offer'' in this prospectus.

OFFER SHARES ARE OFFERED IN CERTAIN JURISDICTIONS ONLY

Saved as mentioned below, no action has been taken to permit any public offering of the Offer Shares or the distribution of this prospectus and the Application Forms in any jurisdiction other than Hong Kong. The distribution of this prospectus and the Application Forms and the offering of the Offer Shares in certain jurisdictions may be restricted by law. This prospectus is not an offer or invitation, nor is it calculated to invite or solicit offers in any jurisdiction in which it is not authorised, and is not an offer or invitation to any person to whom it is unlawful to make an unauthorised offer or invitation.

Hong Kong

This prospectus has been registered with the Registrar of Companies in Hong Kong. Accordingly, this prospectus may be issued, circulated or distributed in Hong Kong, and the Public Offer Shares may be offered to members of the public in Hong Kong for subscription. In addition, advertisements may be made offering or calling attention to an offer or intended offer of the Public Offer Shares to members of the public in Hong Kong.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus may not be issued, circulated or distributed in Singapore nor may any of the Offer Shares be offered for subscription or sold, directly or indirectly, nor may an invitation or offer to subscribe for any Offer Shares be made (i) to persons in Singapore other than under circumstances in which such invitation, offer or sale does not constitute an invitation, offer or sale of the Offer Shares to the public in Singapore or (ii) to the public or any member of the public in Singapore other than pursuant to, and in accordance with the conditions of, an exemption invoked under Division 1 of Part XIII of the Securities and Futures Act and to persons to whom the Offer Shares may be offered or sold under such exemption. Furthermore, no advertisement may be made offering or calling attention to an offer or intended offer of the Offer Shares to the public in Singapore.

United States

The Offer Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended or under any securities regulatory authority of any state of the US and may not be offered, sold, pledged or transferred within the US, or to, or for the account or benefit of, US persons.

The Offer Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the US or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Share Offer or the accuracy or adequacy of this prospectus or any other document in relation to the Share Offer. Any representation to the contrary is a criminal offence in the US.

United Kingdom

This prospectus has not been approved by an authorised person in the United Kingdom. The Offer Shares may not be offered or sold to any person in the United Kingdom, other than to qualified investors as defined in section 86(7) Financial Services and Markets Act 2000 ("FSMA"), being (i) persons falling within Article 2.1(e)(i), (ii) or (iii) of Directive 2003/71/EC (the "Prospectus Directive"), which includes legal entitles which are regulated by the Financial Services Authority (the "FSA") or entities which are not so regulated whose corporate purpose is solely to invest in securities and companies which are not small or medium sized enterprises for the purposes of Articles 2.1(f) of the Prospectus Directive, (ii) investors registered on the register maintained by the FSA under section 87R FSMA and (iii) an investor authorised by an European Economic Area State other than the United Kingdom to be considered as a qualified investor for the purposes of the Prospectus Directive or otherwise in circumstances which would not give rise to a breach of section 85 FSMA. No application is being made for the Offer Shares to be admitted to trading on a regulated market in the United Kingdom.

In addition, this prospectus is distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entitles, and other persons to whom it may otherwise lawfully be communicated, falling within Articles 49(2) of the Order (all such persons together being referred to as "relevant persons"). The Offer Shares are available only to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Offer Shares will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this prospectus or any of its contents. This prospectus should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person.

United Arab Emirates

The Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in the United Arab Emirates, except (i) in compliance with all applicable laws and regulations of the United Arab Emirates and (ii) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the United Arab Emirates.

Japan

This prospectus has not been and will not be registered under the Securities and Exchange Law of Japan. None of the Offer Shares may be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and in compliance with any other applicable requirement of Japanese law. As used in this paragraph, ''resident of Japan'' means any person residing in Japan, any corporation or other entity organised under the laws of Japan.

PRC

This prospectus may not be circulated or distributed in the PRC and the Offer Shares may not be offered or sold, directly or indirectly or offered or sold to any person for re-offering or resale, directly or indirectly, to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

Taiwan

This prospectus has not been and will not be registered as a prospectus with the Securities and Futures Commission of Taiwan under the Securities and Exchange Law of Taiwan and the Company has not been and will not be registered under the Company Law of Taiwan and related laws and regulations of Taiwan. Accordingly, none of the Offer Shares may be offered for subscription, purchase or sold, directly or indirectly, to the public in Taiwan.

Each person subscribing or purchasing the Offer Shares will be required to confirm, or be deemed by his or her or its subscription/purchase of the Offer Shares to have confirmed, that he or she or it is aware of the restrictions on offer of the Offer Shares described in this prospectus.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of Listing and at all times thereafter, the Company must maintain the "minimum prescribed percentage" of 25% of its issued Share capital in the hands of the public. Upon Listing, and assuming that the Over-allotment Option is not exercised, approximately 36.0% of the issued Share capital of the Company will be in the hands of the public.

In compliance with Rules 25.08 and 25.09 of the GEM Listing Rules, the Company must ensure that all H Shares are held by the public (except as otherwise permitted by the Stock Exchange), the H Shares must normally constitute not less than 10% of its total existing issued Share capital, and the aggregate amount of the H Shares which are held by the public must constitute not less than 25% of the total issued Share capital of the Company.

STRUCTURE OF THE SHARE OFFER

Particulars of the structure of the Share Offer, including the conditions to which the Share Offer is subject, are set forth in the section headed "Structure and conditions of the Share Offer" in this prospectus.

PROCEDURE FOR APPLICATION FOR THE PUBLIC OFFER SHARES

The procedure for application for the Public Offer Shares is set forth in the section headed "How to apply for the Public Offer Shares" in this prospectus and in the Application Forms.

HONG KONG STAMP DUTY

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

PROFESSIONAL TAX ADVICE RECOMMENDED

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

The Company, Chaoyang Auxillary, the Global Coordinator, the Sponsor, the Underwriters, any of their respective directors or other parties involved in the Share Offer do not accept responsibility for any tax effects on, or liability of, any person resulting from subscribing for or purchasing or holding or disposing of or dealing in the Offer Shares.

HONG KONG H SHARE REGISTER

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

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

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

(i) agrees with the Company and each other Shareholder to observe and comply with the Company Law, the Special Regulations and the Articles of Association;

(ii) agrees with the Company, each other Shareholder, Director, Supervisor and officer of the Company to refer all disputes and claims arising from the Articles of Association or any rights and obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive;

(iii) agrees with the Company and each other Shareholder that H Shares in the registered capital of the Company are freely transferable by the registered holder(s) thereof; and

(iv) authorises the Company to enter into a contract on such holder's behalf with each Director, Supervisor and officer of the Company, whereby such Directors, Supervisor and officers of the Company undertake to observe and comply with their obligations to shareholders as stipulated in the Articles of Association.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

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

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

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

COMMENCEMENT OF DEALINGS IN THE H SHARES

Dealings in the H Shares are expected to commence on Monday, 25 September 2006.

The H Shares will be traded in board lots of 1,000 each.

The GEM stock code for the H Shares is 8245.

The Company will not issue any temporary documents of title.

Dealings in the H Shares on GEM will be effected by participants of the Stock Exchange whose bid and offer quotations will be made available on GEM website and the Stock Exchange's teletext page information system.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. Only certificates for H Shares registered on the H Share share register will be valid for settlement in respect of transactions effected on GEM.

If you are unsure about the procedures for dealings and settlement arrangement on the Stock Exchange on which H Shares are listed and how such arrangements will affect your rights and interests, you should consult your stockbroker or other professional advisers.

OVER-ALLOTMENT AND STABILISATION

In connection with the Share Offer, DBS Asia or any person acting for it may over-allocate or effect transactions with a view to supporting the market price of the H Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on DBS Asia or any person acting for it to do this. Such stabilisation action, if taken, may be discontinued at any time, and is required to be brought to an end after a limited period.

In connection with the Share Offer, the Company and the Selling Shareholder have granted to DBS Asia the Over-allotment Option, which will be exercisable in full or in part by no later than 30 days after the last date for lodging applications under the Public Offer. Pursuant to the Over-allotment Option, the Company and the Selling Shareholder may be required to issue and sell at the Offer Price up to an aggregate of 19,800,000 additional H Shares, representing 15% of the total number of H Shares initially available under the Share Offer, in connection with over-allocation in the Placing, if any.

Further details with respect to stabilization and the Over-allotment Option are set out in the paragraph headed "Over-allotment and Stabilisation" under the section headed "Structure and conditions of the Share Offer" in this prospectus.

SELLING SHAREHOLDER

Name	Address
Chaoyang Auxillary	Fourth Building Hongmiaobei Lane Chaoyang District Beijing PRC

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SUPERVISORS

Name	Residential address	Nationality
Chen Jie	No. 1503, Second Building Hua Yan North Lane No. 8 Yuan Chaoyang District Beijing PRC	Chinese
Qu Xinhua	No. 1904, 4th Building Gong Ti West Lane Chaoyang District Beijing PRC	Chinese
Yang Baoqun	No. 308, 4th Floor Unit 3, 4th Building Hong Fu Yuan Small Zone Bei Qi Jia Town Changping District Beijing PRC	Chinese
Chen Zhong	No. 1604, Sixth Building Lanqiying Haidian District Beijing PRC	Chinese

Name	Residential address	Nationality
Cheng Xianghong	No. 1406, Block 2, Court 1 Xin Feng Street Xicheng District Beijing PRC	Chinese
Wang Shuying	No. 804, 24th Building Liu Fang South Lane Chaoyang District Beijing PRC	Chinese

Global Coordinator, bookrunner, lead manager of the Share Offer and Sponsor

DBS Asia Capital Limited
22nd Floor, The Center
99 Queen's Road Central
Hong Kong

Co-Lead Managers

CITIC Securities Corporate Finance (HK) Limited
26th Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

BCOM Securities Company Limited
3rd Floor, Far East Consortium Building
121 Dex Voeux Road Central
Hong Kong

Co Managers

CCB International Capital Limited
Suites 2815-21, 28th Floor
Two Pacific Place
88 Queensway, Admiralty
Hong Kong

CIMB-GK Securities (HK) Limited
25th Floor, Central Tower
28 Queen's Road Central
Hong Kong

First Shanghai Securities Limited
19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

Quam Securities Company Limited
Room 3208, Gloucester Tower
The Landmark
11 Pedder Street, Central
Hong Kong

Legal advisers to the Company

As to Hong Kong law:–
Richards Butler
20th Floor
Alexandra House
16-20 Chater Road
Hong Kong

	As to PRC law:– Zhonglun Wende Law Firm 19th Floor, Golden Tower No. 1 Xibahe South Road Chaoyang District Beijing, 100028 PRC
Legal advisers to the Global Coordinator, the Sponsor and the Underwriters	*As to Hong Kong law:–* Deacons 5th Floor Alexandra House 18 Chater Road Central Hong Kong
	As to PRC law:– Jun Ze Jun Law Offices 3rd Floor, Ping An Development Mansion No. 68 Dong Si Shi Tiao Dongcheng District Beijing 100007 PRC
Auditors and reporting accountants	Ernst & Young *Certified Public Accountants* 18th Floor, Two International Finance Centre 8 Finance Street Central Hong Kong
Property valuers	Vigers Appraisal & Consulting Limited 10th Floor, The Grande Building 39 Kwun Tong Road Kowloon Hong Kong
Receiving banker of the Public Offer	DBS Bank (Hong Kong) Limited 16th Floor The Center 99 Queen's Road Central Hong Kong
	Standard Chartered Bank (Hong Kong) Limited 15th Floor, Standard Chartered Tower 388 Kwun Tong Road, Kwun Tong Kowloon Hong Kong

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

Members of the nomination committee	Wei Tingzhan Fan Faming Huang Jiangming
Compliance adviser	DBS Asia Capital Limited
Hong Kong share registrar and transfer office	Computershare Hong Kong Investor Services Limited 46th Floor, Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	Agricultural Bank of China Tuanjie Lake Branch 2 Tuanjie Lake North Road Chaoyang District Beijing PRC Bank of Beijing Jiulongshan Branch 117th Building Jinsong Dongkou Nongguang Lane Beijing PRC

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

INDUSTRY HIGHLIGHTS

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

The PRC has been one of the world's fastest growing economies in the past decade, and has presented ample sales and marketing opportunities for the distributors of consumer goods. According to the National Bureau of Statistics of China, the PRC population reached approximately 1.31 billion at the end of 2005, with an urbanization rate of 43.0%, while the GDP increased from approximately RMB5.8 trillion in 1995 to approximately RMB13.7 trillion in 2004, representing a CAGR of approximately 10.0%. In light of the growth in population and urbanization rate, the Directors anticipate that there are tremendous opportunities for the development of the consumer goods industry in the PRC.

The Beijing population is one of the most affluent groups in the PRC in terms of residents' disposable income. According to the Beijing Municipal Bureau of Statistics, the per capita annual disposable income of the urban residents of Beijing was RMB17,653 in 2005. The per capita annual consumption expenditure of the urban residents of Beijing was RMB13,244 in 2005.

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

Furthermore, the growth in population, disposable income and living expenditure in Beijing will similarly provide ample business and marketing opportunities for the distributors of consumer goods. According to the Beijing Municipal Bureau of Statistics, retail sales of consumer goods in Beijing increased from approximately RMB95.0 billion in 1995 to approximately RMB290.3 billion in 2005, representing a CAGR of approximately 11.8%.

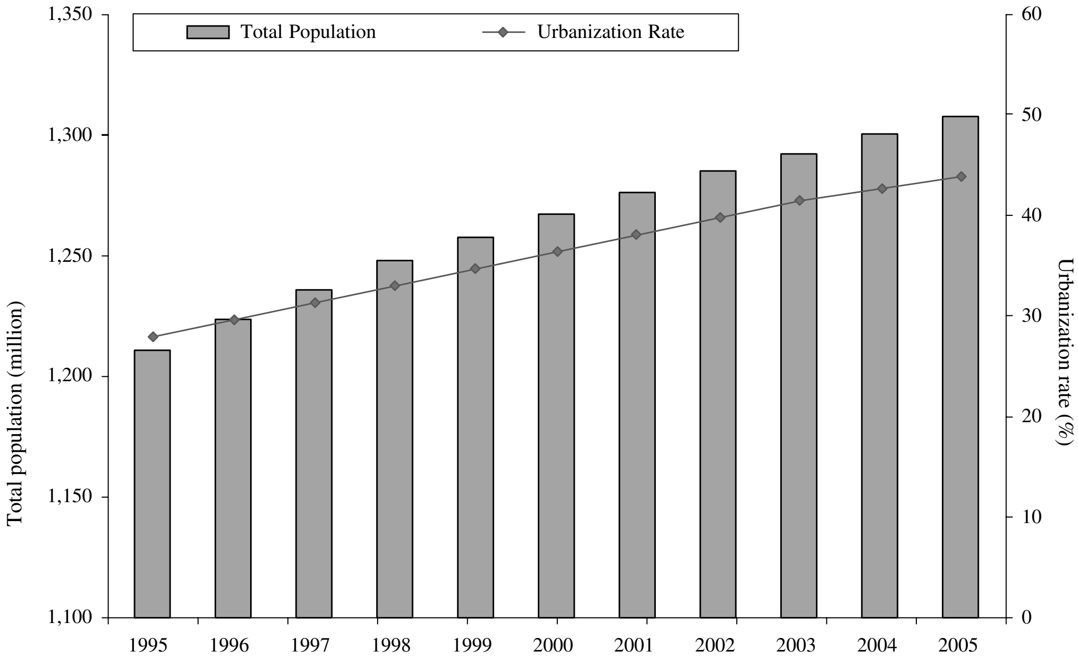
As a result of the PRC's accession to the WTO, the PRC chain store industry was significantly less regulated in terms of shareholding restriction and location restriction. This is expected to lead to the rapid growth of the consumer goods industry as foreign retailers enter the PRC market. In this respect,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

The economy of the PRC

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

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

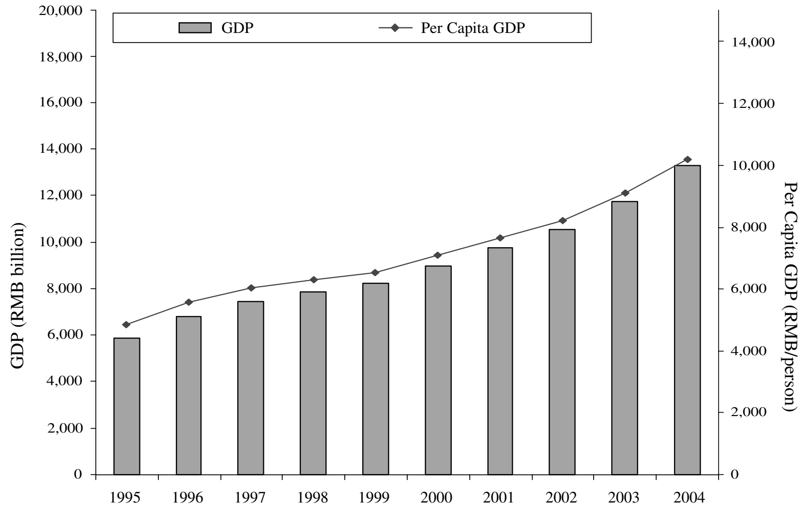
The growth in population and urbanization rate of the PRC



Source: National Bureau of Statistics of China

The PRC has been one of the world's fastest growing economies in the past decade. According to the National Bureau of Statistics of China, its GDP increased from approximately RMB5.8 trillion in 1995 to approximately RMB13.7 trillion in 2004, representing a CAGR of approximately 10.0%. The GDP per capita increased from approximately RMB4,854 in 1995 to approximately RMB10,561 in 2004, representing a CAGR of approximately 9.0%.

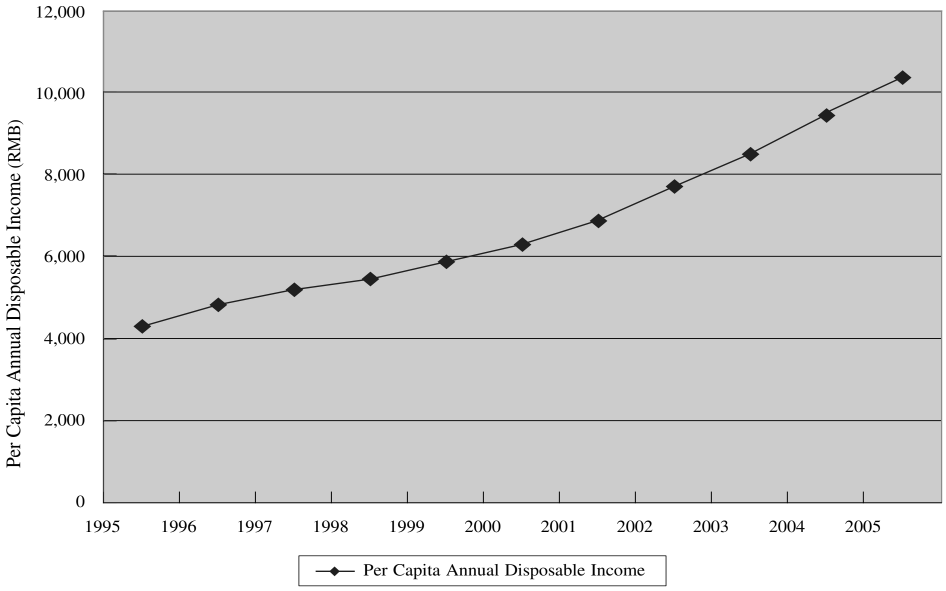
The growth in GDP and Per Capita GDP of the PRC



Source: Natural Bureau of Statistics of China

The strong economic growth of the PRC has led to an improvement in living standards, in particular for those in the urban areas. According to the National Bureau of Statistics of China, the per capita annual disposable income of urban households increased from approximately RMB4,283 in 1995 to approximately RMB10,493 in 2005, representing a CAGR of approximately 9.4%.

Per Capita Annual Disposable Income of Urban Households of the PRC



Source: National Bureau of Statistics of China

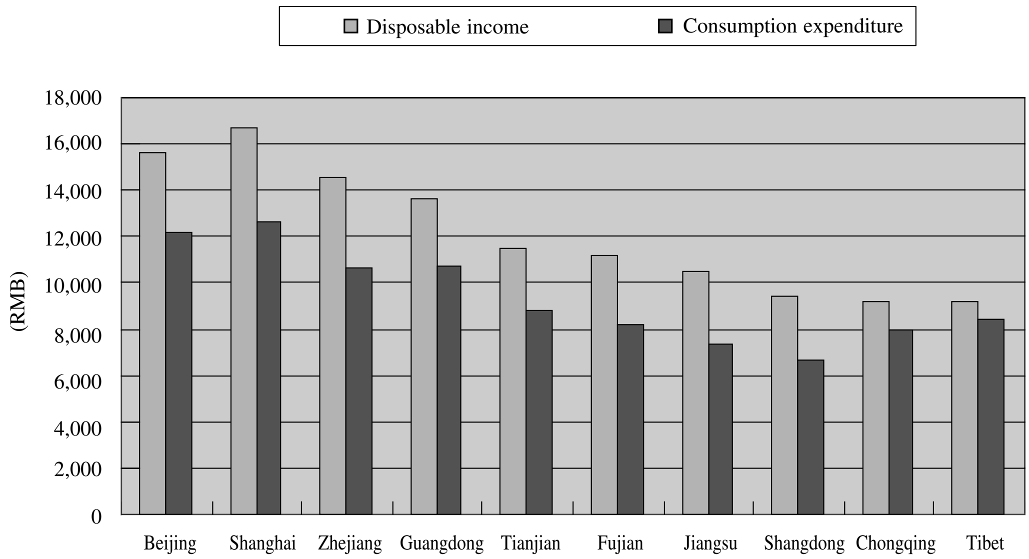
The economy of Beijing

Beijing is the capital of the PRC and is one of the most populated cities of the country. According to the Beijing Municipal Bureau of Statistics, the population of Beijing increased from approximately 12.51 million in 1995 to approximately 15.38 million in 2005, representing a CAGR of approximately 2.1%.

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

The Beijing population is one of the most affluent groups in the PRC in terms of the residents' disposable income. According to the National Bureau of Statistics of China, the per capita annual disposable income of urban residents of Beijing was RMB15,638 in 2004, which was second highest within the country. The per capita annual consumption expenditure of urban residents of Beijing was RMB12,200 in 2004, the second highest within the country.

Per Capita Annual Disposable Income and Per Capita Annual Consumption Expenditure of Urban Residents of regions in the PRC in 2004



Source: National Bureau of Statistics of China

The growth in population, disposable income and consumption expenditure in Beijing has provided ample business opportunities for the retail business sector. According to the Beijing Municipal Bureau of Statistics, retail sales of consumer goods in Beijing increased from approximately RMB95.0 billion in 1995 to approximately RMB290.3 billion in 2005, representing a CAGR of approximately 11.8%.

The economy of the Chaoyang District

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

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

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

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

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

Source: Beijing Municipal Bureau of Statistics

Number of employed persons and annual average wage of selected regions in the PRC in 2004

District	Number of employed persons *('000)*	Annual average wage *(RMB)*
北京 (Beijing)	5,028	29,674
上海 (Shanghai)	3,311	30,085
廣東 (Guangdong)	8,307	22,116

Source: National Bureau of Statistics of China

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

THE PRC RETAIL INDUSTRY

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

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

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

Source: MOC – 2004

Chain stores in the PRC

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

Large retail chain operators in the PRC enjoyed substantial growth in the previous years. The sales of the top 100 retail chain operators accounted for an increasing portion of the total retail sales of consumer goods in the PRC each year from 2000 to 2005. The table below sets out the growth in retail sales of consumer goods and sales of the top 100 chain store operators in the PRC during such period.

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

Year	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Sales of the top 100 retail chain operators (RMB billion)	98	162	247	358	497	708
Growth rate	53%	65%	52%	45%	39%	42%
Annual growth of retail sales of consumer goods	9.7%	10.1%	10.2%	9.2%	10.2%	12.9%
Percentage of sales of the top 100 retail chain operators comprising the retail sales of consumer goods	2.9%	4.3%	6.0%	7.8%	9.3%	10.5%

Source: China Chain Store & Franchise Association

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

Retail chains in Beijing

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

Top supermarket chain operators in Beijing in 2005

	(Sales in RMB million)
物美集團 (Wumart Group)	17,389
北京京客隆 (Beijing Jingkelong)	5,510[(1)]
北京美廉美 (Beijing Mei Lian Mei)	1,898
北京超市發 (Beijing Chao Shi Fa)	1,683
北京順天府 (Beijing Shun Tian Fu)	941

Source: China Chain Store & Franchise Association

Note:

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

Laws and regulations concerning the PRC retail industry

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

1. hygiene permit

2. permit for tobacco monopoly retail business

3. permit for circulation of publications

4. animal quarantine permit

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

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

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

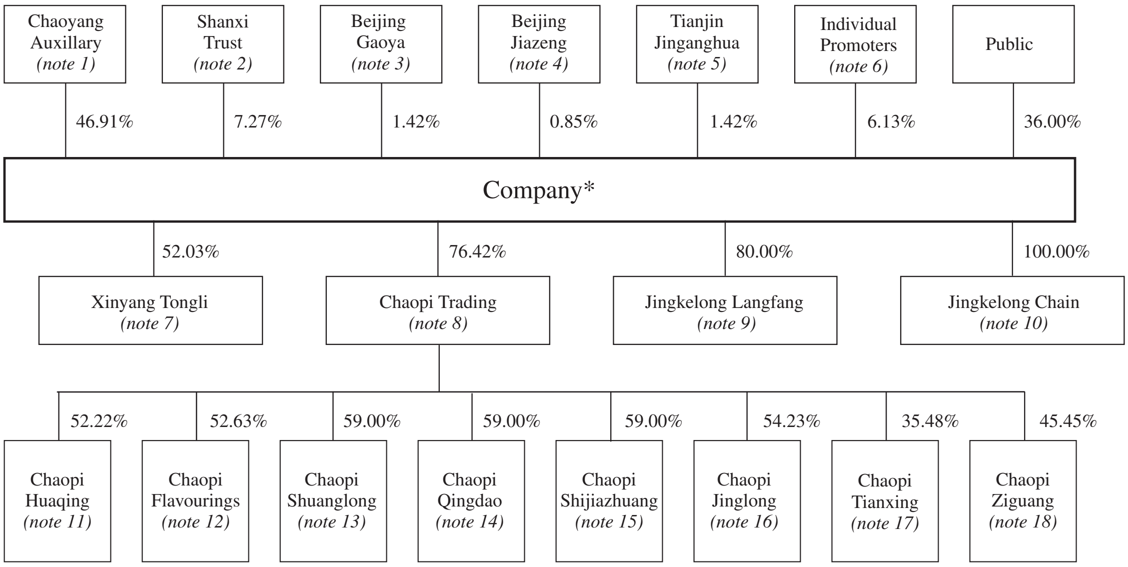
Pursuant to《外商投資商業領域管理辦法》(the Administrative Rules on Foreign Investments in Business Areas) promulgated in April 2004 by the Ministry of Commerce, any foreign investor who has acquired a good reputation and has never been acting in such manner that was in breach of any laws, administrative regulations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

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

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

GROUP STRUCTURE

The following chart sets out the Shareholders, subsidiaries and associated companies of the Company immediately following the Share Offer, assuming that the Over-allotment Option will not be exercised.



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

Notes:

1. Chaoyang Auxillary, one of the Promoters, is a state-owned enterprise. Chaoyang Auxillary's principal business is investment holding and property management.

2. Shanxi Trust, one of the Promoters, was incorporated in the PRC as a limited liability company. It is a professional trustee company and is holding these Domestic Shares as trustee for 122 employees and officers of the Company, all of whom (save for Ms. Li Chunyan and Mr. Liu Yuejin, who are executive Directors and Ms. Wang Shuying, who is a Supervisor) are Independent Third Parties.

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

3. Beijing Gaoya, one of the Promoters, was incorporated in the PRC as a limited liability company. Beijing Gaoya is principally engaged in the sale of general merchandise. None of the shareholders of Beijing Gaoya has any representation on the Board. All the shareholders of Beijing Gaoya are Independent Third Parties, save for their indirect equity interests in the Company.

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

Shareholder of Beijing Gaoya	**Approximate percentage interest in the total share capital of Beijing Gaoya** *(%)*
多淑琴 (Duo Shuqin)	2.0
李生萍 (Li Shengping)	2.0
吳蘭青 (Wu Lanqing)	16.0
吳少華 (Wu Shaohua)	80.0

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

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

Shareholder of Beijing Jiazeng	**Approximate percentage interest in the total share capital of Beijing Jiazeng** *(%)*
馬家增 (Ma Jiazeng)	53.55
楊玉華 (Hua Yuhua)	4.89
陳宏銀 (Chen Hongyin)	4.89
陳有儉 (Chen Youjian)	3.67
陳建萍 (Chen Jianping)	6.72
陳宏珍 (Chen Hongzhen)	3.06
庄長春 (Zhuang Changchun)	6.11
劉淑英 (Liu Shuying)	4.89
郭國慶 (Guo Guoqing)	6.11
陳愛萍 (Chen Aiping)	6.11

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

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

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

6. The following individuals directly hold an aggregate shareholding interest of approximately 6.13% in the Company. Li Shunxiang, Gu Hanlin, Wei Tingzhan, Li Jianwen and Li Chunyan are Directors of the Company; Yang Baoqun and Qu Xinhua are supervisors of the Company; Zhao Weili, Chen Limin and Gao Jingsheng are senior management members of the Company; and the remaining individuals are all Individual Promoters.

Minority shareholder of the Company	Approximate percentage interest in the total share capital of the Company if the Over-allotment Option is not exercised *(%)*
Director	
Li Shunxiang	1.42
Gu Hanlin	0.39
Wei Tingzhan	0.39
Li Jianwen	0.37
Li Chunyan	0.06
Supervisor	
Yang Baoqun	0.28
Qu Xinhua	0.23
Senior management	
Zhao Weili	0.25
Chen Limin	0.23
Gao Jingsheng	0.23
Other Individual Promoter	
Liu Yanli	0.65
Xia Wensheng	0.56
Gao Jiaqiang	0.56
Bai Xianrong	0.23
Dai Jing	0.14
Tian Junying	0.14

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

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

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

8. Chaopi Trading was incorporated in the PRC as a limited liability company. Chaopi Trading is principally engaged in the wholesale distribution of general merchandise such as food, non-staple food, edible oil, beverages, grain and groceries. The remaining aggregate equity interest of approximately 23.58% is owned by Shanxi Trust and 27 individuals. All of the said individuals, save for their shareholdings in Chaopi Trading and the shareholdings and directorships listed below, are Independent Third Parties. In relation to the aforementioned individuals, (i) 李俊偉 (Li Junwei, a director of Chaopi Flavourings and Chaopi Jinglong) also holds approximately 30.84% of Chaopi Flavouring's equity and approximately 31.78% of the equity of Chaopi Jinglong, (ii) 李蘭柱 (Li Lanzhu) is a director of each of Chaopi Flavourings, Chaopi Huaqing, Chaopi Shijiazhuang, Chaopi Qingdao, Chaopi Shuanglong, Chaopi Jinglong, Chaopi Tianxing and Chaopi Ziguang, (iii) 孫文輝 (Sun Wenhui) is a director of each of Chaopi Flavourings, Chaopi Huaqing, Chaopi Shuanglong, Chaopi Qingdao, Chaopi Shijiazhuang, Chaopi Jinglong and Chaopi Ziguang, (iv) 賈明 (Jia Ming) is a director of each of Chaopi Flavourings, Chaopi Huaqing, Chaopi Shuanglong and Chaopi Jinglong, (v) 王春林 (Wang Chunlin) is a director of Chaopi Shuanglong, Chaopi Qingdao and Chaopi Shijiazhuang and also holds approximately 28.50% of Chaopi Shuanglong and 25.00% of each of Chaopi Qingdao and Chaopi Shijiazhuang, (vi) 黃玉華 (Huang Yuhua) is a director, and also holds approximately 23.78%, of Chaopi Huaqing, (vii) 王殿霞 (Wang Dianxia) is a supervisor of Chaopi Ziguang, and (viii) 唐勇力 (Tang Yongli) is a supervisor of Chaopi Flavourings, Chaopi Huaqing, Chaopi Shuanglong and Chaopi Jinglong.

9. Jingkelong Langfang was incorporated in the PRC as a limited liability company. It is principally engaged in the retail of general merchandise. The remaining 20% equity interest is owned by 廊坊市華夏房地產開發有限公司 (Langfang City Huaxia Real Estate Development Company Limited) who, save for its shareholding in Jingkelong Langfang, is an Independent Third Party.

10. Jingkelong Chain was incorporated as a limited company in the PRC. It is principally engaged in the retail of general merchandise.

11. Chaopi Huaqing was incorporated as a limited company in the PRC. It is principally engaged in the wholesale distribution of drinks and food. The remaining equity interest of approximately 47.78% is held by 33 individuals. None of them holds more than 30% of Chaopi Huaqing's equity interest and save for their shareholdings in Chaopi Huaqing, they are Independent Third Parties, except for 黃玉華 (Huang Yuhua) who holds 23.78% equity interest in Chaopi Huaqing and who also holds approximately 0.63% of Chaopi Trading.

12. Chaopi Flavourings is a limited company established in the PRC. It is principally engaged in the wholesale of flavourings, food and edible oil. The remaining aggregate equity interest of approximately 47.37% is held by 29 individuals. None of them (except for 李俊偉 (Li Junwei)) holds more than 30% of Chaopi Flavouring's equity interest and save for their shareholdings in Chaopi Flavourings, they are Independent Third Parties. 李俊偉 (Li Junwei, a director of Chaopi Flavourings, and holds approximately 30.84% of Chaopi Flavouring's equity) is also a director of Chaopi Jinglong and holds approximately 31.78% of the equity of Chaopi Jinglong and approximately 0.73% of the equity of Chaopi Trading. Accordingly, since 李俊偉 (Li Junwei) is a director and a substantial shareholder (as the case may be) of two non-wholly owned subsidiaries of the Company and Chaopi Flavourings is an associate of 李俊偉 (Li Junwei), therefore Chaopi Flavourings is a connected person of the Company.

13. Chaopi Shuanglong was incorporated as a limited company in the PRC. It is principally engaged in the wholesale of alcoholic beverages. The remaining aggregate equity interest is owned by 北京紅星股份有限公司 (Beijing Red Star Holding Limited), 北京順鑫農業股份有限公司 (Beijing Shunxin Agricultural Holding Company Limited) and 王春林 (Wang Chunlin) as to approximately 8.33%, 4.17% and 28.50%, respectively, and all of them, save for their shareholdings in Chaopi Shuanglong and except 王春林 (Wang Chunlin), are Independent Third Parties. 王春林 (Wang Chunlin) also holds 25.00% of each of Chaopi Qingdao and Chaopi Shijiazhuang respectively, and approximately 0.89% of the equity of Chaopi Trading.

14. Chaopi Qingdao was incorporated as a limited company in the PRC. It is principally engaged in the wholesale of alcoholic beverages in the Shandong Province. The remaining aggregate equity interest is owned by王春林 (Wang Chunlin), 劉東 (Liu Dong) and 王曉娟 (Wang Xiaojuan) as to 25.00%, 12.50% and 3.50% respectively. All of them, save for their shareholdings in Chaopi Qingdao and except 王春林 (Wang Chunlin), who is a director, are Independent Third Parties. 王春林 (Wang Chunlin) also holds approximately 28.50% of Chaopi Shuanglong and 25.00% of Chaopi Shijiazhuang, and approximately 0.89% of the equity of Chaopi Trading.

15. Chaopi Shijiazhuang was incorporated as a limited company in the PRC. It is principally engaged in the wholesale of alcoholic beverages in the Hebei Province, the PRC. The remaining aggregate equity interest is owned by 王春林 (Wang Chunlin), 段雲洪 (Duan Yunhong) and 王曉娟 (Wang Xiaojuan) as to 25.00%, 12.50% and 3.50%, respectively. All of them, save for their shareholdings in Chaopi Shijiazhuang and except for 王春林 (Wang Chunlin), who is a director, are Independent Third Parties. 王春林 (Wang Chunlin) also holds approximately 28.50% of Chaopi Shuanglong and 25.00% of Chaopi Qingdao, and approximately 0.89% of the equity of Chaopi Trading.

16. Chaopi Jinglong was incorporated as a limited company in the PRC. It is principally engaged in the wholesale of edible oil. The remaining equity interest of approximately 45.77% is held by 22 individuals. None of them (except 李俊偉 (Li Junwei)) holds more than 30% of Chaopi Jinglong's equity interest and, save for their shareholdings in Chaopi Jinglong, they are Independent Third Parties. 李俊偉 (Li Junwei, a director of Chaopi Jinglong and who holds approximately 31.78% of Chaopi Jinglong's equity) is also a director of Chaopi Flavourings and holds approximately 30.84% of the equity of Chaopi Flavourings and a director of Chaopi Trading and holds approximately 0.73% of the equity of Chaopi Trading. Accordingly, since 李俊偉 (Li Junwei) is a director and a substantial shareholder (as the case may be) of two non-wholly owned subsidiaries of the Company and Chaopi Jinglong is an associate of 李俊偉 (Li Junwei), therefore Chaopi Jinglong is a connected person of the Company.

17. Chaopi Tianxing was incorporated as a limited company in the PRC and an approximately 35.48% associated company of the Company. It is principally engaged in the retail of fruits and vegetables. The remaining equity interest of approximately 64.52% is held by an individual, who is an Independent Third Party.

18. Chaopi Ziguang was incorporated as a limited company in the PRC and an approximately 45.45% associated company of the Company. It is principally engaged in the wholesale of alcoholic beverages. The remaining equity interest is held by Beixin Investment Holding Company Limited (北信投資控股有限責任公司) and 陳樹立 (Chen Shuli, who is also a director of Chaopi Ziguang) as to approximately 45.45% and 9.1%, respectively, all of whom are Independent Third Parties.

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

CHAOYANG AUXILLARY STATE OWNED ASSETS RESTRUCTURING AND THE REORGANISATION

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

1. THE ESTABLISHMENT OF JINGKELONG SUPERMARKET

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

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

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

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

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

Teng Yuan Vehicle Repair Centre), 北京市朝陽區商業設備公司 (Beijing City Chaoyang District Business Equipment Company), 北京市朝陽東方加油站 (Beijing City Chaoyang Eastern Petrol Station) and 北京市朝陽區騰遠出租汽車公司 (Beijing City Chaoyang District Teng Yuan Car Rental Company), and cash, aggregating RMB176,540,000, whilst the other investors (comprising officers, employees and business partners of the Group) contributed cash in the aggregate amount of RMB60,120,000, to establish 北京京客隆超市連鎖有限公司 (Beijing Jingkelong Supermarket Chain Company Limited).

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

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

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

2. THE REORGANISATION

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

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

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

(ii) Chaopi Trading entered into two equity transfer agreements with Chaoyang Auxillary to acquire an additional approximately 11.11% and 12.50% equity interest in Chaopi Huaqing and Chaopi Flavourings (at a consideration determined by an independent valuer) respectively, in June 2004. Upon the completion of the equity transfers, Chaopi Trading owned a total interest of approximately 52.22% and 56.25% in Chaopi Huaqing and Chaopi Flavourings, respectively. The Group accounted for Chaopi Huaqing and Chaopi Flavourings as associates for the period from January 2003 to June 2004 and as subsidiaries by the purchase method of accounting thereafter;

(iii) the Company transferred its entire 10% equity interest in Chaopi Shuanglong to Chaopi Trading for approximately RMB1,611,000 so as to consolidate the Group's equity holding in Chaopi Shuanglong in Chaopi Trading;

(iv) the Company disposed of its entire approximately 62.73% equity interest in Tengyuan to Chaoyang Auxillary for approximately RMB9,038,000. Tengyuan was principally engaged in the sale of motor vehicles and the provision of car repair services, which was an independently operated business unit of Chaoyang Auxillary, and such equity interest was only injected into the Company by Chaoyang Auxillary at the time of the Company's establishment as a transitional arrangement (being part of the Chaoyang Auxillary State Owned Assets Restructuring) pending this disposal, which was amongst the final steps under the Chaoyang Auxillary State Owned Assets Restructuring to rationalize the different business units of Chaoyang Auxillary; and

(v) the Company disposed of its entire approximately 35.07% equity interest in Yiyuantang to Chaoyang Auxillary for approximately RMB14,984,000. Yiyuantang was principally engaged in the sale of pharmaceutical products, which was an independently operated business unit of Chaoyang Auxillary, and such equity interest was only injected into the Company by Chaoyang Auxillary at the time of the Company's establishment as a transitional arrangement (being part of the Chaoyang Auxillary State Owned Assets Restructuring) pending this disposal, which was amongst the final steps under the Chaoyang Auxillary State Owned Assets Restructuring to rationalize the different business units of Chaoyang Auxillary.

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

Although the holding by the Group of the equity interests of Tengyuan and Yiyuantang was a transitional arrangement which formed part of the Chaoyang Auxillary State Owned Assets Restructuring exercise, for accounting purposes, the Group accounted its equity interests in Tengyuan and Yiyuantang under discontinued operations in the Accountants' Report included as Appendix I to this prospectus. The operating results of Tengyuan were consolidated into the Group until June 2004 when the Group transferred its entire equity interest therein to Chaoyang Auxillary under the Chaoyang

Auxillary State Owned Assets Restructuring. The operating results of Yiyuantang were consolidated into the Group until the Company disposed of its approximately 35.07% equity interest therein to a third party in July 2003, and then, the operating results of Yiyuantang were accounted for as a share of result of associates until June 2004 when the Group transferred the balance of its equity interest therein (being approximately 35.07%) to Chaoyang Auxillary under the Chaoyang Auxillary State Owned Assets Restructuring.

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

On 25 July 2005, Chaopi Trading acquired an approximately 7.33% equity interest in Chaopi Shuanglong from Shenzhen Yunzhongyuan Trading Company Limited and thereby increasing its equity interest in Chaopi Shuanglong to approximately 59.0%.

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

3. CONVERTING JINGKELONG SUPERMARKET TO THE COMPANY

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

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

of the total share capital, the shareholding nature of which is state-owned legal person shares. The remaining share capital was held by other legal corporate entities and individuals.

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

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

HISTORY AND DEVELOPMENT

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

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

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

In May 1998, the Group obtained its business licence for its first hypermarket. By April 1999, the Group was operating 7 Retail Outlets, comprising a hypermarket and 6 supermarkets.

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

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

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

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

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

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

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

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

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

For details of the Group's business development for the three years ended 31 December 2005, please refer to the section headed "Statement of active business pursuits".

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

STATEMENT OF ACTIVE BUSINESS PURSUITS

The following is a statement of active business pursuits of the Group for the three years ended 31 December 2005 and the six months ended 30 June 2006.

Year ended 31 December 2003

- The Group expanded the number of its directly-operated supermarkets from 24 as at 31 December 2002 to 27 as at 31 December 2003, while the number of supermarkets operating under franchise arrangements increased from two to four in the same respective period.

- The Group expanded the number of directly operated convenience stores from 29 as at 31 December 2002 to 34 as at 31 December 2003, while the number of convenience stores operating under franchise arrangements was increased from 13 as at 31 December 2002 to 46 as at 31 December 2003 in the same respective period.

- The total operating area of the dry product Logistics Centre was increased to approximately 22,500 m^2.

- The Group's management information systems were upgraded through the establishment of an online clearing system.

- The Group began the construction of the live and fresh produce Logistics Centre, located in the Chaoyang District, Beijing.

- The Group's management information systems for convenience stores were consolidated with the Group's centralised management information systems in order to improve the overall operation efficiency.

- The Group launched three in-house brands, namely 蜜屋 (Miwu), 曼妙 (Manmiao) and 惠廉 (Huilian).

- In March 2003, the Company was awarded 北京市商業名牌企業 (Famous Commercial Brand in Beijing) by 北京市商業聯合會 (Association of Commerce in Beijing).

- In October 2003, the Company was awarded 中國商業名牌企業 (Famous Commercial Brand in PRC) by 中國商業聯合會 (Association of Commerce of the PRC).

- In December 2003, the Group launched the Jingkelong card.

- As at 31 December 2003, the Group employed a total force of 4,591 full-time employees in the PRC, deployed in the following capacities:

	Headquarters	Hypermarkets	Supermarkets	Convenience Stores	Chaopi Trading	Logistics Centres	Xinyang Tongli	Total
Management, administration and finance	143	12	57	4	89	6	3	314
Sales and marketing	70	787	1,900	573	314	201	28	3,873
Others	14	60	73	18	153	69	17	404
Total	227	859	2,030	595	556	276	48	4,591

Year ended 31 December 2004

- The number of directly operated supermarkets decreased from 27 as at 31 December 2003 to 26 as at 31 December 2004. Due to the operating losses of 建國店 (Jianguo supermarket) of approximately RMB583,000 in 2004, the Group has closed it down in July 2004.

- The Group opened a new directly operated supermarket, 豐潤店 (Fengrun supermarket), in October 2004, while 紅廟北里店 (Hongmiaobeili supermarket) was converted from a supermarket to a convenience store.

- The number of directly operated convenience stores maintained at 34 as at 31 December 2004 as a result of the closure of 便利店五店 (No. five convenience store) due to reconstruction works carried out by local authorities and the conversion of 紅廟北里店 (Hongmiaobeili supermarket) from a supermarket to a convenience store.

- The Group expanded the number of its convenience stores under franchise arrangements from 46 as at 31 December 2003 to 72 as at 31 December 2004.

- An enterprise-integrated figures information support system was developed which enabled the Group to evaluate the operation efficiency of each Retail Outlet.

- On-line clearing technology was utilised to enable suppliers and bulk purchasers to conduct clearing on the Internet.

- In September 2004, the Group launched the membership reward card.

- As at 31 December 2004, the Group employed a total work force of 4,340 full-time employees in the PRC, deployed in the following capacities:

	Headquarters	Hypermarkets	Supermarkets	Convenience Stores	Chaopi Trading	Logistics Centres	Xinyang Tongli	Total
Management, administration and finance	136	9	59	4	94	8	3	313
Sales and marketing	75	700	1,849	449	344	215	26	3,658
Other	13	49	73	11	149	57	17	369
Total	224	758	1,981	464	587	280	46	4,340

Year ended 31 December 2005

- The number of the Group's directly-operated supermarkets maintained at 26 as at 31 December 2005 as a result of the opening of four supermarkets, 勁松店(Jingsong supermarket), 百子園店 (Baiziyuan supermarket), 天竺店 (Tianzhu supermarket) and 樓梓庄店(Louzizhuang supermarket) and the closure of four supermarkets, 豐潤店 (Fengrun supermarket) which was not profit-making in 2005 and 燕山店(Yanshan supermarket) due to operating loss of approximately RMB891,000 in 2005, and 九龍山店 (Jiulongshan supermarket) and 曙光店 (Shuguang supermarket) as a result of land resumption, while the number of supermarkets operating under franchise arrangements increased from four to five during the same period.

- The number of convenience stores operating under franchise arrangements was increased from 72 as at 31 December 2004 to 88 as at 31 December 2005 while the number of directly operated convenience stores increased from 34 to 35 for the period.

- On 1 June 2005, the Group set up a customer service centre in order to strengthen the customers relationship and to collate market intelligence.

- The Group completed the establishment of the live and fresh produce Logistics Centre.

- On 12 September 2005, Chaopi Shijiazhuang was incorporated as a limited company in the PRC. It is principally engaged in the wholesale of alcoholic beverages in the Hebei Province.

- On 28 September 2005, Chaopi Qingdao was incorporated as a limited company in the PRC. It is principally engaged in the wholesale of alcoholic beverages in the Shandong Province.
- As at 31 December 2005, the Group employed a total work force of 4,280 full-time employees in the PRC, deployed in the following capacities:

	Headquarters	Hypermarkets	Supermarkets	Convenience Stores	Chaopi Trading	Logistic Centres	Xinyang Tongli	Total
Management, administration and finance	134	11	50	4	110	8	2	319
Sales and marketing	91	722	1,642	429	470	223	7	3,584
Other	22	42	67	10	138	62	36	377
Total	247	775	1,759	443	718	293	45	4,280

Six months ended 30 June 2006

- The number of directly operated supermarkets increased from 26 as at 31 December 2005 to 29 as at 30 June 2006, including 和平里店(Hepingli Supermarket), 西單店(Xidan Supermarket) and 田村店(Tiancun Supermarket). In addition, the Group has signed lease agreements for establishing eight new supermarkets which will commence operation in the second half of 2006.
- The number of directly operated convenience stores maintained at 35 as at 30 June 2006 and the Group has signed lease agreements for two new stores which will commence operation in the second half of 2006.
- As at 30 June 2006, the Group employed a total work force of 4,281 full-time employees in the PRC, deployed in the following capacities:

	Headquarters	Hypermarkets	Supermarkets	Convenience Stores	Chaopi Trading	Logistic Centres	Xinyang Tongli	Total
Management, administration and finance	145	8	52	3	99	6	2	315
Sales and marketing	98	681	1,655	421	483	243	6	3,587
Other	45	45	71	9	132	39	38	379
Total	288	734	1,778	433	714	288	46	4,281

Subsequent to 30 June 2006

- The Group has signed five tenancy agreements for the establishment of four supermarkets and one hypermarket respectively.
- On 5 July 2006, Jingkelong Chain was incorporated as a limited company in the PRC. It is principally engaged in the retail of general merchandise in Tongzhou District.

OVERVIEW

The Group is one of the leading distributors of daily consumer products in the Greater Beijing Region, with a turnover of more than RMB4.1 billion for the year ended 31 December 2005. The Group operates its distribution business under the well-known brands of "京客隆" and "朝批". According to China Chain Store & Franchise Association, the Group was ranked 21st among the top 100 fast moving consumer goods retail chain in China and 34th among the top 100 chain enterprises in China in 2005.

The distribution network of the Group spans across retail and wholesale distribution channels. As at 30 June 2006, the retail distribution network of the Group comprised 169 Retail Outlets, of which 68 were directly-operated and 101 were under franchise arrangements; and the Group's directly-operated Retail Outlets comprised four hypermarkets, 29 supermarkets and 35 convenience stores, while under the Group's franchised Retail Outlets comprised five supermarkets and 96 convenience stores. The Group also operates a wholesale distribution business through Chaopi Trading and its subsidiaries and associated companies under the well known "朝批" brandname for the wholesale supply of daily consumer products to customers including the Retail Outlets and other retail operators and trading companies. Operating in these retail and wholesale distribution formats, the Group has positioned itself to cater for the needs of a diverse range of customers, ranging from retail operators to end consumers.

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

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

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

The following table shows the number and operating areas of the different retail and wholesale distribution formats of the Group as at 30 June 2006.

	Retail distribution business			Wholesaling distribution business
	Hypermarkets	Supermarkets	Convenience stores	Distribution Centres
Number of Distribution Outlets				
– directly-operated	4	29	35	2
– franchise-operated	–	5	96	–
	4	34	131	2
Net operating area (sq.m.)				
– directly-operated	38,638	72,409	8,065	70,431
– franchise-operated	–	5,830	19,080	–
	38,638	78,239	27,145	70,431

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

COMPETITIVE STRENGTHS

Well-recognised brands

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

As at 30 June 2006, the Company has a retail distribution network comprising 169 Retail Outlets with more than 144,000 sq.m. of operating area. In 2005, the Group generated approximately RMB4.1 billion in sales, and was ranked 21st among the top 100 fast moving consumer goods retail chain in China in 2005. The easy accessibility of the Group's daily consumer products in many convenient Retail Outlets serves to build brand loyalty and enhances the Group's relationship with its consumers.

The Group's wholesale distribution network is supported by two Distribution Centres, both of which supply wholesale daily consumer products to customers including the Retail Outlets and other retail operators and trading companies.

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

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

Integrated retail and wholesale distribution networks

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

– facilitating the implementation of its uniform policies throughout its retail and wholesale distribution networks, resulting in stability in both the sourcing of products (via the wholesale operations) and the distribution of the same (via the retail channel);

– having the ability to buy in bulk, which allows the Group to enjoy considerable bargaining power, leading to better concessions from suppliers and lower costs for the Group's customers;

– facilitating the timely collection of first-hand feedback on market trends and end-consumer preferences at the retail level, which enables the Group to implement market-driven merchandising and stocking at the wholesale level.

Centralised Logistics Centres and Distribution Centres

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

Efficient management information systems

The Group's management information systems are designed to enhance inventory control and facilitate timely distribution of its daily consumer products. The Directors believe that with advanced management information systems, the Group is able to maintain low but effective levels of stock for all Retail Outlets, Logistics Centres and Distribution Centres, and to make timely decisions regarding distribution, merchandising and other strategic decisions. The management information systems are also able to minimise counter payment time at the Retail Outlets.

Multi-tiered retail distribution network

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

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

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

Experienced and stable management

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

REVENUE MODEL

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

	Year ended 31 December 2003			Year ended 31 December 2004			Year ended 31 December 2005			Six months ended 30 June 2005			Six months ended 30 June 2006		
	Continuing operations	Discontinued operations*	Total	Continuing operations	Discontinued operations*	Total	Continuing operations	Discontinued operations*	Total	Continuing operations	Discontinued operations*	Total	Continuing operations	Discontinued operations*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
										(Unaudited)	(Unaudited)	(Unaudited)			
Sale of merchandise and produce															
– Retailing from directly-operated stores	1,864,672	–	1,864,672	2,009,270	–	2,009,270	2,060,573	–	2,060,573	1,052,799	–	1,052,799	1,121,636	–	1,121,636
– Wholesaling	1,026,615	–	1,026,615	1,555,895	–	1,555,895	2,057,361	–	2,057,361	998,077	–	998,077	1,037,148	–	1,037,148
Sale of pharmaceuticals	–	95,889	95,889	–	–	–	–	–	–	–	–	–	–	–	–
Trading of automobiles and provision of related repair services	–	269,037	269,037	–	97,893	97,893	–	–	–	–	–	–	–	–	–
Others	2,821	–	2,821	3,700	–	3,700	3,814	–	3,814	2,923	–	2,923	2,321	–	2,321
Total	2,894,108	364,926	3,259,034	3,568,865	97,893	3,666,758	4,121,748	–	4,121,748	2,053,799	–	2,053,799	2,161,105	–	2,161,105

* *The pharmaceutical and motor vehicle and repair operations were discontinued in 2003 and 2004, respectively. For details, please refer to section headed "History and Development and Reorganisation" in this prospectus.*

During the Track Record Period, the Group expanded its retail and wholesale operations, both in terms of geographical coverage and product mix, with the aim of strengthening its market presence within the Greater Beijing Region. For its retail distribution business, the Group's revenue increased from approximately RMB1,864.7 million for the year ended 31 December 2003 to approximately RMB2,060.6 million for the year ended 31 December 2005, representing a CAGR of approximately 5.0%. For its wholesale distribution business, the Group's revenue increased from approximately RMB1,026.6 million for the year ended 31 December 2003 to approximately RMB2,057.4 million for the year ended 31 December 2005, representing a CAGR of approximately 41.5%. One of the Company's subsidiaries, Chaopi Trading, acquired additional equity interest in two former associates in June 2004 which were then become the subsidiaries of the Group. If such effect was adjusted, the Group's revenue from the wholesale distribution business increased from approximately RMB1,026.6 million for the year ended 31 December 2003 to approximately RMB1,532.1 million for the year ended 31 December 2005, representing a CAGR of approximately 22.2%.

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

PRODUCTS

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

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

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

DISTRIBUTION NETWORKS

As at 30 June 2006, the Group distributed daily consumer products through (i) its retail distribution network comprising 169 Retail Outlets, of which all four hypermarkets, as well as 29 supermarkets and 35 convenience stores, were directly-operated by the Group, while five supermarkets and 96 convenience stores were operated under franchise arrangements; and (ii) its wholesale distribution network comprising two Distribution Centres.

The network of the Group's Distribution Outlets comprised the following as at 30 June 2006:

	Directly-operated	Franchises
Retail distribution business:		
Hypermarkets	4	–
Supermarkets	29	5
Convenience stores	35	96
	68	101
Wholesale distribution business:		
Distribution Centres	2	–
Total	70	101

Details of the location of each of the Group's Distribution Outlets (directly-operated) and Logistics Centres are set out in Appendix III to this prospectus.

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

In addition, the coordination of the wholesale and retail distribution networks ensure the sufficiency and stability of the supply of daily consumer products in various demand conditions. The visibility in the demand for these daily consumer products at the retail level is increased as the Retail Outlets enable the Group to timely collect information on market trends and consumer preferences, hence optimising the efficacy of the merchandising and stocking at the distribution network. Similarly, volatility at the wholesale sourcing level is reduced. Furthermore, the Group's distribution capability allows for optimal product distribution through the control of how daily consumer products are being distributed or retailed at the Retail Outlets.

(i) Logistics Centres

The Group's retail distribution network is supported by two specially designed Logistics Centres in the Chaoyang District of Beijing, which consolidate orders for, warehouse and provide daily consumer products to, the Retail Outlets in the Greater Beijing Region.

The Group has a live and fresh produce Logistics Centre and a dry product Logistics Centre. These two Logistics Centres are connected by the Group's management information systems to the directly-operated Retail Outlets, and they facilitate the Group's logistics requirements by consolidating orders for, and warehousing and coordinating the delivery of daily consumer products to, the Retail Outlets in the Greater Beijing Region.

Both of the two Logistics Centres have intranet ordering systems by which each directly-operated Retail Outlet can place its orders electronically through the intranet system. This enables the Group to achieve maximum flexibility in delivering goods without fixed schedules within 24 hours of receiving an order. The Group is thus able to meet various demand conditions at the Retail Outlets efficiently, hence minimizing disruptions to the flow of daily consumer products.

Most suppliers of the Company are also linked with the Company's automatic ordering system, hence allowing the dry product Logistics Centre to conveniently replenish low inventory levels. As a matter of practicality, the smaller suppliers do not participate in the Company's automatic ordering system but are instead connected by other means. The Company is therefore able to ensure the stability of product supplies and a fast order turnaround.

Live and fresh produce Logistics Centre

The Group operates a live and fresh produce Logistics Centre, located in the Chaoyang District, Beijing, the site of which is leased to the Group by Chaoyang Auxillary with a lease term of 20 years, and which provides live and fresh produce to the Retail Outlets. This Logistics Centre obtained its business licence in November 2004 and commenced operation in January 2005. The Group has invested a total of approximately RMB53 million in the live and fresh produce Logistics Centre.

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

The Directors believe that with rising income levels and changing lifestyle habits of the consumers in the Greater Beijing Region, the increasingly discerning consumers are likely to choose to purchase live and fresh produce at hypermarkets, supermarkets and/or convenience stores over the traditional wet markets. In order to ensure that the quality, cleanliness and freshness of the products are rigorously maintained, the Group is able to achieve an average stock turnover days of approximately five days for its sales operations.

Dry product Logistics Centre

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

This Logistics Centre was established in 2001 and comprises a total area of approximately 22,500 sq.m. The Group has invested a total of approximately RMB57 million in this Logistics Centre.

(ii) Distribution Centres

The Group's wholesale distribution network is operated through Chaopi Trading and its subsidiaries and associated companies under the "朝批" brandname, and is supported by its Distribution Centres, which provide wholesale supply of daily consumer products to the Retail Outlets and its other customers comprising, principally, retail operators and trading companies.

The Group operates two Distribution Centres, one in the Chaoyang District of Beijing and the other in Tianjin. The daily consumer products distributed through the Distribution Centres include processed food products, beverages, wine products, non-staple food and non-food products. The Distribution Centres do not distribute fresh or frozen food products.

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

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

Due to its advantageous position of being both a retail and wholesale distributor, the Group is also able to monitor market demand and fluctuations at the retail level effectively, hence reducing the risk of stock obsolescence and excessive inventory levels.

Distribution Centre in Beijing

The Group's Distribution Centre was established in 1994. It moved to its current location in the Chaoyang District of Beijing in 2004, comprising a total area of approximately 69,000 sq.m, which is rented by the Group from Independent Third Parties with lease terms of five years and 10 years respectively. The Group has invested a total of approximately RMB18.6 million in this Distribution Centre. The products distributed through this Distribution Centre include foods, edible oil, drinks, flavourings, alcohol and general merchandise.

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

Distribution Centre in Tianjin

Since November 2003, another Distribution Centre was established in Tianjin, serving areas other than the Beijing. It comprises a total area of approximately 4,800 sq.m. which is rented by the Group from an Independent Third Party with a lease term of five years. The Group has invested a total of approximately RMB2.6 million in this Distribution Centre. The products distributed through this Distribution Centre include foods, edible oil, drinks, flavourings, alcohol and general merchandise.

This centre has round-the-clock operations and is insured against theft, fire and bursting of water pipes. The Directors believe that there are abundant business opportunities for further development of the wholesale supply and distribution of daily consumer products to wholesale trade customers, in addition to the supply and distribution of daily consumer products to the Retail Outlets of the Group.

(iii) Complementary Operations of the Logistics Centres and Distribution Centres

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

(iv) Retail Outlets

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

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

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

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

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

The Chaoyang District's strategic location also enhances the distribution efficiency of the Group's distribution network by allowing the Logistics Centres to meet the various product demands of the Retail Outlets in a timely manner. Complemented with the Group's management information systems and own delivery trucks, the Directors believe that the Group is able to enhance its distribution capabilities.

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

The table below sets out the locations of the Retail Outlets as at 30 June 2006:

	Hypermarkets		Supermarkets		Convenience stores		Total	
	Number of stores	Net operating area *(sq.m.)*	Number of stores	Net operating area *(sq.m.)*	Number of stores	Net operating area *(sq.m.)*	Number of stores	Net operating area *(sq.m.)*
Directly operated by the Group								
朝陽區 (Chaoyang District)	2	19,450	23	56,774	35	8,065	60	84,289
	–	–	–	–	1[(1)]	400	1	400
密雲縣 (Miyun County)	–	–	1	4,580	–	–	1	4,580
廊坊市 (Langfang City)	1	9,381	1	2,620	–	–	2	12,001
昌平區 (Changping District)	1	9,807	–	–	–	–	1	9,807
順義區 (Shunyi District)	–	–	1	1,390	–	–	1	1,390
通州區 (Tongzhou District)	–	–	8[(1)]	12,590	1[(1)]	124	9	12,714
東城區 (Dongcheng District)	–	–	1	1,800	–	–	1	1,800
西城區 (Xicheng District)	–	–	1	2,400	–	–	1	2,400
海淀區 (Haidian District)	–	–	1	2,845	–	–	1	2,845
Sub-total	4	38,638	37	84,999	37	8,589	78	132,226
Operated by franchisees								
朝陽區 (Chaoyang District)	–	–	3	2,580	75	14,506	78	17,086
房山區 (Fangshan District)	–	–	1	1,350	–	–	1	1,350
昌平區 (Changping District)	–	–	–	–	2	436	2	436
海淀區 (Haidian District)	–	–	–	–	2	568	2	568
豐台區 (Fengtai District)	–	–	–	–	7	1,512	7	1,512
通州區 (Tongzhou District)	–	–	–	–	2	500	2	500
順義區 (Shunyi District)	–	–	–	–	3	754	3	754
大興區 (Daxing District)	–	–	–	–	3	695	3	695
宣武區 (Xuanwu District)	–	–	–	–	2	109	2	109
延慶縣 (Yanqing County)	–	–	1	1,900	–	–	1	1,900
Sub-total	–	–	5	5,830	96	19,080	101	24,910
Total	4	38,638	42	90,829	133	27,669	179	157,136

[(1)] *Lease agreements have been signed and the relevant outlets will be opened in the second half of 2006.*

The table below sets out the aggregate revenue of the Retail Outlets directly-operated by the Group for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2003		2004		2005		2005		2006	
	Aggregate turnover *RMB('000)*	*(%)*	Aggregate turnover *RMB('000)*	*(%)*	Aggregate turnover *RMB('000)*	*(%)*	Aggregate turnover *RMB('000)* (Unaudited)	*(%)* (Unaudited)	Aggregate turnover *RMB('000)*	*(%)*
Hypermarkets	591,619	31.7	653,687	32.5	694,362	33.7	354,271	33.7	360,685	32.2
Supermarkets	1,120,717	60.1	1,208,077	60.1	1,205,007	58.5	621,717	59.0	675,540	60.2
Convenience stores	152,336	8.2	147,506	7.4	161,204	7.8	76,811	7.3	85,411	7.6
	1,864,672	100.0	2,009,270	100.0	2,060,573	100.0	1,052,799	100.0	1,121,636	100.0

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

– promotion income of approximately RMB19.6 million, RMB35.6 million, RMB42.8 million and RMB31.4 million respectively derived from suppliers for subsidizing promotional campaigns;

– display space leasing fee of approximately RMB8.8 million, RMB12.9 million, RMB18.3 million and RMB19.3 million respectively derived from suppliers for displaying products at prime area of the Retail Outlets;

– rental income of approximately RMB32.8 million, RMB34.5 million, RMB37.0 million and RMB19.6 million respectively derived from the leases and sub-leases of certain designated area of the Retail Outlets to, among others, restaurants, fast food outlets, photo shops and banks.

Hypermarkets

As at 30 June 2006, the Group owned and operated four hypermarkets, through which it distributes its in-house branded products and other daily consumer products. The hypermarkets target consumers who require a comprehensive "one-stop" shopping experience whereby they can complete their shopping all under one roof. Accordingly, the hypermarkets offer a broad range of quality products at competitive prices and various ancillary services to satisfy the needs of an one-stop shopping experience of the consumers such as laundry, banking, pharmacy, watch repair and photo-finishing services.

Details of Hypermarkets

The following table sets out the total number of hypermarkets and the total operating space of the directly-operated hypermarkets of the Group as at the periods indicated:

	As at 31 December			As at 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
Directly-operated hypermarkets	4	4	4	4	4
Total operating area *('000 sq.m.)*	38.6	38.6	38.6	38.6	38.6

The table below sets out the approximate average transaction figures for the hypermarkets of the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
Turnover *(RMB million)*	592	654	694	354	361
Average daily sales *(RMB'000)*	1,634	1,786	1,902	1,957	1,993
Average number of daily transactions	34,576	38,904	39,289	38,581	38,200
Turnover per operating area per day *(RMB)*	42.3	46.2	49.2	50.7	51.6
Average value per transaction *(RMB)*	47.3	45.9	48.4	50.7	52.1

As at 30 June 2006, two hypermarket sites were leased to the Group by Independent Third Parties, with two other sites being owned by the Group. Such leases are for 20 years.

Supermarkets

As at 30 June 2006, the Group operated 29 supermarkets directly, and operated 5 supermarkets under franchise arrangements, through which it distributed its in-house branded products and other daily consumer products. The supermarkets tend to be located in more densely-populated residential areas and have smaller store sizes as compared to the hypermarkets.

Details of Supermarkets

The following table sets out the total number of supermarkets and the total operating space of the directly-operated supermarkets of the Group as at the periods indicated:

	As at 31 December			As at 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
Directly-operated supermarkets	27	26	26	26	29[(1)]
Total operating area of directly-operated supermarkets *('000 sq.m.)*	65.1	66.9	65.4	67.9	72.4
Supermarkets operated under franchise agreements	4	4	5	5	5

[(1)] Excluding 8 supermarkets which will be opened in the second half of 2006.

The table below sets out the approximate average transaction figures for the directly-operated supermarkets of the Group for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
Turnover *(RMB million)*	1,121	1,208	1,205	622	676
Average daily sales *(RMB'000)*	3,395	3,408	3,623	3,602	3,753
Average number of daily transactions	133,093	136,213	130,286	126,338	123,278
Turnover per operating area per day *(RMB)*	51.2	48.1	46.9	49.2	51.8
Average value per transaction *(RMB)*	25.5	25.0	27.8	28.5	30.4

As at 30 June 2006, 11 supermarket sites were principally leased to the Group by Independent Third Parties, with 17 other sites being principally leased to the Group by Chaoyang Auxillary, with one other site being owned by the Group. Such leases usually have a term of 20 years.

Convenience stores

As at 30 June 2006, the Group directly-operated 35 convenience stores, and operated 96 convenience stores under franchise agreements. These convenience stores target consumers with the need for fast, efficient and convenient services. Their sizes generally are much smaller than the other formats of Retail Outlets and they tend to be located near residential neighborhoods. They offer a more selective range of daily consumer products and the prices are generally higher than those sold in the hypermarkets and supermarkets.

Details of Convenience Stores

The following table sets out the total number of convenience stores and the total operating space of the directly-operated convenience stores of the Group as at the periods indicated:

	As at 31 December			As at 30 June	
	2003	2004	2005	2005	2006
Directly-operated convenience stores	34	34	35	34	35[(1)]
Total operating area of directly-operated convenience stores *('000 sq.m.)*	7.7	8.2	8.1	8.2	8.1
Convenience stores operated under franchise agreements	46	72	88	84	96

[(1)] *Excluding two convenience stores which will be opened in the second half of 2006.*

The table below sets out the approximate average transaction figures for the directly-operated convenience stores of the Group for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
Turnover *(RMB million)*	152	148	161	77	85
Average daily sales *(RMB'000)*	444	410	439	423	470
Average number of daily transactions	42,981	44,075	49,071	50,758	53,886
Turnover per operating area per day *(RMB)*	54.5	49.7	55.3	51.8	58.2
Average value per transaction *(RMB)*	10.3	9.3	9.0	8.3	8.7

As at 30 June 2006, eight convenience stores sites were leased to the Group by Independent Third Parties, with 26 other sites being leased to the Group by Chaoyang Auxillary, with one other site being owned by the Group. Such leases usually have a term of 20 years.

CUSTOMERS

Under the Group's retail distribution business, the majority of the Group's customers are individual residents in the area near the relevant store. Customers typically settle payments in cash for merchandise purchased from the Group. As such, 100% of the revenue from retail distribution business during the Track Record Period were received in cash, representing 64.4%, 56.3%, 50.0% and 51.9% of the Group's revenue from continuing operations respectively.

Under the Group's wholesale distribution business, the majority of the Group's customers are retail store operators, retail chain store operators and wholesale operators. During the Track Record Period, the Group had granted credit terms of not more than 60 days to the customers of wholesale distribution business. Accordingly, during the Track Record Period, 35.6%, 43.7%, 50.0% and 48.1% of the Group's revenue from continuing operations were settled in credit terms respectively.

The aggregate turnover attributable to the Group's five largest customers represented less than 18% of the audited turnover of the Group for each of the three years ended 31 December 2005 and six months ended 30 June 2006.

During the Track Record Period, sales to the Group's twenty largest customers represented approximately 20.2%, 20.8%, 30.5% and 33.2% of the Group's turnover respectively. To the best knowledge of the Directors, sales to State owned enterprises represented approximately 14.9%, 14.7%, 12.2% and 12.5% of the sales to the Group's twenty largest customers for each of the three years ended 31 December 2005 and six months ended 30 June 2006.

FRANCHISE OPERATIONS

Due to the success of the branding of the Group's hypermarkets, supermarkets and convenience stores, the Group has received invitations from interested parties to franchise "京客隆" retail outlets. As at 30 June 2006, there were five supermarkets and 96 convenience stores operating under the Group's franchise arrangements. All such supermarkets and convenience stores are also operated under the logo of "京客隆".

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

The Group received franchise fee of approximately RMB0.8 million, RMB1.3 million, RMB1.7 million and RMB1.1 million respectively, during the Track Record Period. The maximum amount of franchise fees for convenience stores and supermarkets is approximately RMB20,000 and RMB90,000 respectively and are on a fixed one-off basis. In addition, the Group received monthly fees based on a percentage of the store's revenue, or at a fixed amount up to a maximum of RMB4,800. The franchisees are responsible for the fixed assets and operating expenses of the franchise stores.

The franchised Retail Outlets purchase products from the Company or other suppliers approved by the Company. The sales to franchised Retail Outlets from the Company was approximately RMB44.6 million, RMB52.1 million, RMB55.5 million and RMB27.8 million, respectively, during the Track Record Period. Revenue on goods sold to franchisees is recognised when the significant risks and rewards of ownership of goods have passed to franchisees and the amount of revenue can be measured reliably. As such, such goods sold are owned by franchisees.

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

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

1. Whether the franchisee is entitled or possesses the legal capacity to conduct the proposed franchised business;

2. Whether the franchisee is able to conduct the proposed franchised business independently with sufficient human resources;

3. Whether the franchisee occupies an outlet which is suitable for the operation of the proposed franchised business; and

4. Whether the franchisee agrees with the operation rationale of the Group and is willing to be bound by the Group's operational policies.

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

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

The Group will provide certain support to the franchisees such as training programs to educate them on the Group's management information systems, store decoration, financial planning, operational guidance and staff training. The costs to provide management information systems, store decoration, financial planning and staff training to the franchisees amounted approximately RMB0.7 million, RMB0.4 million, RMB0.3 million and RMB4,500, respectively, during the Track Record Period. The Group has received fees in advance from its franchisees for providing such activities and any related costs incurred will be debited to the receipt in advance account.

DEVELOPMENT OF IN-HOUSE BRANDNAMES

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

As at 30 June 2006, there are 13 suppliers to which the Group outsources for the production of approximately 170 daily consumer products, ranging from food products to home-use products. The typical outsourcing terms provide that the products will be competitively priced in relation to the current market prices, and the Group will receive an annual rebate as a fraction of the size of the orders in the relevant year. According to the agreements between the Company and the suppliers, the suppliers have agreed to offer the Company the lowest production prices within the Beijing region. The total purchases during Track Record Period were approximately RMB7.6 million, RMB10.5 million, RMB21.1 million and RMB9.2 million respectively.

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

During the Track Record Period, sales of the in-house branded products in the Group's Retail Outlets amounted to approximately RMB15.3 million, RMB25.0 million, RMB29.0 million and RMB11.1 million, respectively, which represented approximately 0.5%, 0.7%, 0.7% and 0.5%, respectively of the total revenue from continuing operations of the Group for the respective relevant period.

MANAGEMENT INFORMATION SYSTEMS

The Group has two separate and independent management information systems for its retail and wholesale distribution networks. The Directors believe that an efficient management information system significantly improves product procurement, delivery schedules, inventory management and merchandising, thus minimising the cost of maintaining levels of inventories and allows for better space allocations and overall sales performance. In this respect, the Group has invested over RMB30 million during the Track Record Period in various information system hardware and software and related services.

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

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

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

INTERNAL CONTROL – CASH AND INVENTORY

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

The average stock turnovers of the Group during the Track Record Period were approximately 46 days, 41 days, 37 days and 34 days respectively. A general stock provision of 0.5% on inventory is usually maintained by the Group. As at 31 December 2003, 2004, 2005 and 30 June 2006, the Group has a provision of approximately RMB2.6 million, RMB3.3 million, RMB2.5 million and RMB2.0 million respectively against obsolete and slow-moving inventories.

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

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

COMPLIANCE AND APPROVALS

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

As confirmed by the PRC legal advisers to the Company, throughout the Track Record Period, the Group has obtained all required licences and permits for its Retail Outlets, Logistics Centres and Distribution Centres and has not been subject to any penalties nor any compensation orders.

MERCHANDISING

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

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

In addition, Chaopi Trading supplies daily consumer products on a wholesale basis to the Company, hence ensuring stability in the sourcing of products for the Group's retail distribution network, even during peak seasons.

During the Track Record Period, approximately 76%, 77%, 81% and 80% of the Group's merchandise respectively is purchased directly from the manufacturers while the remaining 24%, 23%, 19% and 20% of the merchandise respectively is purchased from wholesalers. By purchasing directly from the manufacturers, the Group can further take advantage of bulk purchase rates and ensure that the quality, quantity and cost of the products are able to meet the pricing and merchandising strategies of the Group.

QUALITY CONTROL AND ASSURANCE

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

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

a. The merchandise management department will conduct research on a particular product that the Group plans to source including obtaining samples and approval documents;

b. The merchandise management department will verify the information provided in accordance with relevant legal requirements and corporate quality management policy;

c. The merchandise management department also pays close attention to suppliers that have attracted governmental or public concern about their quality standards. Site inspections will be carried out at the suppliers' premises, if deemed necessary. The merchandise management department will also complete a《供應商渠道評估表》(supplier assessment form) in its evaluation of the suppliers' quality standards;

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

AWARDS AND ACHIEVEMENTS

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

Awards and certificates	Year of Award	Issuing organisation
中國百家快速消費品連鎖零售企業第21名 (Ranked 21st amongst the top 100 fast moving consumer goods retail chain)	2005	中國連鎖經營協會 (China Chain Store & Franchise Association)
中國百強連鎖企業第34名 (Ranked 34th amongst the top 100 PRC chain enterprises)	2005	中國連鎖經營協會 (China Chain Store & Franchise Association)
北京市百強企業第35名 (Ranked 35th amongst the top 100 enterprises in Beijing, PRC)	2005	北京市企業聯合會／北京市企業家聯合會 (Beijing Enterprise Confederation/ Beijing Enterprises Directors Association)
中國服務業企業500強第143名 (Ranked 143rd amongst the top 500 PRC services industry)	2005	中國企業聯合會／中國企業家聯合會 (China Enterprise Confederation/ China Enterprise Directors Association)
中國企業500強第324名 (Ranked 324th amongst the top 500 PRC enterprises)	2004	中國企業聯合會／中國企業家協會 (China Enterprise Confederation/ China Enterprise Directors Association)
北京市百強企業第40名 (Ranked 40th amongst the top 100 enterprises in Beijing, PRC)	2004	北京企業聯合會／北京市企業家協會 (Beijing Enterprise Confederation/Beijing Enterprise Directors Association

In addition, the quality assurance infrastructure and the quality control procedures adopted by the Group have demonstrated its commitment to internationally recognised quality management system standard. Hence, the Company, the 56 directly-operated Retail Outlets and the dry product Logistics Centre were awarded the ISO 9001:2000 certification in August 2005.

MARKETING AND PROMOTION

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

As part of the Group's marketing strategy to promote consumer loyalty to its Retail Outlets, the Jingkelong card was launched in December 2003 and the membership reward card was launched in September 2004. As at 30 June 2006, the membership reward card scheme had over 530,000 members and the total amount of value stored in the Jingkelong Cards was approximately RMB105 million. In relation the Jingkelong cards and the membership reward cards launched by the Group, the Jingkelong card is a stored value card which allows a consumer to use as a substitute to cash and offers the benefits of a convenient and hassle-free way of shopping. No deposit is required for Jingkelong Card. The membership reward card allows a consumer to accumulate points in exchange for certain rewards upon reaching a certain threshold of points. The points accumulated in the membership reward cards are subject to a 1-year expiry period. The rewards year run from 1 April to 31 March. The points accumulated and eligible to be rewarded during the relevant period are accrued and reported as expenses for that period. They are neither debit nor credit cards.

Through careful implementation of various marketing and promotion activities, the Directors believe that Retail Outlets will be able to maintain a competitive position in the retail chain business. The Group's total marketing and advertising expenditure on public media and advertising campaigns during the Track Record Period was approximately RMB8.6 million, RMB11.1 million, RMB14.3 million and RMB6.3 million, respectively, accounting for approximately 0.3%, 0.3%, 0.3% and 0.3%, respectively, of the revenue from continuing operations.

INTELLECTUAL PROPERTY RIGHTS

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

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

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

The five largest suppliers to the Group accounted for approximately 21.3%, 18.1%, 16.9% and 15.3%, respectively, of the total purchases of the Group during the Track Record Period. All of the five largest suppliers have had relationships of over five years with the Group. The largest supplier to the Group accounted for approximately 4.5%, 5.0%, 3.7% and 3.9%, respectively, of the total purchases of the Group during the Track Record Period.

The following table sets out the top five suppliers during the periods indicated:

		Percentage of total purchases (%)				
		Year ended 31 December			Six months ended 30 June	
		2003	2004	2005	2005 (Unaudited)	2006
Supplier	**Products supplied**					
四川省宜賓五糧液集團進出口有限公司 (Sichuan Wuliangye Group Company Limited)	alcoholic beverage	N/A*	N/A*	N/A*	N/A*	3.9
上海雀巢產品服務有限公司北京分公司 (Shanghai Nestle Company)	food and beverage	4.4	5.0	3.7	4.7	3.2
北京金六福酒有限公司 (Beijing Jinliufu Wine Company)	alcoholic beverage	4.5	3.9	N/A*	N/A*	2.9
北京紅星股份有限公司 (Beijing Red Star Company)	alcoholic beverage	3.7	3.5	3.6	3.4	2.7
北京蒙牛宏達乳制品有限責任公司 (Beijing Mengniu Dairy Products Company)	milk products, ice-cream and other dairy products	N/A*	3.0	N/A*	2.6	2.6
天津嘉里糧油工業有限公司 (Tianjin Kerry Edible Oil Industrial Company)	edible oil	N/A*	N/A*	3.1	3.0	N/A*
萊陽魯花濃香花生油有限公司北京分公司 (Laiyang Luhwa Peanut Oil Company)	edible oil	4.3	N/A*	3.7	2.9	N/A*
北京市朝陽煙草公司 (Beijing Chaoyang Tobacco Company)	tobacco	N/A*	2.7	2.8	N/A*	N/A*
南海油脂工業(赤灣)有限公司北京分公司 (Nanhai Edible Oil Industrial (Chiwan) Company)	edible oil	4.4	N/A*	N/A*	N/A*	N/A*

* *not among the top five suppliers*

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

During the Track Record Period, purchases from the Group's twenty largest suppliers represented approximately 40.9%, 36.8%, 40.0% and 34.7% of the Group's purchases respectively. To the best knowledge of the Directors, purchases from State owned enterprises represented approximately 27.1%, 28.3%, 31.1% and 34.4% of the purchases from the Group's twenty largest suppliers during the Track Record Period.

COMPETITION

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

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

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

The table below set out the top supermarket chain operators in Beijing in terms of sales in 2005.

Top Supermarket Chain Operators in Beijing in 2005

	Types of Retail Outlets	Number of Retail Outlets	(Sales in RMB million)
物美集團 (Wumart Group)	Hypermarkets/Supermarkets/ Convenience Stores	615	17,389
北京京客隆 (Beijing Jingkelong)	Hypermarkets/Supermarkets/ Convenience Stores	156	5,510[(1)]
北京美廉美 (Beijing Mei Lian Mei)	Hypermarkets/Supermarkets	20	1,898
北京超市發 (Beijing Chao Shi Fa)	Supermarkets	44	1,683
北京順天府 (Beijing Shun Tian Fu)	Supermarkets	20	941

Source: China Chain Store & Franchise Association

Note:

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

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

1. Price and product range: The Directors believe that the competitive pricing of its products and its ability to offer "value-for-money" products and services give the Group an advantage over its competitors. Additionally, the Group further distinguishes itself by offering an extensive selection of products, including in-house brand products, hence providing the convenience of one-stop shopping solution for consumers. Product knowledge of its sales staff as well as its local knowledge of its customers' shopping preferences are all critical factors which have contributed to its success in competing with its rivals.

2. Store locations: The Directors believe that having prime store locations for its Retail Outlets is the key to maximising sales of the Retail Outlets and thus the profitability of the Group. Through its tenancy agreements with Chaoyang Auxillary, the Directors believe that the Group has been able to obtain strategically located properties on favorable terms that would otherwise be unavailable to it.

3. Brand recognition: The Group has undertaken various promotional and marketing activities, including the launching of the Jingkelong card and the membership reward card, aimed at strengthening brand awareness among consumers. Additionally, through its franchisee stores, the Directors believe that the Group has been able to build up its brandname principally in the Greater Beijing Region.

4. Efficient employment of advanced technologies: The Directors believe that the Group's investment in improving its management information systems has allowed the Group to improve product procurement, delivery schedules, inventory and inventory management and turnover days, thus minimising the cost of maintaining levels of inventories and allowing for better space allocations and overall sales performance.

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

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

PRICING POLICY

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

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

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

- jointly conducting some negotiations with the Company and Chaopi Trading, taking full advantage of the Group's economies of scale to secure favourable terms and prices from the Group's suppliers and manufacturers;

- maintaining a good communication channel with the Group's suppliers and manufacturers in order to capture first mover advantage on new products and to discuss ways of promoting sales;

- conducting evaluation of competitors' performance and market research into customer trends with a view to formulating the Group's merchandising strategies.

INSURANCE

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

The Group also maintains workers compensation insurance in relation to its employees, which covers personal injury and death of employees during their course of employment.

COMPLIANCE WITH REGULATORY REQUIREMENTS

The Group intends to set up the following measures for the ongoing compliance of the regulatory requirements in the PRC and Hong Kong:

- Li Chunyan has been appointed as the compliance officer of the Group.

- Regular meetings and seminars within the Group to provide updates on the latest business development of the Group and regulatory requirements in relation to the retail and wholesale distribution industries.

- Regular meetings and seminars within the Group on regulatory requirements applicable to companies listed on the Stock Exchange and update on any amendments thereto from time to time.

- Regular conversations with the compliance adviser for the update of regulatory requirements.

- Consult the compliance adviser for any proposed transactions or events that may be subject to the disclosure and approval requirements under the GEM Listing Rules.

- All management and staff are required to report to the Directors and the compliance officer(s) promptly any events that may be subject to the various regulatory requirements in the PRC and Hong Kong.

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

I. CONTINUING CONNECTED TRANSACTIONS OF THE COMPANY

1. Lease of properties by Chaoyang Auxillary to the Company

Pursuant to a lease agreement dated 30 April 2004, a supplemental lease agreement dated 12 March 2005 and a supplemental lease agreement (no. 2) dated 25 July 2005 and another three lease agreements dated 25 July 2005, 24 March 2006 and 4 April 2006 respectively (together the "JKL Lease Agreements") entered into between the Company and Chaoyang Auxillary (being the holding company of the Company), Chaoyang Auxillary has agreed to lease to the Company certain properties situated in the Chaoyang District, Beijing, including buildings, related public amenities and facilities, carparking spaces, areas for the loading and unloading of machines, sign board spaces and the land on which the abovementioned properties are situated (together, the "JKL Properties", being the properties numbered 12-19, 21-23, 26-28, 30-33, 52-54, 56, 58-63, 65-66, 68-70, 72, 76-88, 90-91 and 94 referred to in the section headed "Summary of valuation – Group III – Property interests rented and occupied by the Group in the PRC" in the letter from Vigers Appraisal & Consulting Limited in Appendix III to this prospectus) for terms of between 10 years to 20 years commencing 1 January 2004, 1 July 2005 and 1 July 2006 (as the case may be) with fixed annual rentals (inclusive of the relevant business and property taxes) for four to six year periods (as the case may be). For the year ended 31 December 2004, the aggregate rental paid to Chaoyang Auxillary was RMB7,845,359. The initial aggregate annual rental was RMB7,845,359 for the period from 1 July 2005 to 30 June 2006. As the Company ceased to rent two properties as from 1 April 2005 and 1 January 2006 respectively, the aggregate rental was reduced such that the aggregate rental for the period from 1 January 2005 to 31 March 2005 was RMB1,961,340, the aggregate rental for the period from 1 April 2005 to 31 December 2005 was RMB5,502,150, and the aggregate rental for the six months ended 30 June 2006 were RMB3,476,413; whereas the aggregate annual rental from 1 July 2006 to 31 December 2008 will be RMB7,135,325. Such annual rentals, exclusive of relevant property tax, shall be increased after each aforesaid fixed rental period at a rate of 5% or 20% (as the case may be). Accordingly, the rental shall be RMB7,425,242 per annum for the period from 1 January 2009 to 30 June 2010, RMB7,461,742 per annum for the period from 1 July 2010 to 31 December 2013, RMB7,766,155 per annum for the period from 1 January 2014 to 30 June 2016, RMB7,547,155 per annum for the period from 1 July 2016 to 31 December 2018, and RMB7,866,789 per annum for the period from 1 January 2019 to 31 December 2023. Accordingly, these amounts have been set as the respective annual caps for this continuing connected transaction.

For the purpose of enabling the Company to comply with the requirement of Rule 20.35(1) of the GEM Listing Rules that the term of the agreement shall not be more than three years should the JKL Lease Agreements (or any part thereof) not be approved by the independent Shareholders by 31 December 2008 (or when an approval for any subsequent period is sought) in compliance with the requirements of the GEM Listing Rules, whilst allowing the Group to enjoy security of tenure in respect of the JKL Properties, the Company has been granted a right to terminate the lease of any particular property under the JKL Lease Agreements without paying any compensation by giving no less than six months' prior written notice to Chaoyang Auxillary. Both the Company and the Sponsor confirm such arrangements are beneficial to the Group and in the interests of the shareholders of the Company and the Company as a whole, as the Group has more flexibility in its leasing arrangements and is able to secure the use of these premises at a low rate favourable to the prevailing market rent as at the commencement dates of the relevant JKL Lease Agreements. The Sponsor has confirmed that it is a normal business practice for lease agreements of this kind to have a duration of more than 3 years.

The JKL Properties, which are located in the Chaoyang District, Beijing are principally used by Group to operate its 17 supermarkets, 27 convenience stores and the live and fresh produce Logistics Centre. The gross area of the JKL Properties is approximately 94,167 sq.m.

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

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

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

Pursuant to a supply agreement dated 6 April 2006 entered into between the Company and 北京朝陽新龍福利食品加工廠 (Beijing Chaoyang Xinlong Fuli Foodstuff Processing Company ("Chaoyang Xinlong"), Chaoyang Xinlong has agreed to supply, on a non-exclusive basis, to the Group various types of cooked food (such as ham and bacon) for sale to its customers. The legal representative of Chaoyang Xinlong is Mr. Ma Jiazeng ("Mr. Ma"). Mr. Ma holds an equity interest of 53.55% in Beijing Jiazeng which is a Promoter holding approximately 1.27% of the issued shares of the Company as at the date of this prospectus. Chaoyang Xinlong first supplied cooked food to the Company in 1994. Chaoyang Xinlong was then principally engaged in the wholesale distribution of cooked food. Subsequent to the supply agreement, the Company understands that Mr. Ma rationalised his business and transferred the business under Chaoyang Xinlong to Jiazeng Foodstuff where he holds an equity interest of 90%. On 8 August 2006, the Company, Chaoyang Xinlong and Jiazeng Foodstuff entered into a supplemental agreement where the rights and obligations of Chaoyang Xinlong under the supply agreement was transferred to Jiazeng Foodstuff.

During the Track Record Period, Beijing Jiazeng (a Promoter) and 北京市朝陽紫金肉食加工廠 (Beijing Chaoyang Zijin Meat Processing Company ("Chaoyang Zijin", of which Mr. Ma is also its legal representative)) also supplied cooked food to the Group. Beijing Jiazeng and Chaoyang Zijin began to supply cooked food to the Group in 2002. Since Chaoyang Xinlong, Jiazeng Foodstuff, Beijing Jiazeng and Chaoyang Zijin were all under the management of Mr. Ma, the Company agreed with them that in order to streamline the Group's procurement requirement, the Group would only source cooked food from Jiazeng Foodstuff going forward. Accordingly, as from 1 January and 21 July 2005, the Group ceased sourcing cooked food from Beijing Jiazeng and Chaoyang Zijin, respectively, and the Group shifted such procurement requirements to Chaoyang Xinlong and subsequently to Jiazeng Foodstuff. During the Track Record Period, the Group did not source cooked food exclusively from Chaoyang Xinlong, Beijing Jiazeng and Chaoyang Zijin, but from up to 49 suppliers in total. As at the Latest Practicable Date, the Group sourced cooked food from 36 suppliers.

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

For the three financial years ended 31 December 2005 and the six months ended 30 June 2006, Chaoyang Xinlong, Beijing Jiazeng and Chaoyang Zijin supplied the Group with cooked food based on the then prevailing market prices, aggregating approximately RMB20,533,000, RMB18,030,000 and RMB20,535,000 and RMB7,867,000 for the respective periods and representing approximately 0.80%, 0.57%, 0.57% and 0.41% of the Group's costs of sales (for continuing operations) for each of the three financial years ended 31 December 2005 and the six months ended 30 June 2006, respectively. The cooked food supplied by

Chaoyang Xinlong, Beijing Jiazeng and Chaoyang Zijin to the Group representing approximately 32.7%, 16.7%, 17.3% and 15.1% of the Group's total costs of purchase of cooked food from its suppliers for each of the three financial years ended 31 December 2005 and the six months ended 30 June 2006. Due to their internal restructuring in 2004, the Group reduced the amount of cooked food (in RMB terms) sourced from Chaoyang Xinlong, Beijing Jiazeng and Chaoyang Zijin by approximately 12.19% in 2004 (compared to 2003), but, in 2005, the amount of such sourcing increased to the level before the restructuring in 2004.

It is estimated that the total consideration payable by the Group to Jiazeng Foodstuff and Chaoyang Xinlong (before Chaoyang Xinlong transferring its rights and obligations to Jiazeng Foodstuff pursuant to the supplemental agreement dated 8 August 2006) in relation to the purchase of cooked food for each of the three financial years ending 31 December 2008 will not exceed RMB25,400,000, RMB29,200,000 and RMB33,530,000 respectively. Accordingly, these amounts have been set as the caps for these continuing connected transactions.

The above caps have been estimated primarily based on (i) the quantity of the cooked food ordered and the consideration for the supply of such cooked food paid by the Group to Chaoyang Xinlong (together with Beijing Jiazeng and Chaoyang Zijin) during the Track Record Period, which was temporarily affected by the said restructuring of the said three enterprises, (ii) the Group's expansion plan to open (1) one, two and two new hypermarkets, (2) three, eight and eight supermarkets, and (3) three, eight and eight convenience stores from the Latest Practicable Date to 31 December 2006 and in each of the two years ending 31 December 2008, respectively ("Expansion Plan"), which the Directors believe will lead to higher sale volume of cooked food and hence the Group's demand of such products from Jiazeng Foodstuff and Chaoyang Xinlong, and (iii) the estimated growth rate of the sale of such products by the Group of approximately 23.7%, 15% and 15% per annum for each of the three financial years ending 31 December 2008, respectively.

3. Supply of tea leaves by Beijing Wuyifeng

Pursuant to a supply agreement dated 5 April 2006 entered into between the Company and Beijing Wuyifeng, a PRC company owned by Mr. Xia Wensheng ("Mr. Xia") as to 80% of its capital, Beijing Wuyifeng has agreed to supply, on a non-exclusive basis, to the Group various types of tea leaves for sale to the Group's customers. Mr. Xia is a Promoter and as at the date of this prospectus held an equity interest of approximately 0.85% in the Company. Beijing Wuyifeng has been supplying tea leaves to the Group since 1999. Beijing Wuyifeng is principally engaged in the wholesale distribution of tea leaves. During the Track Record Period, the Group did not source tea leaves exclusively from Beijing Wuyifeng, but from up to 13 suppliers in total. As at the Latest Practicable Date, the Group sourced tea leaves from nine suppliers.

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

For the three financial years ended 31 December 2005 and the six months ended 30 June 2006, Beijing Wuyifeng supplied the Group with tea leaves based on the then prevailing market prices, aggregating approximately RMB4,752,900, RMB3,798,900, RMB5,654,000 and RMB2,585,000 for the respective periods and representing approximately 0.19%, 0.12%, 0.16% and 0.14% of the Group's costs of sales (for continuing operations); and approximately 66.7%, 53.3%, 82.1% and 79.9% of the Group's total costs of purchase of tea leaves from its suppliers for each of the three financial years ended 31 December 2005 and the six months ended 30 June 2006, respectively.

It is estimated that the total consideration payable by the Group to Beijing Wuyifeng in relation to the purchase of tea leaves for each of the three financial years ending 31 December 2008 will not exceed RMB6,600,000, RMB7,500,000 and RMB8,700,000 respectively. Accordingly, these amounts have been set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the quantity of the tea leaves ordered and the consideration for supply of such tea leaves paid by the Group to Beijing Wuyifeng during the Track Record Period, (ii) the decrease in the amount of tea leaves sourced in 2004 was due to the fact that Beijing Wuyifeng began to establish its own sales counters at the Group's Retail Outlets in 2004 and, accordingly, lesser sales were made by the Group and, hence, the Group's demand for tea leaves from Beijing Wuyifeng was also reduced; (iii) the Group started to sell the tea leaves it sources from Beijing Wuyifeng in one additional hypermarket and one additional supermarket in the second half of 2005, which accounted for the increase of approximately 48.9% in 2005, (iv) the Group's Expansion Plan (referred to in section 2 above) of adding more Retail Outlets to its network, and (v) the estimated growth rate of the sale of such products by the Group of approximately 16.7%, 13.6% and 16% per annum for each of the three financial years ending 31 December 2008, respectively.

4. Supply of raw meat by Beijing Yingguangda

Pursuant to a supply agreement dated 3 April 2006 entered into between the Company and Beijing Yingguangda, a PRC company owned by Mr. Gao Jiaqiang ("Mr. Gao") as to 66.67% of its capital, Beijing Yingguangda has agreed to supply, on a non-exclusive basis, to the Group various types of raw meat for sales to the Company's customers. Mr. Gao is a Promoter and as at the date of this prospectus held an equity interest of approximately 0.85% in the Company. Beijing Yingguangda has been supplying raw meat to the Group since 2000. Beijing Yingguangda is principally engaged in the wholesale distribution of raw meat. During the Track Record Period, the Group did not source raw meat exclusively from Beijing Yingguangda, but from up to 16 suppliers in total. As at the Latest Practicable Date, the Group sourced raw meat from 11 suppliers.

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

For the three financial years ended 31 December 2005 and the six months ended 30 June 2006, Beijing Yingguangda supplied the Group with raw meat based on the then prevailing market prices, aggregating approximately RMB27,957,000, RMB34,472,000, RMB36,766,000 and RMB4,049,000 for the respective periods and representing approximately 1.10%, 1.09%, 1.02% and 0.21% of the Group's costs of sales (for continuing operations); and approximately 53.6%, 57.6%, 57.7% and 14.3% of the Group's total costs of purchase of raw meat from its suppliers for each of the three financial years ended 31 December 2005 and the six months ended 30 June 2006, respectively.

It is estimated that the total consideration payable by the Group to Beijing Yingguangda in relation to the purchase of raw meat for each of the three financial years ending 31 December 2008 will not exceed RMB18,400,000, RMB16,600,000 and RMB16,600,000 respectively. Accordingly, these amounts have been set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the quantity of the raw meat ordered and the consideration for supply of such raw meat paid by the Group to Beijing Yingguangda during the Track Record Period, (ii) the Group's Expansion Plan (referred to in section 2 above) of adding more Retail Outlets to its network. (iii) the Company's anticipation that the purchases from Yingguangda for 2006 and 2007 is expected to be approximately 50% and 10% respectively lower year-on-year, as the Group's live and fresh produce Logistics Centre opened in the first half of 2005 in Chaoyang District, Beijing, is fully operational in 2006 and which, with its live pig stock processing capability, will enable the Group to change the stock mix of its purchasing needs such that purchases of live pig stock from Yingguangda will gradually decrease in 2006 and 2007 and (iv) the anticipation of the purchase from Beijing Yingguangda to remain unchanged in 2008 (as compared to 2007).

5. Provision of interior decoration services by Tianjin Jinganghua

Tianjin Jinganghua has been providing interior decoration (including signboard installation) services to the Group since 1998. Tianjin Jinganghua is a Promoter and as at the date of this prospectus held an equity interest of approximately 2.11% in the Company. Although the Company is satisfied with the quality of and delivery of the services by Tianjin Jinganghua over the years, with a view to encouraging competition amongst the Group's contractors for the provision of interior decoration services in the future, the Company and Tianjin Jinganghua entered into a services agreement dated 3 April 2006, which agreement is valid until 31 December 2008, under which the Company has agreed, but at the Company's sole discretion and without obligation on its part, to invite Tianjin Jinganghua, on a non-exclusive basis, to submit quotations for the provision of interior decoration (including signboard installation) services to the Group. In the event that the quotation submitted by Tianjin Jinganghua is comparable to or lower than those given by the other contractors solicited by the Group, the Group would consider engaging Tianjin Jinganghua to undertake such services. Tianjin Jinganghua is principally engaged in the provision of interior decoration services. During the Track Record Period and as at the Latest Practicable Date, the Group only engaged Tianjin Jinganghua for the provision of interior decoration (including signboard installation) services.

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

For the three financial years ended 31 December 2005 and the six months ended 30 June 2006, Tianjin Jinganghua provided interior decoration services to the Group based on the then prevailing market prices, aggregating approximately RMB2,658,000, RMB1,313,000, RMB2,659,000 and RMB791,000 for the respective periods and representing approximately 0.10%, 0.04%, 0.07% and 0.04% of the Group's costs of sales (for continuing operations); and 100%, 100%, 100% and 100% of the Group's total consideration paid by the Group on interior decoration services for each of the three financial years ended 31 December 2005 and the six months ended 30 June 2006, respectively.

It is estimated that the total consideration payable by the Group to Tianjin Jinganghua in relation to the provision of interior decoration services for each of the three financial years ending 31 December 2008 will not exceed RMB5,250,000, RMB6,300,000 and RMB7,350,000 respectively. Accordingly, these amounts have been set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the costs of the services provided and the consideration paid by the Group to Tianjin Jinganghua during the Track Record Period, (ii) the reduction in the consideration paid to Tianjin Jinganghua in 2004 (compared to that for 2003) was due to the fact that the Group opened six supermarkets in 2003, compared to only one supermarkets was opened in 2004 (where the relatively smaller decline in the amount paid was due to the fact that the supermarket opened in 2004 was a large-sized supermarket (being over 5,000 sq.m. in gross area)), (iii) the estimation by the Group of the rate of upgrading of its premises and the opening of additional Retail Outlets in accordance with the Expansion Plan (as referred to in section 2 above), and (iv) in particular the interior decoration work required prior to the opening of the Jiuxianqiao hypermarket in late 2006 leading to an estimated increase in the transaction value by approximately 97% in 2006.

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

Beijing Zhonglianjian has been providing construction, repair and renovation services to the Group since 2000. Beijing Zhonglianjian is a PRC company owned by Mr. Li Shun Xiang as to 55% of its registered capital. Mr. Li Shun Xiang is a Promoter and as at the date of this prospectus held an equity interest of approximately 2.11% in the Company. Although the Company is satisfied with the quality of and delivery of the services by Beijing Zhonglianjian over the years, with a view to encouraging competition amongst the Group's contractors for the provision of construction, repair and renovation services in the future, the Company and Beijing Zhonglianjian entered into a services agreement dated 3 April 2006, which is valid until 31 December 2008, under which the Company has agreed, but at the Company's sole discretion and without obligation on its part, to invite Beijing Zhonglianjian, on a non-exclusive basis, to submit quotations for the provision of construction, repair and renovation services to the Group. In the event that the quotation submitted by Beijing Zhonglianjian is comparable to or lower than those given by the other contractors solicited by the Group, the Group would consider engaging Beijing Zhonglianjian to undertake such services. Beijing Zhonglianjian is principally engaged in the provision of construction, repair and renovation services. During the Track Record Period, the Group did not only engage Beijing Zhonglianjian for the provision of construction, repair and renovation services, but engaged nine contractors in total for the provision of such services. As at the Latest Practicable Date, the Group engaged four contractors for the provision of construction, repair and renovation services.

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

For the three financial years ended 31 December 2005 and the six months ended 30 June 2006, Beijing Zhonglianjian provided the Group with construction, repair and renovation services based on the then prevailing market prices, aggregating approximately RMB6,825,000, RMB10,469,000, RMB2,572,000 and RMB542,000 for the respective periods and representing approximately 0.27%, 0.33%, 0.07% and 0.03% of the Group's costs of sales (for continuing operations); and approximately 6.5%, 17.9%, 1.3% and 0.78% of the Group's total consideration paid by the Group on construction, repair and renovation services for each of the three financial years ended 31 December 2005 and the six months ended 30 June 2006, respectively.

It is estimated that the total consideration payable by the Group to Beijing Zhonglianjian in relation to the provision of construction, repair and renovation services for each of the three financial years ending 31 December 2008 will not exceed RMB3,150,000, RMB3,780,000 and RMB4,540,000 respectively. Accordingly, these amounts have been set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the costs of the services provided and the consideration paid by the Group to Beijing Zhonglianjian during the Track Record Period as the increase in the aggregate contract sum paid in 2004 (compared to that of 2003) was due to the construction of the Group's live and fresh produce Logistics Centre during the period, (ii) The decrease in the transaction value with Beijing Zhonglianjian of approximately 75.4% in 2005 was due to the fact that the Group continued to engage more contractors for the provisions of construction, repair and renovation services in 2005 (iii) the Group's desire to encourage competition amongst the Group's contractors for the provision of construction, repair and renovation services and hence to cap the value of the transactions with Beijing Zhonglianjian, despite the fact that the Group expects to open more hypermarkets, supermarkets and convenience stores from 2006 to 2008 pursuant to the Expansion Plan (referred to in section 2 above), and (iv) the amount of work that the Group has invited and may invite Beijing Zhonglianjian to submit quotations (based on the Company's policy to encourage competition amongst the Group's contractors for the provision of construction, repair and renovation services).

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

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

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

For the three financial years ended 31 December 2005 and the six months ended 30 June 2006, Chaopi Flavourings supplied the Group with the Chaopi Flavourings Products based on the then prevailing market prices, aggregating approximately RMB42,284,000, RMB53,303,000, RMB42,759,000 and RMB21,576,000 (which amounts have excluded the estimated sales of the Jiali Products (as referred to in section 8 below), as Chaopi Jinglong was established in May 2005 to take over the business of the wholesale distribution of such products, and, accordingly, for the purpose of the preparation of the relevant caps in this section 7, such estimated sales of the Jiali Products have been excluded as aforesaid in order to provide an appropriate comparison) and representing approximately 1.66%, 1.68%, 1.18% and 1.14% of the Group's costs of sales (for continuing operations); and approximately 7.6%, 8.5%, 6.6% and 8.2% of the Group's total costs of purchase of similar type of Chaopi Flavourings Products from its suppliers for each of the three financial years ended 31 December 2005 and the six months ended 30 June 2006, respectively.

It is estimated that the total consideration payable by the Group to Chaopi Flavourings in relation to the purchase of the Chaopi Flavourings Products for each of the three financial years ending 31 December 2008 will not exceed RMB61,100,000, RMB73,300,000 and RMB84,300,000 respectively. Accordingly, these amounts have been set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the quantity of the Chaopi Flavourings Products and the consideration for the supply of the Chaopi Flavourings Products paid by the Group to Chaopi Flavourings during the Track Record Period, (ii) the increase in purchases (in RMB terms) by approximately 26.1% in 2004 was due to the Group sourcing certain of its products directly from Chaopi Flavourings (after the consolidation of the Group's sourcing channels) instead of from other suppliers and an approximately 10% decrease in prices of the relevant edible oil products, (iii) the decrease in sourcing in 2005 (in RMB terms) of approximately 19.8%, which was mainly due to the increase in purchases from other suppliers to accommodate the market demand for more variety of edible oil products, (iv) after the new division (in the form of Chaopi Jinglong) was set up in May 2005 to trade in Jiali Products (as defined in section 8 below), Chaopi Flavourings, with more operating capacity (as resources being freed up after it ceased to carry the Jiali Products), has carried, and it will continue to carry, more products in the future, and (v) the Group's Expansion Plan (referred to in section 2 above) of adding more Retails Outlets to its network, which the Directors believe will lead to an increase in sales of the Chaopi Flavourings Products and hence the Group's demand for such products will also increase.

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

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

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

Prior to the establishment of Chaopi Jinglong in May 2005, Chaopi Flavourings had been supplying the Jiali Products to the Group. To further rationalize the business of the sale of flavourings products and cope with the expansion of edible oil products, in May 2005, Chaopi Jinglong was established to focus on the business of trading of the products manufactured and/or sourced by the Jiali Group and they are currently, principally, edible oil products under 金龍魚品牌 (Jin Long Yu brand) and 元寶品牌 (Yuan Bao brand). For the three financial years ended 31 December 2005 and the six months ended 30 June 2006, Chaopi Flavourings and Chaopi Jinglong (since its establishment in May 2005) supplied the Group with edible oil products of the said brands based on the then prevailing market prices, aggregating (based on the Company's estimation) approximately RMB22,415,000, RMB18,714,000, RMB14,983,000 and RMB5,371,000 and representing approximately 0.88%, 0.59%, 0.41% and 0.28% of the Group's costs of sales (for continuing operations); and approximately 5%, 4%, 3% and 3% of the Group's total costs of purchase of similar type of Jiali Products from its suppliers for each of the three financial years ended 31 December 2005 and the six months ended 30 June 2006, respectively. Since the establishment of Chaopi Jinglong, Chaopi Jinglong has replaced Chaopi Flavourings as the supplier of the Jiali Products to the Group, and in that connection, Chaopi Jinglong has been appointed by Jiali as one of the two distributors of the Jiali Products in Beijing.

It is estimated that the total consideration payable by the Group to Chaopi Jinglong in relation to the purchase of the Jiali Products for each of the three financial years ending 31 December 2008 will not exceed RMB31,000,000, RMB43,400,000 and RMB56,400,000 respectively. Accordingly, these amounts have been set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the volume of the Jiali Products and the consideration for the supply of the Jiali Products paid by the Group to Chaopi Flavourings and Chaopi Jinglong (since its establishment in May 2005) during the Track Record Period, that the decrease in purchases (in RMB terms) of approximately 16.5% in 2004 was principally due to a decrease in prices of edible oil products by approximately 10% in 2004, (ii) the decrease in purchases (in RMB terms) of approximately 19.9% in 2005 was mainly attributable to less products were sourced by the Group during the set up stage of Chaopi Jinglong (iii) since the Group has designated Chaopi Jinglong to trade only in the Jiali Products, the Group expects that the Jiali Group will supply more variety of products (for example, oil products of different packaging formats targeting at different customers and that it may carry other branded foodstuff such as 胡姬花品牌 (Hujihua brand) and 香滿園品牌 (Xiangmanyuan brand) products that may be introduced in the future) to Chaopi Jinglong, and (iv) the Group's Expansion Plan (referred to in section 2 above) of adding more Retail Outlets to its network, which the Directors believe will lead to an increase in the market presence and the sale of the Jiali Products by the Group, which will in turn increase the Group's demand for such products.

II. CONTINUING CONNECTED TRANSACTIONS OF THE SUBSIDIARIES OF THE COMPANY

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

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

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

During the period from July 2004 to 31 December 2004, the financial year ended 31 December 2005 and the six months ended 30 June 2006, Chaopi Trading provided delivery and logistics services to Chaopi Flavourings based on its estimated costs in the provision of such services, being 1.5% of Chaopi Flavourings's sales plus an annual RMB100,000 long distance surcharge, aggregating approximately RMB2,202,000, RMB6,130,000 and RMB3,686,000 respectively and representing approximately 0.69%, 1.66% and 2.01%, respectively of the Group's distribution costs (for continuing operations) for the two financial years ended 31 December 2005 and the six months ended 30 June 2006. As indicated above, Chaopi Trading only began to centralise the delivery and logistics functions of its subsidiaries in July 2004, therefore Chaopi Trading did not undertake any such service or charge Chaopi Flavouring any fee for the financial year ended 31 December 2003. As indicated above, Chaopi Jinglong was established in May 2005 to focus on the business of trading of the Jiali Products, which products were previously carried by Chaopi Flavourings. Accordingly, the above-mentioned consideration paid by Chaopi Flavourings to Chaopi Trading did not include any estimated fee for the delivery and logistics services provided in respect of the Jiali Products, which as from May 2005, have been carried by Chaopi Jinglong.

It is estimated that the total consideration payable by Chaopi Flavourings to the Group in relation to the provision of the aforesaid delivery and logistics services for each of the three financial years ending 31 December 2008 will not exceed RMB9,050,000, RMB10,391,000 and RMB11,934,000 respectively. Accordingly, these amounts have been set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the delivery and logistics services for the Chaopi Flavourings Products required by Chaopi Flavourings from Chaopi Trading and the consideration paid during the Track Record Period, (ii) for the three financial years ending 31 December 2008, Chaopi Trading will revise its charges upward to 2.1% (representing its estimated cost at the rate of 1.9% plus an approximately 10% premium) of Chaopi Flavouring's sales plus an annual RMB100,000 long distance surcharge, and (iii) as Chaopi Trading only began to centralise the delivery and logistics functions of its subsidiaries (both internally between its subsidiaries, and externally with all such subsidiaries' respective customers in July 2004), the aggregate service charge of RMB2,202,000 for 2004 was not representative of a normal year, because it was only the aggregate charge for half a year, and hence the relatively higher charges in 2005, and the Company expects that the figures for 2006, 2007 and 2008 would be more representative of a normal year.

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

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

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

As indicated above, Chaopi Jinglong was established in May 2005 to focus on the business of trading of the Jiali Products, which products were previously carried by Chaopi Flavourings. Accordingly, the consideration mentioned below was paid by Chaopi Flavourings and Chaopi Jinglong since its establishment in May 2005 in connection with the Jiali Products to Chaopi Trading. During the period from July 2004 to 31 December 2004, the financial year ended 31 December 2005 and the six months ended 30 June 2006, Chaopi Trading provided delivery and logistics services in respect of the Jiali Products based on its estimated costs in the provision of such services, being 1.5% of the sales of the Jiali Products plus an annual RMB100,000 long distance surcharge, aggregating approximately RMB1,101,000, RMB2,270,000 and RMB1,317,000 respectively and representing approximately 0.35%, 0.61% and 0.72%, respectively of the Group's distribution costs (for continuing operations) for the two financial years ended 31 December 2005 and the six months ended 30 June 2006. As indicated above, Chaopi Trading only began to centralise the delivery and logistics functions of its subsidiaries in July 2004, therefore Chaopi Trading did not undertake any such service or charge any fee for 2003.

It is estimated that the total consideration payable by Chaopi Jinglong to the Group in relation to the provision of the aforesaid delivery and logistics services for each of the three financial years ending 31 December 2008 will not exceed RMB3,633,000, RMB4,162,000 and RMB4,771,000 respectively. Accordingly, these amounts have been set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the delivery and logistics services of the Jiali Products required by Chaopi Flavourings and Chaopi Jinglong from Chaopi Trading and the consideration paid during the Track Record Period, (ii) for the three financial years ending 31 December 2008, Chaopi Trading will revise its charges upward to 2.1% (representing its estimated cost at the rate of 1.9% plus an approximately 10% premium) of Chaopi Jinglong's sales plus an annual RMB100,000 long distance surcharge, and (iii) as Chaopi Trading only began to centralise the delivery and logistics functions of its subsidiaries (both internally between its subsidiaries, and externally with all such subsidiaries' respective customers in July 2004), the aggregate service charge of RMB1,101,000 for 2004 was not representative of a normal year, because it was only the aggregate charge for half a year, and hence the relatively higher charges in 2005, and the Company expects that the figures for 2006, 2007 and 2008 would be more representative of a normal year.

11. Lease of properties by Chaoyang Auxillary to Chaopi Trading

Pursuant to a lease agreement dated 30 April 2004 and a supplemental lease agreement dated 25 July 2005 (together the "Chaopi Lease Agreements") entered into between Chaoyang Auxillary and Chaopi Trading, Chaoyang Auxillary has agreed to lease to Chaopi Trading certain properties situated in Chaoyang district, Beijing, the PRC, including buildings, related public amenities and facilities, carparking spaces, areas for the loading and unloading of machines, sign board spaces and the land (together, the "Chaopi Properties", being the properties numbered 95-99 referred to in the section headed "Summary of valuation – Group III – Property interests rented and occupied by the Group in the PRC" in the letter from Vigers Appraisal & Consulting Limited in Appendix III to this prospectus) for a term of 20 years commencing 1 January 2004 with a fixed annual rental (inclusive of the relevant business and property taxes) for each five year period. The initial aggregate annual rental was RMB2,054,654 for the period from 1 January 2004 to 31 December 2008. As Chaopi Trading ceased to rent one property as from 1 July 2005, the aggregate rental was reduced such that the aggregate rental for the period from 1 January 2005 to 30 June 2005 was RMB1,027,327, and the aggregate rental for the period from 1 July 2005 to 31 December 2005 was RMB549,313; whereas the aggregate annual rental for each of the financial years from 2006 to 2008 is RMB1,098,626. Such annual rentals, exclusive of relevant property tax, shall be increased, once every five years, at a rate of 5%. Accordingly, the rental shall be RMB1,144,411 per annum for the period from 1 January 2009 to 31 December 2013, RMB1,192,485 per annum for the period from 1 January 2014 to 31 December 2018 and RMB1,242,963 per annum for the period from 1 January 2019 to 31 December 2023. Accordingly, these amounts have been set as the respective annual caps for this continuing connected transaction.

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

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

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

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

12. Lease of property by Chaoyang Auxillary to Xinyang Tongli

Pursuant to a lease agreement dated 1 July 2004 and a supplemental lease agreement dated 25 July 2005 (together the "Xinyang Lease Agreements") entered into between Chaoyang Auxillary and Xinyang Tongli, Chaoyang Auxillary has agreed to lease to Xinyang Tongli certain property situated in Chaoyang district, Beijing, the PRC (the "Xinyang Property", being the property numbered 102 referred to in the section headed "Summary of valuation – Group III – Property interests rented and occupied by the Group in the PRC" in the letter from Vigers Appraisal & Consulting Limited in Appendix III to this prospectus) for a term of 20 years commencing 1 January 2004 for an initial annual rental (inclusive of the relevant business and property taxes) of RMB16,257. Such annual rental, exclusive of relevant property tax, shall be increased, once every five years, at a rate of 5%, and therefore the rental shall be RMB16,257 per annum for the period from 1 January 2004 to 31 December 2008, RMB16,931 per annum for the period from 1 January 2009 to 31 December 2013, RMB17,639 per annum for the period from 1 January 2014 to 31 December 2018 and RMB18,383 per annum for the period from 1 January 2019 to 31 December 2023. Accordingly, these amounts have been set as the respective annual caps for this continuing connected transaction.

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

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

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

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

III. CONTINUING CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND ITS SUBSIDIARIES

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

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

For the three financial years ended 31 December 2005, the estimated highest loan amounts outstanding from Chaopi Flavourings (with respect to its business of the wholesale distribution of the Chaopi Flavourings Products) to Chaopi Trading were approximately RMB31,333,000, RMB33,333,000 and RMB26,667,000 respectively. Chaopi Flavourings paid interest in the sum of approximately RMB1,398,000, RMB1,233,000 and RMB1,207,000 for the three financial years ended 31 December 2005, respectively, which were calculated based on Chaopi Trading's average borrowing cost of approximately 5.8% per annum for each of those periods. For the six months ended 30 June 2006, the highest loan amount outstanding from Chaopi Flavourings to the Company with respect to the Designated Loan Arrangement as mentioned below was RMB20,000,000 and Chaopi Flavourings paid interest of approximately RMB632,000 based on an annual interest rate of 5.58%.

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

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

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

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

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

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

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

For the three financial years ended 31 December 2005, the estimated highest loan amounts outstanding from Chaopi Flavourings to Chaopi Trading (with respect to its business of the wholesale distribution of the Jiali Products) were approximately RMB15,667,000, RMB16,667,000 and RMB13,333,000 respectively. Chaopi Flavourings paid interest in the sum of approximately RMB699,000, RMB617,000, RMB604,000 for the three financial years ended 31 December 2005, respectively, which were calculated based on Chaopi Trading's average borrowing cost of approximately 5.8% per annum for each of those periods. For the six months ended 30 June 2006, the highest loan amount outstanding from Chaopi Jinglong to the Company with respect to the Designated Loan Arrangement (as referred to below) was RMB20,000,000 and Chaopi Jinglong paid interest of approximately RMB632,000 based on an annual interest rate of 5.58%.

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

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

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

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

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

IV. WAIVER

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

The table below summarizes the continuing connected transactions referred to paragraphs in sections 1 to 14 above and their respective caps.

		Cap (RMB'000) Year ending 31 December		
Continuing connected transaction		**2006**	**2007**	**2008**
1.	Lease of properties by Chaoyang Auxillary to the Company	7,135	7,135	7,135
2.	Supply of cooked food by Jiazeng Foodstuff and Chaoyang Xinlong to the Company	25,400	29,200	33,530
3.	Supply of tea leaves by Beijing Wuyifeng	6,600	7,500	8,700
4.	Supply of raw meat by Beijing Yingguangda	18,400	16,600	16,600
5.	Provision of interior decoration services by Tianjin Jinganghua	5,250	6,300	7,350
6.	Provision of construction, repair and renovation services by Beijing Zhonglianjian	3,150	3,780	4,540
7.	Supply of Chaopi Flavourings Products by Chaopi Flavourings	61,100	73,300	84,300
8.	Supply of Jiali Products by Chaopi Jinglong	31,000	43,400	56,400

Continuing connected transaction		Cap (RMB'000) Year ending 31 December 2006	2007	2008
9.	Provision of delivery and logistics services by Chaopi Trading to Chaopi Flavourings	9,050	10,391	11,934
10.	Provision of delivery and logistics services by Chaopi Trading to Chaopi Jinglong	3,633	4,162	4,771
11.	Lease of properties by Chaoyang Auxillary to Chaopi Trading	1,099	1,099	1,099
12.	Lease of properties by Chaoyang Auxillary to Xinyang Tongli	17	17	17
13.	Provision of loan financing by the Company to Chaopi Flavourings	40,000	40,000	40,000
14.	Provision of loan financing by the Company to Chaopi Jinglong	20,000	20,000	20,000

In the event that any of the above continuing connected transactions exceeds its related cap, provided that the aggregate annual amount thereof does not exceed HK$10,000,000 (based on the applicable exchange rate as at the end of the relevant period) and the relevant percentage ratios (other than the profits ratio) as referred to in Rule 20.34 as at the end of the relevant period is less than 25%, the Company would be required to comply with the reporting and announcement (which announcement would need to be published at, or as soon as practicable after, the end of the relevant annual period) requirements set out in Rules 20.45 to 20.47 of the GEM Listing Rules, but would not be subject to the independent shareholders' approval requirement of Chapter 20 of the GEM Listing Rules.

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

In relation to the continuing connected transactions entered into by the Group, in addition to other relevant provisions of the GEM Listing Rules and any conditions which may be imposed by the Stock Exchange in granting a waiver to the Company in connection therewith, the Company is required to comply with Rules 20.35 to 20.40 of the GEM Listing Rules.

BUSINESS OBJECTIVES AND STRATEGIES

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

STRATEGIES

To achieve its business objectives, the Group has developed the following business strategies:–

Expanding distribution network

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

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

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

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

Increasing operating efficiency

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

- Upgrading the warehouse management systems in the Distribution Centres and the Logistics Centres, in order to increase the efficiency and flexibility of the retail and wholesale distribution networks, hence reducing the costs of distribution;

- Upgrading the management information systems. By establishing electronic communication links with its suppliers and customers, the flow of stock, market competitiveness and customer loyalty could be maintained and improved;

- Enhancing the distribution capabilities of the live and fresh produce Logistics Centre, as the Directors believe that live and fresh products enjoy very high consumer demand and make up a considerable portion of the Group's sales;

- Strengthening the relationship between suppliers, customers and retailers in order to increase the efficiency of the retail and wholesale distribution networks through the streamlining of ordering and distribution procedures, hence reducing costs and leading to stability in both the sourcing of products (via the wholesale channel) and the distribution of the same (via the retail channel); and

- Investing in staff training in order to achieve excellence in delivering efficient and knowledgeable customer service.

Further brand-building

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

IMPLEMENTATION PLAN

The following is a schedule of the implementation of the Group's key business strategies for its Distribution Outlet operations in the PRC for the period from the Latest Practicable Date to 31 December 2008.

	From the Latest Practicable Date to 31 December 2006	Six months to 30 June 2007	Six months to 31 December 2007	Six months to 30 June 2008	Six months to 31 December 2008	Total *HK$'million*
Expansion of retail distribution network in the PRC						
Hypermarkets	Open not less than 1 hypermarket in the Greater Beijing Region	Open not less than 2 hypermarkets in the Greater Beijing Region in 2007	Open not less than 2 hypermarkets in the Greater Beijing Region in 2007	Open not less than 2 hypermarkets in the Greater Beijing Region in 2008	Open not less than 2 hypermarkets in the Greater Beijing Region in 2008	
Use of proceeds (approximately HK$'million)	40.0	100.0	100.0	40.0	40.0	180.0
Supermarkets	Open not less than 3 supermarkets in the Greater Beijing Region	Open not less than 8 supermarkets in the Greater Beijing Region in 2007	Open not less than 8 supermarkets in the Greater Beijing Region in 2007	Open not less than 8 supermarkets in the Greater Beijing Region in 2008	Open not less than 8 supermarkets in the Greater Beijing Region in 2008	
Use of proceeds (approximately HK$'million)	18.0	48.0	48.0	28.6	28.6	94.6
Convenience stores	Open not less than 3 convenience stores in the Greater Beijing Region	Open not less than 8 convenience stores in the Greater Beijing Region in 2007	Open not less than 8 convenience stores in the Greater Beijing Region in 2007	Open not less than 8 convenience stores in the Greater Beijing Region in 2008	Open not less than 8 convenience stores in the Greater Beijing Region in 2008	
Use of proceeds (approximately HK$'million)	2.0	5.2	5.2	–	–	7.2
	Open not less than 5 convenience stores in the Greater Beijing Region through franchise arrangements*	Open not less than 15 convenience stores in the Greater Beijing Region through franchise arrangements in 2007*	Open not less than 15 convenience stores in the Greater Beijing Region through franchise arrangements in 2007*	Open not less than 20 convenience stores in the Greater Beijing Region through franchise arrangements in 2008*	Open not less than 20 convenience stores in the Greater Beijing Region through franchise arrangements in 2008*	
Use of proceeds (approximately HK$'million)	60.0	153.2	153.2	68.6	68.6	281.8
Total cost of implementation (approximately in HK$'million)	60.0	243.2	243.2	133.2	133.2	436.4

* *The Company does not plan to allocate any proceeds from the Share Offer for the opening of the franchised convenience stores.*

	From the Latest Practicable Date to 31 December 2006	Six months to 30 June 2007	Six months to 31 December 2007	Six months to 30 June 2008	Six months to 31 December 2008	Total *HK$'million*
Increase operating efficiency						
Logistics Centre	Continue to upgrade the dry product Logistics Centre	Further consolidate the logistics capacity for retail	Further consolidate the logistics capacity for retail and wholesale distribution businesses	Upgrade the dry product Logistics Centre and wholesale distribution businesses	Improve workflow and management to enhance process automation standard	
Management information systems	Develop internet purchase system	Develop enterprise resources planning system	Enhance the enterprise resources planning system	Enhance the enterprise resources planning system	Enhance the enterprise resources planning system	
Operating System	Continue to promote and improve uniform operating	Continue to promote and improve uniform operating and services standard	Continue to promote and improve uniform operating and services standard	Continue to promote and improve uniform operating and services standard	Continue to promote and improve uniform operating and services standard	
Staff training	Offer training courses to store managers and staff from new Retail Outlets	Offer training courses to store managers and staff from new Retail Outlets	Offer training courses to store managers and staff from new Retail Outlets	Offer training courses to store managers and staff from new Retail Outlets	Offer training courses to store managers and staff from new Retail Outlets	
Use of proceeds (approximately HK$'million)	65.0	27.0	8.0	27.0	11.6	138.6
Total cost of implementation (approximately in HK$'million)	65.0	27.0	8.0	27.0	11.6	138.6

	From the Latest Practicable Date to 31 December 2006	Six months to 30 June 2007	Six months to 31 December 2007	Six months to 30 June 2008	Six months to 31 December 2008	Total *HK$'million*
Further brand-building						
Existing Retail Outlets	Renovating and upgrading existing Retail Outlets	Renovating and upgrading existing Retail Outlets	Renovating and upgrading existing Retail Outlets	Renovating and upgrading existing Retail Outlets	Renovating and upgrading existing Retail Outlets	
Enhancing customer services quality	Establish e-platform for sharing of information among customers	Perform survey on customer satisfaction	Establish internal customer service assessment function	Study the needs of customers and develop new customer services	Develop customer relationship management system	
	Provide delivery services to elderly and disable customers	Provide delivery services to elderly and disable customers	Provide delivery services to elderly and disable customers	Provide delivery services to elderly and disable customers	Provide delivery services to elderly and disable customers	
Introducing own branded products	Introduce other own branded products	Introduce other own branded products	Introduce other own branded products	Introduce other own branded products	Introduce other own branded products	
Use of proceeds (approximately HK$'million)	13.0	8.0	8.0	8.0	4.6	41.6
Total cost of implementation (approximately in HK$'million)	13.0	8.0	8.0	8.0	4.6	41.6

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

The Group estimates that the net proceeds of the Share Offer accruing to the Company, after deducting relevant expenses payable by the Company in relation thereto, and assuming the Over-allotment Option will not be exercised, are estimated to be approximately HK$462.0 million based on an Offer Price of HK$4.20 per H Share (the mid-point of the indicative Offer Price range of HK$3.90 to HK$4.50). The Directors presently intend to use such net proceeds as follows:

- approximately HK$281.8 million for the expansion of the Group's retail network in the PRC;
- approximately HK$138.6 million for the improvement and development of the Group's information and logistics systems; and
- approximately HK$41.6 million for general working capital purposes, including but not limited to brand building.

If the Over-allotment Option is exercised in full, the additional net proceeds of approximately HK$73.0 million estimated to be received by the Company will primarily be used, as to HK$44.5 million, for expanding the Group's retail network in the PRC, as to HK$21.9 million, for the improvement and development of the Group's information and logistics systems, and as to HK$6.6 million, for general working capital purposes.

In the event that the Offer Price is fixed at HK$3.90 per H Share, being the lowest point of the indicative price range, the net proceeds accruing to the Company (compared to that based on the mid-point of the Offer Price range as stated above and assuming to Over-allotment Option is not exercised) will be reduced by approximately HK$34.7 million. In such circumstance, the Directors intend to reduce the application of the proceeds for expanding and improving the Group's retail network in the PRC by HK$21.2 million, for the improvement and development of the Group's information and logistics systems by HK$10.4 million, and for general working capital purposes by HK$3.1 million.

In the event that the Offer Price is fixed at HK$4.50 per H Share, being the highest point of the indicative price range, the net proceeds accruing to the Company (compared to that based on the mid-point of the Offer Price range as stated above and assuming to Over-allotment Option is not exercised) will increase by approximately HK$34.7 million. In such circumstance, the Directors intend to increase the application of proceeds for expanding and improving the Group's retail network in the PRC by HK$21.2 million, for the improvement and development of the Group's information and logistics systems by HK$10.4 million, and for general working capital purposes by HK$3.1 million.

As set out in the paragraph headed "Implementation plan" in the "Statement of business objectives" section, the Directors estimate that the total costs for the implementation of the business plan will be approximately HK$616.6 million. The Directors intend to meet the remaining funding requirements of approximately HK$154.6 million for the implementation of the business plan from internally-generated cash flow from the Group's operations, bank borrowings and/or other borrowings. To the extent that the net proceeds of the Share Offer accruing to the Company are not immediately applied for the uses set out above, the Group intends that such portion of the proceeds, to the extent permitted by relevant PRC laws and regulations, be placed into interest-bearing accounts with banks in Hong Kong or China.

The net proceeds from the sale of the Sale H Shares in the Share Offer (after deducting underwriting fees and estimated expenses payable by Chaoyang Auxillary in connection with the Share Offer), assuming an Offer Price of HK$4.20 per H Share, being the mid-point of the indicative Offer Price range, will be approximately HK$48.6 million or (if the Over-allotment is exercised in full) approximately HK$55.9 million. The Company will not receive any of such proceeds. In accordance with the relevant PRC laws and regulations, such net proceeds will be required to be remitted to the NSSF Council.

BASES AND ASSUMPTIONS

The Directors have assessed the market potential and formulated appropriate strategies to achieve the Group's business objectives based on their experience and acknowledge in anticipating market demand and the future growth of the demand for daily consumer products. The Directors have made the following principal assumptions in making such assessment and formulation:

(i) there will be no material changes in the existing political, legal, fiscal, foreign trade or economic conditions in the PRC;

(ii) there will be no material changes in the bases or rates of taxation in the PRC that one applicable to the Group;

(iii) there will be no material changes in the interest rates or foreign currency exchange rates;

(iv) there will be no outbreak of contagious disease whether in the PRC or other parts of the world which may in turn affect the economy of, purchasing power of the general public in, and consumer confidence in the PRC;

(v) there will be no material difficulties in retaining and recruiting experienced and qualified personnel; and

(vi) there will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of the Group or cause substantial loss, damage or destruction to its property or facilities.

GENERAL

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

The executive Directors have each entered into a service contract with the Company dated 29 July 2005 and under which they have agreed to act as executive director of the Company until 31 October 2007. The contracts may be renewed upon expiry in accordance with the Articles of Association and the applicable GEM Listing Rules.

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

EXECUTIVE DIRECTORS

Wei Tingzhan, aged 53, obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2001 and a Doctor of Business Administration from Pacific States University in 2004. Mr. Wei was elected as a representive of the 12th Beijing People's Congress. He has been the Director of the Company since November 2004. He was the Managing Director of Jingkelong Supermarket from 2002 to 2004. From 1994 to 2002, he was the Manager of Jingkelong Shang Sha. From 1991 to 1994 and 1999 to 2004, Mr. Wei was the Manager of Chaoyang Auxillary. Since November 2004, he has been the chairman of the Board. In November 2005, Mr. Wei was recognized as one of the prominent figures of the chain-store industry in 2005 by the China Chain Store & Franchise Association.

Li Jianwen, aged 45, obtained his graduation certificate in legal studies from College of the Central Party in 2001. He has been the Managing Director of the Company since November 2004. From 2002 to 2004, he was the Director and Assistant General Manager of Jingkelong Supermarket where he was mainly responsible for product procurement and sales. Mr. Li also worked in Jingkelong Shang Sha as the Deputy Manager from 1998 to 2002.

Li Chunyan, aged 34, obtained a bachelor's degree from China University of Politics & Law in 1994. Subsequently, she obtained master's degree in Private International Law from China University of Politics & Law in 1997. Ms. Li was the Officer of the Bureau of Law of Beijing Jingkelong Shang Sha from 2001 to 2002. In addition she was the Officer of the Bureau of Law and the Secretary to the Board of Directors of Jingkelong Supermarket from 2002 to 2004. Since November 2004, she has been one of the Directors and the Secretary to the Board of Directors where she was mainly responsible for the Group's legal affairs.

Liu Yuejin, aged 46, obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2004. From 2000 to 2004, he was the Manager of Jingkelong Langfang. Between 2002 and 2004, he was one of the Directors of Jingkelong Supermarket. Since late 2004, he has been one of the Directors of the Company. Since 2005, he has been the Manager of the First Division, Operations of the Company.

NON-EXECUTIVE DIRECTORS

Gu Hanlin, aged 53, is one of the non-executive Directors. He obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2001 and a Doctor of Business Administration from Pacific States University in 2004. Since May 2004, Mr. Gu has been the Manager of Chaoyang Auxillary. From 2002 to 2004, he was a chairman of the Board of Jingkelong Supermarket. The Directors confirm that Mr. Gu Hanlin was a secretary of the PRC Communist Party while he was serving as the chairman of the board of Jingkelong Supermarket. During the Track Record Period, he was not involved in the daily management and operations of the Group. He was also not responsible for the formation of the overall corporate strategies of the Group. Therefore, the Directors confirm that his resignation as the chairman did not have any significant impact on the management continuity of the Group. Mr. Gu is currently the manager of Chaoyang Auxillary and is not involved in the daily management and operations of the Group.

Li Shunxiang, aged 53, obtained his graduation certificate in Administration from College of the Party, Beijing Branch in 2001. From 2000 to present, he is the General Manager of Beijing Zhonglianjian Construction Company Limited. From 2002 to 2004, he was a non-executive Director of Jingkelong Supermarket. Since November 2004, he has been a non-executive Director of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Fan Faming, aged 52, is an independent non-executive Director appointed by the Company in January 2005. He obtained a master's degree in Business Administration from Monash University, Australia in 1995 and a doctorate degree from Central South University of Technology in 1988. He is currently a professor at the Institute of Finance and Commerce Management Beijing and a visiting professor at Asia International Open University (Macau). He is a senior member of Hong Kong Quality Management Association.

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

Chung Chi Kong, aged 35, is an independent non-executive Director appointed by the Company in July 2005. Mr. Chung is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Prior to assuming his current office, Mr. Chung has over nine years audit experience in international accounting firms and two years accounting experience in Datasys Technology Holdings Limited, a Hong Kong listed company. Mr. Chung is now a director of Ascension Financial Services Group Limited.

SUPERVISORS

Chen Jie, aged 55, graduated from Taiyuan University of Industry and College of the Party, Beijing Branch in 1984 and 1998 respectively. She was a member, industry section assistant section chief and Assistant Officer respectively of Beijing Chaoyang Municipal Commission of Reform from 1990 to 1997. From 1997 to 2001, she worked in Chaoyang Commission for Restructuring Economy as Assistant Officer and Officer. From 2001 to 2002, she was the Officer of Beijing Chaoyang Committee and Policy, Research Bureau Peoples' Government of Chaoyang. From 2002 to 2004, she was the Officer of Beijing Chaoyang Municipal Commission of Development and Planning. Since June 2004, she is the Officer of Beijing Chaoyang Municipal Commission of Development and Reform. Since November 2004, she is the chairman of the committee of Supervisors of the Company.

Qu Xinhua, aged 52, obtained a Master in Business Administration from Asia International Open University (Macau) in 2001. From 2002 to 2004, she was the Deputy General Manager of Jinkelong Supermarket. Since November 2004, she has been a Supervisor.

Yang Baoqun, aged 53, obtained a diploma in Business Management from 北京市農工商聯合總公司職工大學 (Beijing Nong Gong Shang Lian He Zong Gong Si Zhi Gong University) in 1994. He was a supervisor of Beijing Jingkelong Supermarket from 2002 to 2004. Since November 2004, he has been a Supervisor.

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

Cheng Xianghong, aged 35, has been the Deputy General Manager and Financial Controller of Beijing Zhongguancun City Construction Company since December 2003. She is a qualified accountant, certified public valuer and registered tax agent. She obtained her bachelor degree in 1994 from Renmin University of China. She has previously worked in Beijing Ding Xin Li accounting firm. Since January 2005, she has been a Supervisor.

Wang Shuying, aged 51, obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2002. From 2003 to 2004, she was a manager of the Third Division, Operations of Jingkelong Supermarket. Also, she was a supervisor of the Jingkelong Supermarket for 2003 to October 2004. Since 2005, she has been the manager of the First Division, Operations of the Company. Since February 2006, she has been a Supervisor.

SENIOR MANAGEMENT

Chen Limin, aged 57, is the Chief Financial Officer of the Company since November 2004. Ms. Chen obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2001. Ms. Chen was the Deputy General Manager of Jingkelong Shang Sha from 1994 to 2002 and worked as a director of Jingkelong Supermarket since May 2002.

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

Zhao Weili, aged 53, obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2001. From 2002 to 2004, he was the Assistant General Manager of Jingkelong Supermarket. From 1999 to 2002, he was the Assistant General Manager of Chaoyang Auxillary. From 1998 to 1999, he was the Assistant General Manager of Jingkelong Shang Sha. From 1990 to 1998, he was the Assistant General Manager of Chaoyang Auxillary. He has been the Assistant General Manager of the Company since November 2004.

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

JOINT COMPANY SECRETARIES AND QUALIFIED ACCOUNTANT

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

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

Rules 5.14 and 25.11 Requirements

As Ms. Li Chunyan does not possess the qualifications required under Rules 5.14 and 25.11 of the GEM Listing Rules, she does not meet all the requirements under Rules 5.14 and 25.11.

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

(a) Mr. Keung Siu Fai, the Financial Controller and qualified accountant of the Group, who meets the requirements under Rule 5.14 of the GEM Listing Rules, will be engaged as a joint company secretary to assist Ms. Li Chunyan so as to enable her to acquire the relevant experience (required under Rule 5.14(2) of the GEM Listing Rules) to discharge the duties as company secretary of the Company; and

(b) Mr. Keung Siu Fai will be engaged as the joint company secretary of the Company for an initial period of three years from the Listing Date (the "engagement period"). Upon expiry of the engagement period, the qualifications and experience of Ms. Li Chunyan as company secretary and the need for on-going assistance will be further evaluated by the Company and the Company will then determine whether the appointment of Ms. Li Chunyan as sole company secretary will satisfy the requirements as stipulated in the GEM Listing Rules.

The Company has applied to the Stock Exchange for, and has been granted, a waiver from strict compliance with the requirements of Rules 5.14 and 25.11 of the GEM Listing Rules. Upon the expiry of the engagement period, the Company will re-evaluate the qualifications of Ms. Li Chunyan to determine whether the requirements of the GEM Listing Rules can be satisfied.

PRC LAW ON CORPORATE GOVERNANCE

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

AUDIT COMMITTEE

The Board has established the Audit Committee with written terms of reference in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary duties of the Audit Committee are to review the Company's annual reports and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee will also be responsible for reviewing the financial reporting system, internal controls and risk management processes of the Company.

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

REMUNERATION COMMITTEE

The Group has also established the Remuneration Committee pursuant to Appendix 15 of the GEM Listing Rules, comprising three Directors, namely Wei Tingzhan, Fan Faming and Huang Jiangming. Wei Tingzhan is the chairman of the Remuneration Committee. The Remuneration Committee will review and determine the policy for the remuneration of Directors.

NOMINATION COMMITTEE

The Group has also established the Nomination Committee pursuant to Appendix 15 of the GEM Listing Rules, comprising three Directors, namely Wei Tingzhan, Fan Faming and Huang Jiangming. The Nomination Committee is chaired by Wei Tingzhan. The other members of the

Nomination Committee are Huang Jiangming and Fan Faming. The Nomination Committee is responsible for nominating potential candidates for directorships, reviewing the nomination of directors and making recommendations to the Board on such appointments.

REMUNERATION OF DIRECTORS AND SUPERVISORS

During the Track Record Period, the total remuneration (comprising basic salaries, housing allowances, other allowances, pension and benefits in kind) paid to the Directors and Supervisors was approximately RMB2.1 million, RMB2.3 million, RMB1.9 million and RMB2.5 million respectively.

COMPLIANCE ADVISER

The Company will appoint DBS Asia as its compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules. The term of the appointment shall commence on the Listing Date and ends on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year after the Listing Date (i.e. the date of despatch of the annual report of the Company in respect of its results for the financial year ending 31 December 2008), subject to early termination.

EMPLOYEES

As at 30 June 2006, the Group had a total of 4,281 full-time employees. The following table shows the number of employees of the Group as at 30 June 2006.

	Headquarters	Hypermarkets	Supermarkets	Convenience Stores	Chaopi Trading	Logistics Centres	Xinyang Tongli	Total
Management, administration and finance	145	8	52	3	99	6	2	315
Sales and marketing	98	681	1,655	421	483	243	6	3,587
Other	45	45	71	9	132	39	38	379
Total	288	734	1,778	433	714	288	46	4,281

RELATIONSHIP WITH STAFF

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

EMPLOYEE BENEFITS

The staff costs of the Group of continuing operations (including Directors' and Supervisors' emoluments) during the Track Record Period were approximately RMB168.1 million, RMB166.4 million, RMB178.8 million and RMB105.3 million respectively.

The Group makes social insurance contributions (including retirement benefits) in accordance with the applicable PRC regulations. The amount of such contributions made by the Group during the three years ended 31 December 2005 and the six months ended 30 June 2006 were approximately RMB26.8 million, RMB25.8 million, RMB25.4 million and RMB12.8 million, respectively.

The accrued salaries, wages and benefits classified as current liabilities as at 31 December 2004 increased to approximately RMB91.9 million from approximately RMB47.5 million as at 31 December 2003. The increase was mainly because the staff bonuses accrued of approximately RMB56.8 million and RMB19.7 million as at 31 December 2003 and 2004, respectively, was recorded as non-current liabilities as the Group had agreed with its employees to pay the said amount of RMB56.8 million during the period from 2005 to 2007.

RELATIONSHIP WITH CHAOYANG AUXILLARY

Chaoyang Auxillary is the controlling shareholder of the Company, currently holding approximately 74.6% of the Company's issued shares. Immediately following completion of the Share Offer, Chaoyang Auxillary will hold approximately 46.91% of the enlarged issued share capital of the Company, assuming that the Over-allotment Option is not exercised.

Chaoyang Auxillary is a state-owned enterprise founded in 1992 with a registered capital of RMB14 million. The principal business of Chaoyang Auxillary is investment holding and property management. Chaoyang Auxillary is also engaged in the business of property leasing. Its subsidiary, Tengyuan, is engaged in the trading of motor vehicles and the provision of related repair services.

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

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

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

(i) will not, and will procure that its subsidiaries (except the Company and its subsidiaries) will not, inter alia, engage or hold shares in any business which may compete directly or indirectly with the business of the Group; and

(ii) if Chaoyang Auxillary (or its group members) is offered any opportunities to participate in any business which competes with that of the Group, Chaoyang Auxillary will endeavour to procure that such opportunities will be offered to the Group on terms reasonably acceptable to the Company.

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

COMPETING INTERESTS

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

SUBSTANTIAL SHAREHOLDER, INITIAL MANAGEMENT SHAREHOLDERS AND SIGNIFICANT SHAREHOLDERS

Shareholders	Date of initial entry	Number of Domestic Shares held immediately before the Share Offer	Percentage shareholding immediately before the Share Offer	Approximate total cost of investment *(RMB)*	Number of Domestic Shares held immediately after the Share Offer	Percentage shareholding immediately after the Share Offer	Approximate average cost of investment per Domestic Share *(RMB)*	Lock-up period under the GEM Listing Rules commencing from the Listing Date
Substantial Shareholder, Significant Shareholder and Initial Management Shareholder								
Chaoyang Auxillary	01-Nov-04	183,969,808	74.60	183,969,808	171,969,808	46.91	0.96	12 months
Initial Management Shareholder								
Wei Tingzhan	01-Nov-04	1,417,237	0.57	1,417,237	1,417,237	0.39	0.96	6 months
Li Jianwen	01-Nov-04	1,354,712	0.55	1,354,712	1,354,712	0.37	0.96	6 months
Li Chunyan	01-Nov-04	208,417	0.09	208,417	208,417	0.06	0.96	6 months
	01-Nov-04	187,575 (1)	0.08	180,000	187,575 (1)	0.05		6 months
Liu Yuejin	01-Nov-04	375,151 (2)	0.15	360,000	375,151 (2)	0.10		6 months
Gu Hanlin	01-Nov-04	1,417,237	0.57	1,417,237	1,417,237	0.39	0.96	6 months
Li Shunxiang	01-Nov-04	5,210,428	2.11	5,210,428	5,210,428	1.42	0.96	12 months
Chen Limin	01-Nov-04	833,669	0.34	833,669	833,669	0.23	0.96	6 months
Zhao Weili	01-Nov-04	917,035	0.37	917,035	917,035	0.25	0.96	6 months
Gao Jingsheng	01-Nov-04	833,669	0.34	833,669	833,669	0.23	0.96	6 months
Significant Shareholder								
Shanxi Trust	01-Nov-04	26,635,710	10.80	26,635,710	26,635,710	7.27	0.96	6 months

(1) These 187,575 Domestic Shares are trust property held by Shanxi Trust and the beneficiary is Li Chunyan, an executive Director.

(2) These 375,151 Domestic Shares are trust property held by Shanxi Trust and the beneficiary is Liu Yuejin, an executive Director.

SUBSTANTIAL SHAREHOLDER

So far as the Directors are aware, immediately following completion of the Share Offer (being after the time when the right to exercise the Over-allotment Option lapses) (and assuming that the obligations of the Underwriters to subscribe and/or purchase, and/or procure the subscription and/or purchase of, Shares under the Underwriting Agreement will terminate on the Listing Date and none of the Underwriters is required to subscribe and/or purchase, and/or procure the subscription and/or purchase of Shares thereunder on or prior to the Listing Date), the person (other than a Director or the Chief executive of the Company, and without taking account of the Shares to be issued pursuant to any exercise of the Over-allotment Option) who will have interests or short positions in the Shares or underlying shares of the Company which will be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company will be as follows:–

Name	Capacity	Number of Domestic Shares held immediately after the Share Offer	Approximate percentage of shareholding in the same class of shares in the Company (assuming the Over-allotment Option is not exercised)	Approximate percentage of shareholding in the entire issued share capital of the Company (assuming the Over-allotment Option is not exercised)
Chaoyang Auxillary	Beneficial owner (Long position)	171,969,808	73.30%	46.91%
Shanxi Trust	Trustee (Long position)	26,635,710	11.35%	7.27%

Save as disclosed above, the Directors are not aware of any person (other than a Director or the Chief executive of the Company, and without taking account of the Shares to be issued pursuant to any exercise of the Over-allotment Option) who, immediately following completion of the Share Offer, will have interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

The Company (on behalf of Chaoyang Auxillary) is initially offering a total of 12,000,000 H Shares (which shares are held by Chaoyang Auxillary but have been allocated by the SASAC to the NSSF Council) for sale as part of the Share Offer. Chaoyang Auxillary (in its capacity as aforesaid) may sell up to an additional 1,800,000 H Shares if the Over-allotment Option is exercised in full. The sale of the Sale H Shares by Chaoyang Auxillary for the NSSF Council has been approved and authorised by SASAC and the NSSF Council. SASAC has also approved the allocation of the Sale H Shares to the NSSF Council and, pursuant to the NSSF Council's authorisation given to the Company, the Sale H Shares are being sold by Chaoyang Auxillary (acting through the Company) on behalf of the NSSF Council.

As at the date of this prospectus, Chaoyang Auxillary holds an aggregate of 183,969,808 Domestic Shares (including the Sale H Shares which have been allocated to the NSSF Council for sale in the Share Offer pursuant to the approval of SASAC).

INITIAL MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Share Offer (but without taking account of the Shares to be issued pursuant to any exercise of the Over-allotment Option), the companies and individuals set out below are considered to be the Initial Management Shareholders.

Name	Capacity	Number of Domestic Shares held immediately after the Share Offer	Approximate percentage of shareholding (if the Over-allotment Option is not exercised)
Chaoyang Auxillary	Beneficial owner	171,969,808	46.91
Wei Tingzhan[(1)]	Personal	1,417,237	0.39
Li Jianwen[(1)]	Personal	1,354,712	0.37
Li Chunyan[(1)(4)]	Personal	208,417	0.06
	Beneficiary	187,575	0.05
Liu Yuejin[(1)(5)]	Beneficiary	375,151	0.10
Gu Hanlin[(2)]	Personal	1,417,237	0.39
Li Shunxiang[(2)]	Personal	5,210,428	1.42
Chen Limin[(3)]	Personal	833,669	0.23
Zhao Weili[(6)]	Personal	917,035	0.25
Gao Jingsheng[(6)]	Personal	833,669	0.23

1. Each of Wei Tingzhan, Li Jianwen, Li Chunyan and Liu Yuejin is a Director.

2. Each of Gu Hanlin and Li Shunxiang is a non-executive Director.

3. Chen Limin is the chief financial officer of the Company.

4. The 187,575 Domestic Shares are trust property held by Shanxi Trust for Li Chunyan.

5. The 375,151 Domestic Shares are trust property held by Shanxi Trust for Liu Yuejin.

6. Each of Zhao Weili and Gao Jingsheng is the Deputy General Manager of the Company.

SIGNIFICANT SHAREHOLDER

So far as the Directors are aware, immediately after the completion of the Share Offer (being after the time when the right to exercise the Over-allotment Option lapses) (but without taking account of the Shares to be issued pursuant to any exercise of the Over-allotment Option), the person (apart from the Initial Management Shareholders) who will directly or indirectly be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company will be as follows:–

Name	Capacity	Number of Domestic Shares held immediately after the Share Offer	Approximate percentage of shareholding in the same class of shares in the Company (assuming the Over-allotment Option is not exercised)	Approximate percentage of shareholding in the entire issued share capital of the Company (assuming the Over-allotment Option is not exercised)
Shanxi Trust	Trustee	26,635,710	11.35%	7.27%

RESTRICTIONS ON DISPOSAL OF SHARES

Under Rule 13.16(2) of the GEM Listing Rules, every Initial Management Shareholder shall undertake to the Company and the Stock Exchange that for a period (i) commencing on the date of this prospectus and ending on the date falling 12 months from the Listing Date, or (ii) where that Initial Management Shareholder's Relevant Securities represent no more than 1% of the issued share capital of the Company as at the Listing Date, commencing on the date of this prospectus and ending on the date falling six months from the Listing Date, he/she/it will not (a) dispose of (nor enter into any agreement to dispose of) nor permit the registered holder of the Relevant Securities to dispose of (or to enter into any agreement to dispose of) any of his/her/its direct or indirect interests in his/her/its Relevant Securities; or (b) otherwise create (nor enter into any agreement to create) nor permit the registered holder of the Relevant Securities to create (or to enter into any agreement to create) any options, right, interests or encumbrances in respect of any such interest.

Under Rule 13.17(2) of the GEM Listing Rules, every Significant Shareholder shall undertake with the Company and the Stock Exchange, it will not, for a period commencing on the date of this prospectus and ending on the date falling six months from the Listing Date, (a) dispose of (nor enter into any agreement to dispose of) nor permit the registered holder of the Relevant Securities to dispose of (or to enter into any agreement to dispose of) any of its direct or indirect interests in its Relevant Securities; or (b) otherwise create (nor enter into any agreement to create) nor permit the registered holder of the Relevant Securities to create (or to enter into any agreement to create) any options, right, interests or encumbrances in respect of any such interest.

The periods during which the Initial Management Shareholders and Significant Shareholders cannot dispose of their Relevant Securities and other related details are set out in the paragraph headed "Substantial Shareholder, Initial Management Shareholders and Significant Shareholders" above in this section.

Under Rules 13.16(1) and 13.17(1) of the GEM Listing Rules, every Initial Management Shareholder and Significant Shareholder shall, during the relevant moratorium periods specified under those rules, place their Relevant Securities under escrow arrangements. The Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver in respect of the compliance with such escrow arrangements requirements under the GEM Listing Rules. Further details are set out in the section headed "Waivers from compliance with the GEM Listing Rules" in this prospectus.

Moreover, as the Domestic Shares held by the Initial Management Shareholders and Significant Shareholders are in issue before the Share Offer and, under the relevant laws and regulations of the PRC, such Shares held by each of the Initial Management Shareholders and Significant Shareholders (being relevant securities for the purposes of Rules 13.16(1) and 13.17(1)) are subject to Article 142 of the Company Law, which provides that the shares of a joint stock limited liability company established under the Company Law held by promoters shall not be transferable within one year after the establishment of such company. The shares of a company in issue prior to a public offer of shares shall not be transferable within one year after the stock of such company is listed on a stock exchange.

SHARE CAPITAL

As at the Latest Practicable Date, the share capital of the Company was as follows:

	Number of Shares	*RMB*	Approximate percentage of total share capital
Domestic Shares, nominal value of RMB1.00 each in issue	246,620,000	246,620,000	100.00

The share capital of the Company, issued and to be issued, fully-paid or credited as fully-paid, immediately after the completion of the Share Offer (assuming the Over-allotment Option is not exercised) will be as follows:

	Number of Shares	*RMB*	Approximate percentage of total share capital
Domestic Shares, nominal value of RMB1.00 each in issue[(1)]	234,620,000	234,620,000	64.00
H Shares, nominal value of RMB1.00 each to be issued[(2)]	132,000,000	132,000,000	36.00
	366,620,000	366,620,000	100.00

In the event that the Over-allotment Option is exercised in full, the share capital of the Company will be as follows:

	Number of Shares	*RMB*	Approximate percentage of total share capital
Domestic Shares, nominal value of RMB1.00 each in issue[(1)]	232,820,000	232,820,000	60.53
H Shares, nominal value of RMB1.00 each to be issued[(2)]	151,800,000	151,800,000	39.47
	384,620,000	384,620,000	100.00

Notes:

(1) The total number of Domestic Shares presented is exclusive of the Sale H Shares.

(2) The total number of H Shares issued includes the Sale H Shares.

Minimum public float

Under the GEM Listing Rules, as the Company will have both Domestic Shares and H Shares in issue after the Listing, the minimum level of public float to be maintained by the Company at all times after Listing is 25% of its share capital in issue from time to time, and the Company would be considered as having met the minimum public float requirement if the aggregate of the H Shares in issue and such other securities held by the public would amount to 25% of the then-issued share capital of the Company, and the percentage of H Shares in public hands shall be not less than 10% of the Company's issued share capital, with all such H Shares being held by the public.

Ranking

Domestic Shares and H Shares are all ordinary shares in the share capital of the Company. However, unless otherwise approved by relevant authorities, H Shares cannot be subscribed for by or traded between legal or natural persons of China. Domestic Shares, on the other hand, can only be subscribed for by, and traded between, legal or natural persons of the PRC or qualified foreign institutional investors or eligible foreign strategic investors, and must be traded in RMB. All dividends in respect of H Shares are to be paid by the Company in HK$ whereas all dividends in respect of Domestic Shares are to be paid by the Company in RMB.

Transfer of Domestic Shares for listing and trading on overseas stock exchange

All of the existing Promoter Shares are owned by the Promoters, except those Promoters Shares which have been allocated to the NSSF Council for sale under the Share Offer as Sale H Shares. Pursuant to the applicable laws and regulations, the Promoter Shares were not permitted to be disposed of within a period of one year from the Effective Date. This period expired on 31 October 2005. Other than the Sale H Shares and any further State-owned Domestic Shares that may be converted into H Shares pursuant to the exercise of the Over-allotment Option under the Share Offer, no arrangement has been made for the Promoter Shares to be traded or dealt with on any stock exchange or authorised trading facility in Hong Kong or the PRC.

According and subject to the stipulations by the State Council securities regulatory authority and the Articles of Association, the Domestic Shares may be transferred to overseas investors, and, subject to the following, such transferred shares may be listed or traded on an overseas stock exchange:

(i) the transfer and trading of such transferred shares shall have duly completed any requisite internal approval process and obtained the approval from the relevant PRC regulatory authorities, including the CSRC; such transfer and trading shall in all respect comply with the regulations prescribed by the State Council securities regulatory authority;

(ii) such transfer and trading shall in all respect comply with the regulations, requirements and procedures prescribed by the relevant overseas stock exchange, but the listing or trading of such shares on an overseas stock exchange (including, without limitation, GEM) are not subject to the approval of a class meeting of Shareholders;

(iii) In the event that the Domestic Shares are to be transferred to overseas investors and to be traded as H Shares on GEM, such transfer and conversion will need to obtain the approval of the relevant PRC regulatory authorities, including the CSRC. The listing of such converted shares on GEM will also need to obtain the approval of the Stock Exchange. Any application for listing of the converted shares on GEM after this initial listing is subject to prior notification by way of announcement to inform shareholders and the public of any proposed transfer. An application for listing of such shares on GEM will be made to the GEM Listing Committee and subject to such conditions as the GEM Listing Committee may require. The Company can apply for the listing of all or any portion of the Domestic Shares on GEM as H Shares in advance of any proposed transfer to ensure that the transfer process can be completed promptly upon notice to the Stock Exchange and delivery of such shares for entry on the H Share register; any listing of additional shares after this initial listing on GEM is ordinarily considered by the Stock Exchange to be an administrative matter. No application for the listing of such Domestic Shares on GEM has been made at the time of this initial listing on GEM;

(iv) the relevant Domestic Shares being removed from the relevant shareholder records of the Company (subject to and in accordance with the requirements of the then prevailing PRC law) and registered in the register of shareholders of the Company created for the purpose of complying with the requirements of the relevant stock exchange. In the event that the Domestic Shares are to be transferred to overseas investors and to be traded as H Shares on GEM, after all the requisite approvals have been obtained, the following procedures will need to be completed: the relevant Domestic Shares will be withdrawn from the PRC share register of the Company and will be re-registered on the Company's H Share register maintained in Hong Kong and the Company's Hong Kong share registrar will be instructed to issue H Share certificates for such shares. Listing of such converted shares on GEM will also be on the condition that (a) the Company's Hong Kong share registrar lodges with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates, and (b) the admission of the converted shares to trade on GEM will comply with the GEM Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the transferred shares are re-registered on the Company's H Share register, such shares will not be listed as H Shares. Insofar as the Company is aware, none of the Company's Promoters proposes to convert any of their Domestic Shares into H Shares, except for the Sale H Shares and any further State-owned Domestic Shares that may be converted into H Shares pursuant to the exercise of the Over-allotment Option under the Share Offer;

(v) in the event that the relevant stock exchange operates a scripless share trading system similar to CCASS and the holder of the relevant shares elect to deposit his shares in such system for trading, such shares may need to be registered under the name of, and represented by the global certificate issued to, the nominee of such trading system.

Except as described above, and in relation to the despatch of notices and financial reports to shareholders, dispute resolution, registration of shares in different parts of the register of shareholders, the method of share transfer and the appointment of dividend-receiving agents, all as provided for in the Articles of Association and summarised in Appendix IV to this prospectus, the Domestic Shares and the H Shares will rank pari passu with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. The transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time.

ISSUING MANDATE

At the temporary meeting of the Company held on 30 March 2006, a special resolution was passed to grant the Board a general mandate to issue Domestic Shares and/or H Shares of the Company (other than pursuant to the Share Offer), the details of which are as follows:

(1) the Board has been granted, during the Relevant Period (as defined below), an unconditional general mandate to separately or concurrently issue, allot and deal with additional Domestic Shares and/or H Shares of the Company, and to make or grant offers, agreements and options in respect thereof, subject to the following conditions:

   (a) such mandate shall not extend beyond the Relevant Period save that the Board may during the Relevant Period make or grant offers, agreements or options which may require the exercise of such powers after the end of the Relevant Period; and

   (b) the aggregate nominal amount of the Domestic Shares or H Shares of the Company allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the Board otherwise than pursuant to a Rights Issue (as defined below) or any option scheme or similar arrangement or any separate approval of the shareholders of the Company, shall not exceed 20% of the aggregate nominal amount of the Domestic Shares and H Shares, respectively, of the Company in issue after the completion of the Share Offer but before the exercise of the Over-allotment Option and the Board will only exercise its power under such mandate in accordance with the Company Law and the GEM Listing Rules (as amended from time to time) and only if all necessary approvals from the CSRC, the Stock Exchange and/or other relevant PRC and/or Hong Kong authorities are obtained;

   "Relevant Period" means the period from the passing of the special resolution until the earliest of: (i) the conclusion of the next annual general meeting of the Company following the passing of the special resolution; or (ii) the expiration of the 12-month period following the passing of the special resolution; or (iii) the date on which the authority sets out in the special resolution is revoked or varied by a special resolution of the Shareholders in a general meeting; and

"Rights Issue" means the allotment or issue of Shares in the Company or other securities which would or might require Shares in the Company to be allotted and issued pursuant to an offer made to all the Shareholders of the Company (excluding for such purpose any Shareholder who is resident in a place where such offer is not permitted under the law or regulation of that place) entitled to such offer, pro rata (apart from fractional entitlements) to their holdings of Shares;

(2) contingent on the Board resolving to issue Shares pursuant to paragraph (1) above, the Board has been authorized to approve, execute and do or procure to be executed and done, all such documents, deeds, and things as it may consider necessary in connection with the issue of such Shares, including, without limitation, determining the time and place of issue, making all necessary applications to the relevant authorities, entering into underwriting agreements (or any other agreements), determining the use of proceeds and making all necessary filings and registrations with the relevant PRC, Hong Kong and other relevant authorities, including but not limited to registering or making filing of the increased capital of the Company with the relevant authorities in the PRC and/or Hong Kong as a result of the issuance of Shares pursuant to paragraph (1) above; and

(3) the Board has been authorized to make amendments to the Articles of Association to increase the share capital of the Company and reflect the new capital structure of the Company upon the allotment and issuance of Shares of the Company as contemplated in paragraph (1) above.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TRACK RECORD PERIOD

Investors should read the following discussion and analysis in conjunction with the consolidated financial information of the Group as at 31 December 2003, 31 December 2004, 31 December 2005 and 30 June 2006, all of which is set forth in the Accountants' Report included as Appendix I to this prospectus (the "Financial Information"). Except for the Financial Information, the remainder of the Group's financial information, has been extracted or derived from the management accounts. Investors should read the whole of the Accountants' Report and not rely merely on the information contained in this section.

The Directors confirm that they have performed sufficient due diligence on the Group to ensure that, up to the date of this prospectus, there has been no material adverse change in the financial position or prospects of the Group since 30 June 2006 and there is no event since 30 June 2006 which would materially affect the information shown in the Accountants' Report set out in Appendix I.

For the purposes of this section, unless the context otherwise requires, references to "2003", "2004" and "2005" refer to the Group's financial year ended 31 December of such year.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries for the Track Record Period. The financial statements of the subsidiaries are prepared for the same reporting period as the Company using consistent accounting policies. All significant intercompany balances and transactions within the Group, including unrealised profits arising from intra-group transactions, are eliminated on consolidation. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share or registered capital, is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

Minority interests represent the interests in the Company's subsidiaries, not held by the Group and present in the consolidated balance sheet within equity, separately from the parent shareholders' equity.

During the Track Record Period, and up to date of this prospectus there were the following changes in the interest held in subsidiaries and associates:

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

- Chaopi Trading entered into two equity transfer agreements with Chaoyang Auxillary to acquire an additional approximately 11.11% and 12.50% equity interest in Chaopi Huaqing and Chaopi Flavourings (at a consideration determined by an independent valuer), respectively, in June 2004. Upon the completion of the equity transfers, Chaopi Trading owned a total interest of approximately 52.22% and 56.25% in Chaopi Huaqing and Chaopi Flavourings, respectively. The Group accounted for Chaopi Huaqing and Chaopi Flavourings as associates for the period from January 2003 to June 2004 and accounted for as subsidiaries by the purchase method of accounting thereafter.

- the Company transferred of its entire 10% equity interest in Chaopi Shuanglong to Chaopi Trading for approximately RMB1,611,000 so as to consolidated the Group's equity holding in Chaopi Shuanglong in Chaopi Trading.

- the Company transferred of its approximately 35.07% equity interest in Yiyuantang to an Independent Third Party on 8 July 2003. After the disposal, the Company remained its approximately 35.07% equity interest in Yiyuantang. In June 2004, the Company transferred of its remaining approximately 35.07% equity interest in Yiyuantang for approximately RMB14,984,000 and its entire equity interest of approximately 62.73% in Tengyuan for approximately RMB9,038,000 to Chaoyang Auxillary. Yiyuantang and Tengyuan ceased to be an associated company and subsidiary of the Company respectively thereafter. The Group accounted for Yiyuantang as an approximately 70.13% subsidiary for the period from January 2003 to June 2003 and accounted for Yiyuantang as an associated company for the period from July 2003 to June 2004.

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

- On 25 July 2005, Chaopi Trading acquired an approximately 7.33% equity interest in Chaopi Shuanglong from Shenzhen Yunzhongyuan Trading Company Limited and thereby increasing its equity interest in Chaopi Shuanglong to approximately 59.0%.

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

OVERVIEW OF OPERATION

The Group is one of the leading distributors of daily consumer products in the Greater Beijing Region, with a turnover of more than RMB4.1 billion for the year ended 31 December 2005. The Group operates its distribution business under the well-known brands of "京客隆" and "朝批". According to China Chain Store & Franchise Association, the Group was ranked 21st among the top 100 fast moving consumer goods retail chain in China and 34th among the top 100 chain enterprises in China in 2005.

The distribution network of the Group spans across retail and wholesale distribution channels. As at 30 June 2006, the retail distribution network of the Group comprised 169 Retail Outlets, of which 68 were directly-operated and 101 were under franchise arrangements. Under the Group's directly-operated Retail Outlets, there are four hypermarkets, 29 supermarkets and 35 convenience stores, while under the Group's franchised Retail Outlets, comprised five supermarkets and 96 convenience stores. The Group also operates a wholesale distribution business through Chaopi Trading and its subsidiaries and associated companies under the well known "朝批" brandname for the wholesale supply of daily consumer products to customers including the Retail Outlets and other retail operators and trading companies. Operating in these retail and wholesale distribution formats, the Group has positioned itself to cater for the needs of a diverse range of customers, ranging from retail operators to end consumers.

Major Factors Affecting the Group's Results of Operations

Retail industry in the PRC

The opening up of PRC retail industry upon the PRC's accession to the WTO in December 2001 had provided a liberal regulatory environment for foreign players, in particular for those with efficient supply chain management systems in China. The Group has faced stiffer competition from new foreign entrants into the PRC market. Apart from the foreign entrants to the PRC market, the Group also faces intense competition from domestic player. The combination of the above may affect the Group's profit margins and future growth.

Location of stores, rental exposure and renewal of tenancies

The Group's retail distribution business depends significantly on its ability to deploy retail outlets at prime and convenient locations where there is a high population density and pedestrian flow. Given the scarcity of these prime and convenient locations and their relatively high rental, particularly, in Chaoyang District, there is no assurance that the Group could secure or obtain such locations on favourable terms to the Group. Failure to successfully deploy the Group's retail outlets at such prime and convenient locations may affect the Group's sales, and hence may affect the Group's financial position and future growth.

In addition, the Group's Retail Outlets may be resumed by the State for various purposes. The resumption of lands for Retail Outlets located at prime location may again lead to reduced sales.

Direct distribution by suppliers and manufacturers

The Group's wholesale distribution business depends significantly on its ability to secure long term relationships with suppliers and manufacturers. However, as third party logistics providers become more efficient, the suppliers and manufacturers who presently have arrangements with the Group for wholesale distribution may change their sales and/or distribution format or channels, engage the services of other logistics services providers or undertake direct distribution of their daily consumer products in PRC and/or the Greater Beijing Region on their own. The loss of such wholesale distribution business may affect the Group's results.

Discontinued Operations of the Company

The discontinued operations for 2003 and 2004 represented the sale of pharmaceuticals and the trading of motor vehicles and the provision of related repair services operations. The sale of pharmaceuticals business was conducted by Yiyuantang. The operating results of Yiyuantang were consolidated into the Group until June 2003 when the Company reduced through disposition of its equity interests therein to approximately 35.07%. The trading of motor vehicles and provision of related repair services were carried out by Tengyuan. All of the equity interests in Yiyuantang and Tengyuan were disposed of in June 2004.

For details of the discontinued operations of the Company, please refer to section headed "History and Development and Reorganisation" to this prospectus.

CRITICAL ACCOUNTING POLICIES

The Group's discussion and analysis of its financial condition and results of operations is based on the audited consolidated financial information. The Group's principal accounting policies are set forth in section one of the Accountants' Report in Appendix I to this prospectus. The Group's reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of these audited consolidated financial information. The Group bases its estimates on historical experience, the experience of other companies in the industry and on various other assumptions that the Group currently believes to be reasonable, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities and the Group's financial results. The Group's management evaluates its estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions and conditions. Critical accounting policies are those that are both most important to both the Group's financial conditions and results of operations, and require management's most difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that may change in subsequent periods.

The selection of critical accounting policies, the judgment and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Group's audited consolidated financial information. The Group believes that the following critical accounting policies involve the most significant judgments and estimates used in the preparation of its audited consolidated financial information.

Revenue recognition

The Group operates in various distribution sectors and its revenue recognition policies vary from sector to sector. Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) *Sales of merchandise and produce:* Revenue is recognised when the significant risks and rewards of ownership of the merchandise and produce have passed to the buyer and the amount of revenue can be measured reliably.

(ii) *Income from suppliers:* Income from suppliers comprise promotion income, display space leasing fee and warehouse storage space income. Revenue is recognised according to the underlying contract terms and as these services are provided in accordance therewith.

(iii) *Rental income:* Rental income from leasing of investment properties and counters under operating leases is recognised on a time proportion basis over the lease terms.

(iv) *Interest income:* Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Depreciation

Property, plant and equipment, except for the construction in progress, are depreciated on a straight-line basis over the estimated useful life of the asset, after taking into account its estimated residual value. The Group reviews the estimated useful life of the asset regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The estimated useful lives are based on our historical experience with similar assets and have taken into account anticipated technological changes. The depreciation expense for future periods will be adjusted if there are significant changes from previous estimates.

Allowance for doubtful accounts

The Group maintains an allowance for doubtful accounts based on estimated probable losses resulting from the inability of customers to make payments due to us. The Group makes estimation based on the ageing of accounts receivable balance, customer creditworthiness, and our historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs might be higher than expected, which would adversely affect the operating results and financial condition through the recording of a higher allowance.

Inventory provision policy

Inventories are stated at the lower of cost and net realisable value. Cost of inventories, except for motor vehicles, is determined on the first-in first-out basis for all inventory. Cost of motor vehicles is determined on an individual basis. The management exercises judgement in making provisions for inventories. Allowances of inventory are provided by a general provision on the inventory balance and obsolete inventories based on specific identification, taking into account future demand and market conditions.

TRADING RECORD

	Year ended 31 December 2003			Year ended 31 December 2004			Year ended 31 December 2005			Six months ended 30 June 2005			Six months ended 30 June 2006		
	Continuing operations	Discontinued operations*	Total	Continuing operations	Discontinued operations*	Total	Continuing operations	Discontinued operations*	Total	Continuing operations	Discontinued operations*	Total	Continuing operations	Discontinued operations*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
										(Unaudited)	(Unaudited)	(Unaudited)			
Revenue	2,894,108	364,926	3,259,034	3,568,865	97,893	3,666,758	4,121,748	–	4,121,748	2,053,799	–	2,053,799	2,161,105	–	2,161,105
Cost of sales	(2,544,695)	(326,157)	(2,870,852)	(3,164,852)	(89,137)	(3,253,989)	(3,621,667)	–	(3,621,667)	(1,808,520)	–	(1,808,520)	(1,898,019)	–	(1,898,019)
Gross profit	349,413	38,769	388,182	404,013	8,756	412,769	500,081	–	500,081	245,279	–	245,279	263,086	–	263,086
Other income	111,191	2,145	113,336	154,700	1,362	156,062	143,668	–	143,668	83,375	–	83,375	93,566	–	93,566
Selling and distribution costs	(280,309)	(22,767)	(303,076)	(317,899)	(7,232)	(325,131)	(369,764)	–	(369,764)	(179,580)	–	(179,580)	(182,612)	–	(182,612)
Administrative expenses	(92,102)	(12,048)	(104,150)	(88,285)	(1,358)	(89,643)	(88,924)	–	(88,924)	(50,337)	–	(50,337)	(61,921)	–	(61,921)
Other expenses	(5,967)	(1,571)	(7,538)	(5,800)	(1,422)	(7,222)	(20,452)	–	(20,452)	(9,399)	–	(9,399)	(11,024)	–	(11,024)
Profit from operating activities	82,226	4,528	86,754	146,729	106	146,835	164,609	–	164,609	89,338	–	89,338	101,095	–	101,095
Finance costs	(20,183)	(2,761)	(22,944)	(20,988)	(130)	(21,118)	(19,073)	–	(19,073)	(10,547)	–	(10,547)	(8,687)	–	(8,687)
Share of net profits and losses of associates	3,725	(334)	3,391	2,177	508	2,685	(32)	–	(32)	(60)	–	(60)	(10)	–	(10)
Profit before tax	65,768	1,433	67,201	127,918	484	128,402	145,504	–	145,504	78,731	–	78,731	92,398	–	92,398
Tax	(20,519)	(658)	(21,177)	(44,127)	(106)	(44,233)	(47,158)	–	(47,158)	(26,794)	–	(26,794)	(33,277)	–	(33,277)
Profit for the year/ period	45,249	775	46,024	83,791	378	84,169	98,346	–	98,346	51,937	–	51,937	59,121	–	59,121
Attributable to:															
Equity holders of the Parent	38,172	695	38,867	73,167	361	73,528	75,098	–	75,098	38,422	–	38,422	47,305	–	47,305
Minority interests	7,077	80	7,157	10,624	17	10,641	23,248	–	23,248	13,515	–	13,515	11,816	–	11,816
	45,249	775	46,024	83,791	378	84,169	98,346	–	98,346	51,937	–	51,937	59,121	–	59,121

* *The pharmaceutical and motor vehicle and repair operations were discontinued in 2003 and 2004, respectively. For details, please refer to section headed "History and Development and Reorganisation" in this prospectus.*

RESULT OF OPERATIONS

The following table shows the line items of the Group's profit and loss accounts from continuing operations expressed as a percentage of revenue for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
				(Unaudited)	
			% of total Revenue		
Revenue	100.0	100.0	100.0	100.0	100.0
Cost of sales	(87.9)	(88.7)	(87.9)	(88.1)	(87.8)
Gross profit	12.1	11.3	12.1	11.9	12.2
Other income	3.8	4.3	3.5	4.1	4.3
Selling and distribution costs	(9.7)	(8.9)	(9.0)	(8.7)	(8.4)
Administrative expenses	(3.2)	(2.5)	(2.2)	(2.4)	(2.9)
Other expenses	(0.2)	(0.2)	(0.5)	(0.5)	(0.5)
Profit from operating activities	2.8	4.1	4.0	4.4	4.7
Finance costs	(0.7)	(0.6)	(0.5)	(0.5)	(0.4)
Share of net profits and losses of associates	0.1	0.1	–	–	–
Profit before tax	2.2	3.6	3.5	3.9	4.3
Tax	(0.7)	(1.2)	(1.1)	(1.3)	(1.5)
Profit before minority interests	1.5	2.4	2.4	2.6	2.8
Minority interests	(0.2)	(0.3)	(0.6)	(0.7)	(0.6)
Profit attributable to equity holders of the parent	1.3	2.1	1.8	1.9	2.2

Set out below is a discussion on the revenue and expense items in the Group's consolidated profit and loss accounts from continuing operations.

Revenue and cost of sales

The Group's revenue is mainly generated from sale of merchandise and produce through retailing and wholesaling distribution businesses. During the Track Record Period, revenue from retailing distribution business of directly-operated stores contributes approximately 64.4%, 56.3%, 50.0% and 51.9% respectively of the Group's revenue. Revenue from wholesaling distribution business contributes approximately 35.5%, 43.6%, 50.0% and 48.0% of the Group's revenue. Cost of sales of the Group represents costs of goods sold.

The following table shows a breakdown of the Group's revenue by business segment for the periods indicated:

	Year ended 31 December 2003			Year ended 31 December 2004			Year ended 31 December 2005			Six months ended 30 June 2005			Six months ended 30 June 2006		
	Continuing operations	Discontinued operations*	Total	Continuing operations	Discontinued operation*	Total	Continuing operations	Discontinued operation*	Total	Continuing operations	Discontinued operations*	Total	Continuing operations	Discontinued operations*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
										(Unaudited)	(Unaudited)	(Unaudited)			
Sale of merchandise and produce															
– Retailing from directly-operated stores	1,864,672	–	1,864,672	2,009,270	–	2,009,270	2,060,573	–	2,060,573	1,052,799	–	1,052,799	1,121,636	–	1,121,636
– Wholesaling	1,026,615	–	1,026,615	1,555,895	–	1,555,895	2,057,361	–	2,057,361	998,077	–	998,077	1,037,148	–	1,037,148
Sale of pharmaceuticals	–	95,889	95,889	–	–	–	–	–	–	–	–	–	–	–	–
Trading of automobiles and provision of related repair services	–	269,037	269,037	–	97,893	97,893	–	–	–	–	–	–	–	–	–
Others	2,821	–	2,821	3,700	–	3,700	3,814	–	3,814	2,923	–	2,923	2,321	–	2,321
Total	2,894,108	364,926	3,259,034	3,568,865	97,893	3,666,758	4,121,748	–	4,121,748	2,053,799	–	2,053,799	2,161,105	–	2,161,105

* *The pharmaceutical and motor vehicle and repair operations were discontinued in 2003 and 2004, respectively. For details, please refer to section headed "History and Development and Reorganisation" in this prospectus.*

Gross profit and gross profit margin

The table below shows a breakdown of the Group's gross profit and gross profit margin of retailing and wholesaling distribution businesses for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2003		2004		2005		2005		2006	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB'000)	*(%)*	*(RMB'000)*	*(%)*	*(RMB'000)*	*(%)*	*(RMB'000)*	*(%)*	*(RMB'000)*	*(%)*
							(Unaudited)	(Unaudited)		
Retailing from directly-operated stores										
– Hypermarkets	80,254	13.6	84,799	13.0	92,127	13.3	48,262	13.6	48,379	13.4
– Supermarkets	160,285	14.3	167,482	13.9	177,477	14.7	82,700	13.3	100,253	14.8
– Convenience Stores	23,585	15.5	20,115	13.6	23,823	14.8	11,214	14.6	12,592	14.7
	264,124	14.2	272,396	13.6	293,427	14.2	142,176	13.5	161,224	14.4
Wholesaling	84,429	8.2	130,557	8.4	205,557	10.0	102,334	10.3	101,188	9.8

Other income

Other income of the Group mainly represents (i) income from suppliers for display space leasing fee, promotion income, internet service income and rebates, (ii) rental income from leasing of investment properties and counters, (iii) net compensation on demolished premises, (iv) gain on exchange of fixed assets, and (v) interest income.

During the Track Record Period, in order to strengthen the pedestrian flow of its Retail Outlets, the Group has leased three investment properties, one situated in the Group's main office complex and one inside a hypermarket, to two reputable food chain operators for long term which will be expired in 2009 and 2020 respectively. The remaining one is a composite building and was leased to various individual tenants as offices for medium term.

Selling and distribution costs

Selling and distribution costs of the Group mainly represents salary and welfare, depreciation, energy fee, rental expenses, repair and maintenance, transportation expenses, packaging expenses and advertising expenses.

Administrative expenses

Administrative expenses of the Group represents salary and welfare, contribution to pension fund, depreciation expenses, entertainment expenses, contribution to housing fund and union and education fees.

Other expenses

Other expenses of the Group primarily represents provision on doubtful debts, impairment loss and various taxes and surcharges.

Finance costs

Finance costs of the Group represents interest on bank loans, interest on borrowings from employees and from other enterprises.

Share of net profits and losses of associates

Share of net profits and losses of associates of the Group represents share of profits and losses from Chaopi Huaqing, Chaopi Flavourings, Yiyuantang, Chaopi Tianxing and Chaopi Ziguang during the Track Record Period.

Tax

The Group is not subject to Hong Kong profits tax as the Group had no assessable profit arising in or derived from Hong Kong during the Track Record Period.

The Group is normally subject to Enterprise Income Tax of the PRC ("EIT") at a rate of 33% on its assessable profit except for Chaopi Shuanglong. Chaopi Shuanglong, a newly formed tertiary industry enterprise in 2002 was approved by the relevant PRC authority for a one year EIT exemption for 2003 pursuant to the applicated EIT laws and regulations in Beijing. Apart from EIT, the Group is subject to value-added tax ("VAT") which is the principal indirect tax on the sales of tangible goods ("Output VAT"). Output VAT is calculated at a rate ranging from 0% to 17.0% of the sales value of goods and is payable by the customer in addition to the sales value of goods. The Group pays VAT on its purchases ("Input VAT") which is deducted against Output VAT in arriving at the net VAT amount payable. All VAT paid and collected is recorded through the VAT payable account, the net Input VAT receivable is included in prepayments, deposits and other receivables on the balance sheet.

OPERATION STATISTICS OF DIRECTLY-OPERATED STORES

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
Revenue by store format *(RMB'000)*					
– Hypermarkets	591,619	653,687	694,362	354,271	360,685
– Supermarkets	1,120,717	1,208,077	1,205,007	621,717	675,540
– Convenience stores	152,336	147,506	161,204	76,811	85,411
	1,864,672	2,009,270	2,060,573	1,052,799	1,121,636
Revenue per operating area *per day (RMB)*					
– Hypermarkets	42.3	46.2	49.2	50.7	51.6
– Supermarkets	51.2	48.1	46.9	49.2	51.8
– Convenience stores	54.5	49.7	55.3	51.8	58.2
Average daily transaction volume					
– Hypermarkets	34,576	38,904	39,289	38,581	38,200
– Supermarkets	133,093	136,213	130,286	126,338	123,278
– Convenience stores	42,981	44,075	49,071	50,758	53,886
Average value per transaction *(RMB)*					
– Hypermarkets	47.3	45.9	48.4	50.7	52.1
– Supermarkets	25.5	25.0	27.8	28.5	30.4
– Convenience stores	10.3	9.3	9.0	8.3	8.7

Directly-operated supermarkets have been the major revenue contributor to the Group's retail business of directly-operated stores. Revenue from directly-operated supermarkets accounted for approximately 60.1%, 60.1%, 58.5% and 60.2% respectively, with revenue from directly-operated hypermarkets accounted for approximately 31.7%, 32.5%, 33.7% and 32.2% respectively and with revenue from directly-operated convenience stores accounted for approximately 8.2%, 7.4%, 7.8% and 7.6% respectively, of the Group's total revenue from retailing distribution business of directly-operated stores during the Track Record Period.

Revenue from directly-operated hypermarkets and supermarkets of the Group increased by approximately 10.5% and 7.8% whereas revenue from convenience stores decreased by approximately 3.2% in 2004. The decrease in revenue from directly-operated convenience stores was primarily due to the reduction in selling price of merchandise to remain competitive in the convenience stores sector. The increase in the Group's revenue from retail distribution business of directly-operated retail stores was mainly attributable to the opening of the Wangjing hypermarket in early 2003 and the six new directly-operated supermarkets mainly opened during the second half of 2003 recorded a significant growth in 2004.

Revenue from directly-operated hypermarkets and convenient stores of the Group increased by approximately 6.2% and 9.3% whereas revenue from supermarkets decreased by approximately 0.3% in 2005. The decrease in revenue from directly-operated supermarkets was primarily attributable to the combination of the effects of the closures of four supermarkets and openings of four new supermarkets in 2005. The increase in revenue from hypermarkets was mainly attributable to the increase in revenue of the Wangjing hypermarket. The increase in revenue from convenience stores was mainly due to the closures of certain shops operated by the Group's competitors.

Six months ended 30 June 2006 compared to six months ended 30 June 2005

Revenue

The Group's revenue increased by approximately 5.2%, from approximately RMB2,053.8 million to approximately RMB2,161.1 million. The increase in revenue was partly attributable to the increase in retail distribution business of directly-operated retail stores by approximately 6.5% from approximately RMB1,052.8 million to approximately RMB1,121.6 million. The combined effect of the increase in sales of the existing outlets and the opening of three directly-operated supermarkets in January 2006 has contributed to the above increment.

For wholesale distribution business, the Group's revenue increased by approximately 3.9% from RMB998.1 million to RMB1,037.1 million. The increase was mainly to the establishment of Chaopi Jinglong in May 2005, Chaopi Shijiazhuang and Chaopi Qingdao in September 2005 and the increase in demand of the Group's products.

Cost of sales, gross profit and gross profit margin

The Group's cost of sales increased by approximately 4.9% from approximately RMB1,808.5 million to approximately RMB1,898.0 million which was in line with the increase in revenue. The Group's gross profit increased by approximately 7.3% from approximately RMB245.3 million to approximately RMB263.1 million, primarily due to the increase in revenue by approximately 5.2%. Gross profit margin increased slightly from 11.9% to 12.2%. The increase in gross profit margin was mainly attributable to the increase in purchase volume in first half of 2006 with lower purchase costs negotiated with suppliers. The gross profit margin of the wholesale business decreased slightly from 10.3% to 9.8% mainly due to the change in product mix.

Other income

The Group's other income increased by 12.2% from approximately RMB83.4 million to approximately RMB93.6 million. The increase was mainly due to an increase in promotion income and display space leasing fee from suppliers. Other income as a percentage of revenue increased from 4.1% to 4.3%.

Selling and distribution costs

The Group's selling and distribution costs increased by approximately 1.7% from RMB179.6 million to approximately RMB182.6 million. The increase was primarily due to the combined effects of (i) the increase in salary, (ii) an increase in staff welfare expense by approximately RMB6 million due to the increase in average salary, (iii) an increase in transportation expense by approximately RMB4 million due to the geographical expansion of the Group's business, and (iv) a decrease in repair and maintenance expense by approximately RMB5.8 million. Selling and distribution costs as a percentage of revenue decreased from 8.7% to 8.4%.

Administrative expenses

The Group's administrative expenses increased from approximately RMB50.3 million to approximately RMB61.9 million. Such increase was mainly due to the increase in salary and welfare expenses of approximately RMB10.3 million because of the increase in basic salary and the payment of performance bonuses of approximately RMB7 million to the Group's management in 2006. Administrative expenses as a percentage of revenue increased from 2.4% to 2.9%.

Other expenses

The Group's other expenses increased from approximately RMB9.4 million to RMB11.0 million. The increase was mainly due to the increase in business tax, city construction tax and surcharges of approximately RMB1.8 million.

Finance costs

The Group's finance costs decreased slightly from approximately RMB10.5 million to approximately RMB8.7 million. Finance costs as a percentage of revenue decreased from 0.5% to 0.4%.

Share of net profits and losses of associates

The Group's share of net losses of associates decreased from RMB60,000 to approximately RMB10,000.

Tax

Income tax paid by the Group increased by 24.2%, from approximately RMB26.8 million to approximately RMB33.3 million, primarily due to the increase in taxable income. The Group effective enterprise income tax rate increased slightly from 34.0% to 36.0%.

Minority interests

The Group's minority interests decreased by 12.6% from RMB13.5 million to RMB11.8 million, primarily because the Group has increased its respective interests in Chaopi Trading and Chaopi Shuanglong during the second half of 2005.

Profit attributable to equity holders of the parent

The Group's profit attributable to the equity holders of the parent increased by 23.1% from approximately RMB38.4 million to approximately RMB47.3 million.

The Group's profit attributable to the equity holders of the parent to revenue increased slightly from approximately 1.9% to approximately 2.2%. The increase was mainly attributable to the increase in gross profit and decrease in minority interests.

2005 compared to 2004

Revenue

In 2005, the Group's revenue increased by approximately 15.5%, from approximately RMB3,568.9 million in 2004 to approximately RMB4,121.7 million. The increase in revenue was partly attributable to the increase in retail distribution business of directly-operated retail stores by approximately 2.6% from approximately RMB2,009.3 million in 2004 to approximately RMB2,060.6 million in 2005. The combination result of the increase in sales of the Wangjing hypermarket and the opening of four directly-operated supermarkets, two in January 2005, one in July 2005 and one in December 2005; and the closure of four directly-operated supermarkets in April, May, August and December 2005 respectively has contributed to the above increment.

For wholesale distribution business, the Group's revenue increased by approximately 32.2% from RMB1,555.9 million in 2004 to RMB2,057.4 million in 2005. The increase was mainly to the consolidation of the results of Chaopi Huaqing and Chaopi Flavourings, the establishment of Chaopi Qingdao, Chaopi Shijiazhuang and Chaopi Jinglong and the increase in demand of the Group's products. If the revenue of Chaopi Huaqing, Chaopi Flavourings and the newly established companies are not considered, the Group's revenue from wholesale distribution business increased from approximately RMB1,250.4 million in 2004 to approximately RMB1,474.7 million in 2005, representing a year-on-year growth of approximately 17.9%.

Cost of sales, gross profit and gross profit margin

The Group's cost of sales increased by approximately 14.4% from approximately RMB3,164.9 million in 2004 to approximately RMB3,621.7 million in 2005 which was in line with the increase in revenue. The Group's gross profit increased significantly by approximately 23.8% from approximately RMB404.0 million in 2004 to approximately RMB500.1 million in 2005, primarily due to the increase in revenue by approximately 15.5%. Gross profit margin was approximately 12.1% in 2005 and approximately 11.3% in 2004.

The increase in gross profit margin for the respective business segments was mainly attributable to the increase in purchase volume in 2005 with lower purchase costs negotiated with suppliers.

The gross profit margin of the wholesale business increased from approximately 8.4% in 2004 to 10.0% in 2005 mainly because Chaopi Trading and certain of its subsidiaries have obtained the exclusive distribution rights of certain products, including edible oil and household products, in the Beijing region. Since Chaopi Trading and certain of its subsidiaries are the sole distributors of those products in the Beijing region, they are able to negotiate for higher prices from its customers.

Other income

The Group's other income decreased by approximately 7.1% from approximately RMB154.7 million in 2004 to approximately RMB143.7 million in 2005. The decrease was mainly due to a combination effect of (i) an increase in income from suppliers by approximately RMB18.2 million as a result of increased purchase volume, and (ii) a gain on exchange of fixed assets in 2004 and no such income was recorded in 2005. Other income as a percentage of revenue was approximately 4.3% in 2004 as compared to approximately 3.5% in 2005.

Selling and distribution costs

The Group's selling and distribution costs increased by approximately 16.3% from approximately RMB317.9 million in 2004 to approximately RMB369.8 million in 2005. The increase was primarily due to (i) an increase in salary and welfare by approximately RMB15.4 million mainly due to consolidation of the staff costs of Chaopi Huaqing and Chapoi Flavourings and the increase in average salary, (ii) an increase in rental expenses by approximately RMB5.3 million from approximately RMB34.2 million in 2004 to approximately RMB39.5 million in 2005, (iii) an increase in depreciation expenses by approximately RMB7.6 million mainly due to the additions of leasehold improvements and machinery and (iv) an increase in repair and maintenance expenses by approximately RMB6 million. Selling and distribution costs as a percentage of revenue was approximately 8.9% in 2004 as compared to approximately 9.0% in 2005.

Administrative expenses

The Group's administrative expenses increased slightly from approximately RMB88.3 million in 2004 to approximately RMB88.9 million in 2005. Such increase was mainly due to the increase in depreciation expense mainly attributable to the additions of office equipment. Administrative expenses as a percentage of revenue were approximately 2.5% in 2004 as compared to approximately 2.2% in 2005. The decrease was mainly attributable to the Group's continuous effort in cost control.

Other expenses

The Group's other expenses increased from approximately RMB5.8 million in 2004 to RMB20.5 million in 2005. The increase in 2005 was mainly due to the loss on disposal of fixed assets of approximately RMB1.5 million in 2005, the increase in bad debt provision of approximately RMB7.9 million and increase in business tax, city construction tax and surcharges of approximately RMB5.1 million.

Finance costs

The Group's finance costs decreased slightly from approximately RMB21.0 million in 2004 to approximately RMB19.1 million in 2005. Finance costs as a percentage of revenue were approximately 0.6% in 2004 and 0.5% in 2005, respectively.

Share of net profits and losses of associates

The Group's share of net profits and losses of associates decreased sharply from a gain of approximately RMB2.2 million in 2004 to a loss of approximately RMB32,000 in 2005. Such decrease was primarily due to the disposal of an associate, Yiyuantang, in July 2004, and the consolidation of the results of two former associates, Chaopi Huaqing and Chaopi Flavourings, since July 2004.

Tax

Income tax paid by the Group increased by approximately 7.0%, from approximately RMB44.1 million in 2004 to approximately RMB47.2 million in 2005, primarily due to the increase in taxable income. The Group effective enterprise income tax rate decreased slightly from approximately 34.5% in 2004 to approximately 32.4% in 2005.

Minority interests

The Group's minority interests increased significantly from approximately RMB10.6 million in 2004 to approximately RMB23.2 million in 2005, primarily due to the share of net profit by minority shareholders of Chaopi Huaqing and Chaopi Flavourings for the six months in 2004 from July 2004 to December 2004 but for the whole year in 2005. Please see the paragraph headed "The Reorganisation" in the section headed "Statutory and general information" in Appendix V to this prospectus.

Profit attributable to equity holders of the parent

The Group's profit attributable to the equity holders of the parent increased by RMB1.9 million from approximately RMB73.2 million in 2004 to approximately RMB75.1 million in 2005. The Group's profit attributable to the equity holders of the parent to revenue decreased slightly from approximately 2.1% in 2004 to approximately 1.8% in 2005. The decrease was mainly attributable to the gain on exchange of fixed assets of approximately RMB18.4 million (net of tax) which was non-recurring in nature in 2004. Excluding the effect of such non-recurring item, the Group's profit attributable to the equity holders of the parent to revenue was approximately 1.5% in 2004.

2004 compared to 2003

Revenue

In 2004, the Group's revenue increased by approximately 23.3%, from approximately RMB2,894.1 million to approximately RMB3,568.9 million in 2004. The increase in revenue was partly attributable to the increase in retail distribution business of directly-operated retail stores by approximately 7.8% from approximately RMB1,864.7 million to approximately RMB2,009.3 million in 2004. The combination result of the opening of a directly-operated hypermarket in early 2003 and six directly-operated supermarkets mainly set up in the second half of 2003 and the closure of one directly-operated convenience stores in 2004 has contributed to the above increment. For wholesale distribution business, as Chaopi Trading acquired additional equity interest in two former associates in June 2004 which then become the subsidiaries of the Group, the Group's revenue from wholesale distribution business increased from approximately RMB1,026.6 million to approximately RMB1,555.9 million in 2004, representing a year-on-year growth of approximately 51.6%. If such effect was not considered, the Group's revenue from wholesale distribution business increased from approximately RMB1,026.6 million to approximately RMB1,250.4 million in 2004, representing a year-on-year growth of approximately 21.8%.

Cost of sales, gross profit and gross profit margin

The Group's cost of sales increased by approximately 24.4% from approximately RMB2,544.7 million in 2003 to approximately RMB3,164.9 million in 2004 which was in line with the increase in revenue. The Group's gross profit increased significantly by approximately 15.6% from approximately RMB349.4 million in 2003 to approximately RMB404.0 million in 2004, primarily due to the increase in revenue by approximately 23.3%. Gross profit margin was approximately 12.1% in 2003 and approximately 11.3% in 2004. Except for convenience stores, the gross profit margin for the respective business segments remained fairly stable in 2003 and 2004. For convenience stores, the gross profit margin decreased from approximately 15.5% in 2003 to approximately 13.6% in 2004. In view of the increasing numbers of convenience stores in Beijing, the Group reduced the selling prices of merchandise in order to remain its market share in this sector.

Other income

The Group's other income increased by approximately 39.1% from approximately RMB111.2 million in 2003 to approximately RMB154.7 million in 2004. The significant increase was due to a combination effect of (i) an increase in income from suppliers by approximately RMB19.2 million due to a change in fee standard for store display and promotion income in 2004 as a result of increased purchase volume and more new suppliers joined the supply chain of the Group in 2004, (ii) a one-off gain of approximately RMB27.5 million on exchange of a property with an independent property developer, (iii) a decrease in net compensation on demolished properties of by approximately RMB10.0 million from approximately RMB22.0 million in 2003 to approximately RMB12.0 million in 2004, (iv) a decrease in gain on disposal of fixed assets by approximately RMB1.4 million in 2004 as compared to 2003, and (v) an increase in interest income by approximately RMB2.9 million due to an interest subsidy of approximately RMB3.5 million for the development of convenience stores received from the government in 2004. Other income as a percentage of revenue was approximately 3.8% in 2003 as compared to approximately 4.3% in 2004. For more information of item (ii), please refer to paragraph headed "Profit attributable to equity holders of the parent" in this section.

Selling and distribution costs

The Group's selling and distribution costs increased by approximately 13.4% from approximately RMB280.3 million in 2003 to approximately RMB317.9 million in 2004. The increase was primarily due to (i) an increase in energy source fee by approximately RMB7.6 million due to an increase in unit price of utility in 2004, (ii) an increase in rental expenses by approximately RMB15.3 million from approximately RMB18.9 million in 2003 to approximately RMB34.2 million in 2004 due to the opening of six supermarkets mainly in the second half of 2003 with a full year rental charged in 2004 and the opening of one supermarket in 2004, (iii) an increase in transportation fee of approximately RMB6.3 million due to the increased in gasoline price and the incorporation of the results of Chaopi Huaqing and Chaopi Flavourings since July 2004, (iv) an increase in salary and welfare by approximately RMB3.8 million, and (v) an increase in advertising expenses of approximately RMB2.4 million due to more marketing and promotional activities implemented in 2004. Selling and distribution costs as a percentage of revenue was approximately 9.7% in 2003 as compared to approximately 8.9% in 2004.

Administrative expenses

The Group's administrative expenses decreased slightly from approximately RMB92.1 million in 2003 to approximately RMB88.3 million in 2004. The decrease was mainly attributable to a decrease in salary and welfare as Yiyuantang was partially disposed in June 2003 which led to non-consolidation of its result since then and the Group's continuous effort in cost control. Administrative expenses as a percentage of revenue was approximately 3.2% in 2003 as compared to approximately 2.5% in 2004.

Other expenses

The Group's other expenses remained fairly constant between 2003 and 2004 which was approximately RMB6.0 million and approximately RMB5.8 million respectively. The Group's other expenses in 2004 mainly represents by (i) the provision made on an unlisted investment of approximately RMB1.2 million, and (ii) various taxes and surcharges for rental income and sale of waste income. Other expenses as a percentage of revenue was approximately 0.2% for both 2003 and 2004.

Finance costs

The Group's finance costs increased slightly from approximately RMB20.2 million in 2003 to approximately RMB21.0 million in 2004, primarily due to a combination of an increase of other borrowings, from approximately RMB208.8 million in 2003 to approximately RMB269.0 million in 2004, resulting in higher interest payments, and an increase of interest capitalisation of approximately RMB3.5 million in 2003 to approximately RMB6.2 million in 2004 mainly for the construction of new hypermarket at Jiuxianqiao. Finance costs as a percentage of revenue was approximately 0.7% in 2003 and 0.6% in 2004, respectively.

Share of net profits and losses of associates

The Group's share of net profits and losses of associates decreased from approximately RMB3.7 million in 2003 to approximately RMB2.2 million in 2004 was primarily due to the combination effect of disposal of an associate, Yiyuantang, in July 2004, and the consolidation of two former associates, Chaopi Huaqing and Chaopi Flavourings, since July 2004.

Tax

Income tax paid by the Group increased significantly by approximately 115.1%, from approximately RMB20.5 million in 2003 to approximately RMB44.1 million in 2004, primarily due to increased taxable income. The Group effective enterprise income tax rate increased slightly from approximately 31.2% in 2003 to approximately 34.4% in 2004. The increase in effective income tax rate in 2004 was due to a tax exemption was granted to a subsidiary, Chaopi Shuanglong, which was approved by the relevant PRC tax authority to have a one year corporate income tax exemption in 2003 and approximately RMB2.6 million was exempted.

Minority interests

The Group's minority interests increased from approximately RMB7.1 million in 2003 to approximately RMB10.6 million in 2004, primarily due to the share of net profit by approximately 62.6% and approximately 59.7% in Chaopi Huaqing and Chaopi Flavourings respectively since July 2004 and the disposal of an approximately 62.7% subsidiary, Tengyuan, in July 2004. Please see the paragraph headed "The Reorganisation" in the section headed "Statutory and general information" in Appendix V to this prospectus.

Profit attributable to equity holders of the parent

The Group's profit attributable to the equity holders of the parent increased sharply by approximately 91.7%, from approximately RMB38.2 million in 2003 to approximately RMB73.2 million in 2004. The Group's profit attributable to the equity holders of the parent to revenue increased from approximately 1.3% in 2003 to approximately 2.1% in 2004, primarily resulting from the increase in turnover and the continuous effort in controlling expenses as a percentage to turnover, and the recognition of the net gain on exchange of fixed asset of approximately RMB18.4 million which was non-recurring in nature in 2004. Excluding the effect of such non-recurring item, the Group's profit attributable to the equity holders of the parent to revenue was approximately 1.5% in 2004.

For ease of reference to understand the Group's result from continuing operations for the periods indicated after adjusting for certain non-recurring events, we set out below a statement of adjustment for non-recurring events:

	Year ended 31 December						Six months ended 30 June			
	2003		2004		2005		2005		2006	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
							(Unaudited)	(Unaudited)		
Profit attributable to the equity holders of the parent before adjusting for non-recurring events		38,172		73,167		75,098		38,422		47,305
Less:										
Gain on exchange of fixed assets [(1)]	–		(27,486)		–		–		–	
Income tax effect [(2)]	–		9,070		–		–		–	
		–		(18,416)		–		–		–
Profit attributable to the equity holders of the parent after adjusting non-recurring events		38,172		54,751		75,098		38,422		47,305

Notes:

1. Pursuant to an agreement entered into with an unrelated property developer in June 2002, the Company agreed to relinquish one of its properties for re-development purpose, in exchange for a property with similar area from the property developer upon completing the re-development. Upon relinquishment, the carrying amount of the property was approximately RMB22.4 million. The re-development was completed in December 2004 and a property of similar area was transferred and taken possession by the Company. Based on the valuation on 31 August 2005 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, the exchanged property was valued at RMB49.9 million on an open market, existing use basis. Accordingly, approximately RMB27.5 million, representing an excess of the fair value of the exchange property of approximately RMB49.9 million over the then carrying amount of the property of approximately RMB22.4 million, was credited to the profit and loss account. As such gain on exchange of fixed assets was non-recurring in nature and shall therefore not be interpreted as part of the recurring revenue of the Group.

2. Under the computation of income tax in the PRC and recognition of deferred tax, the gain on exchange of fixed assets was subject to income tax and therefore shall be adjusted in preparing the statement of adjustment for non-recurring events.

ANALYSIS OF FINANCIAL POSITION

Summary of Consolidated Balance Sheet

The following illustrates major balance sheet items and key financial ratios of the Group during the periods indicated.

	As at 31 December			As at 30 June
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	713,992	700,353	889,749	1,003,352
Current assets	952,110	1,082,930	1,252,434	1,061,197
Current liabilities	1,279,108	1,241,717	1,531,249	1,370,599
Total equity	324,004	379,590	432,704	419,368
Minority interests	45,903	57,097	73,920	69,646
Non-current liabilities	62,990	161,976	178,230	274,582

Key Financial Ratio

	As at 31 December			As at 30 June
	2003	2004	2005	2006
Inventory turnover days(1)(5)	46	41	37	34
Debtor turnover days – consolidated(2)(5)	23	31	38	32
Debtor turnover days – wholesale distribution business(2)(5))(6)	67	72	75	68
Creditor turnover days(3)(5)	68	66	64	60
Net Gearing ratio(4) (%)	98.1	101.5	128.6	122.9

1. $\frac{\text{Average inventories}}{\text{Cost of sales}}$ x 365 days or 181 days

2. $\frac{\text{Average trade receivables}}{\text{Turnover}}$ x 365 days or 181 days

3. $\frac{\text{Average trade payables}}{\text{Cost of sales}}$ x 365 days or 181 days

4. $\frac{\text{Bank loans and other borrowings – Pledged deposits – Cash and cash equivalents}}{\text{Total equity}}$ x 100%

5. Results from continuing and discontinued operations were used in computing the respective ratios.

6. As the Group involves in both retail and wholesale distribution businesses, additional disclosure is made solely for wholesale distribution business during the Track Record Period.

The Group's inventory turnover days decreased from 46 days in 2003 to 41 days in 2004, 37 days in 2005 and 34 days as at 30 June 2006, primarily due to management's continuous efforts to improve the product mix in its Retail Outlets which results in a lower number of slow-moving inventory items and the improvements in inventory management information system.

The Group is able to identify obsolete inventory through its management information system. Inventory counts of full coverage are carried out quarterly.

The Group's debtor turnover days for wholesale distribution business increased from 67 days in 2003 to 72 days in 2004, to 75 days in 2005, primarily due to the increase in wholesale distribution business by Chaopi Trading and its subsidiaries which sometimes allow its customers with long term relationship to extend the normal credit period of not more than 60 days. In view of keen competition in the wholesale distribution business in the Greater Beijing Region, the management of the wholesale distribution business has allowed its major customers frequently to settle the outstanding trade payables beyond the normal credit period of 60 days in order to maintain client relationships and to remain its competitiveness in the market. The decrease of the Group's debtor turnover days for wholesale distribution business to 68 days for the six months ended 30 June 2006 was mainly due to more stringent control on collection of trade debts. The aging analysis of trade receivables of the Group during the Track Record Period is as follows:

	As at 31 December			**As at 30 June**
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 2 months	201,718	339,745	400,397	273,724
2 months to 6 months	23,523	54,500	50,360	44,055
6 months to 1 year	4,157	4,774	2,457	4,891
1 year to 2 years	626	226	1,858	2,509
	230,024	399,245	455,072	325,179

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified. During the Track Record Period, the Group had made provisions for doubtful debts from continuity operations of approximately RMB3.0 million, RMB0.9 million, RMB8.8 million and RMB3.7 million respectively. The increase of bad debt provision in 2005 was mainly due to the specific provision of approximately RMB7.3 million made for long outstanding balances owed by certain customers of the Group's wholesale distribution business.

The Group's creditor turnover days was gradually decreasing during the Track Record Period.

As at 30 June 2006, the Group has accounts payable of approximately RMB7.0 million overdue for over one year. The amount is mainly related to the outstanding payable to suppliers for the goods purchase and for the construction in progress.

The amounts due to certain suppliers have been outstanding for over one year mainly because those suppliers do not request for the settlements of the balances. For the outstanding payable relating to the construction in progress, the balances will not be settled until the Company is completely satisfied of the work of the respective contractors.

The net gearing ratio was fairly stable in 2003 and 2004. The increase in 2005 was mainly attributable to the increase in bank loans and other borrowings to finance the construction of the Jiuxianqiao hypermarket.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Group generally finance its operations through a combination of shareholders' equity, internally generated cash flows and borrowings from banks, employees and other enterprises. Following completion of the Share Offer, the Group expect to fund its capital and operating requirements through internally generated cash flows, the net proceeds from the New Issue and its cash on hand. The Directors believe that on a long-term basis, the Group's liquidity will be funded from operations and, if necessary, additional equity financing or bank borrowings.

As at 30 June 2006, the Group had net current liabilities of RMB309.4 million, of which mainly approximately RMB512.8 million were bank loans and other borrowings repayable within one year, and approximately RMB617.3 million were trade payables in respect of purchase of merchandises and cash advances made by customers for the Jingkelong cards. For long term debts, there was RMB144.5 million bank loans and RMB100.0 million other borrowings from BITIC outstanding.

Cash flows

The Group has historically been able to satisfy its working capital needs from cash flow from operations and the proceeds from bank loans and borrowings from employees and other enterprises.

The following table summarises our cash flows during the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Net cash inflow from operating activities	8,299	42,243	96,559	174,647	240,442
Net cash outflow from investing activities	(156,362)	(120,750)	(239,487)	(29,801)	(113,531)
Net cash inflow/(outflow) from financing activities	150,234	60,655	186,804	(4,829)	(108,584)
Net increase/(decrease) in cash and cash equivalents	2,171	(17,852)	43,876	140,017	18,327
Cash and cash equivalents at beginning of year/period	192,546	194,717	176,865	176,865	220,741
Cash and cash equivalents at end of year/period	194,717	176,865	220,741	316,882	239,068

Cash Flows from Operating Activities

The Group's net cash inflow from operating activities increased by 37.7% from approximately RMB174.6 million for the first half of 2005 to approximately RMB240.4 for the first half of 2006. The increase in net cash inflow from operating activities principally reflects (i) an increase in operating profit before working capital changes by approximately 11.0% from approximately RMB113.9 million to approximately RMB126.4 million, (ii) a decrease in inventory of approximately RMB42.5 million due to the improvement in inventory management, (iii) a decrease in trade receivables of approximately RMB128.4 million due to more stringent control on collections of trade receivable balances, and (iv) an increase in other payables and accruals of approximately RMB5.1 million.

However, the increase in net cash inflow from operating activities was partly off-set by (i) an increase in other long term lease prepayments of approximately RMB17.9 million attributable to the new retail outlets in the Tongzhou District, (ii) a decrease in trade payables of approximately RMB18.6 million, and (iii) settlement of amount due to Chaoyang Auxillary.

The Group's net cash inflow from operating activities increased by approximately 128.6% from approximately RMB42.2 million in 2004 to approximately RMB96.6 million in 2005. The increase in net cash inflow from operating activities principally reflects (i) an increase in operating profit before working capital changes by approximately 37.7% from approximately RMB158.7 million in 2004 to approximately RMB218.5 million in 2005, (ii) a decrease in net amount due from related companies of approximately RMB3.5 million, (iii) a decrease in other long term lease prepayment of approximately RMB4.7 million, (iv) an increase in other payables and accruals of approximately RMB67.1 million mainly due to quality guarantee deposits of approximately RMB77 million were received for the construction of the Jiuxianqiao hypermarket in 2005, (v) an increase in net amount due to Chaoyang Auxillary of approximately RMB13.7 million and (vi) a decrease in interest paid of approximately RMB5.2 million as compared the figures for 2004 to those for 2005.

However, the increase in net cash inflow from operating activities was partly off-set by (i) an increase of inventories of approximately RMB32.9 million to cope with anticipated demand, (ii) an increase in trade receivables, prepayments, deposits and other receivables of approximately RMB97.4 million mainly attributable to the increase in debtors of the wholesale business and the increase in prepayments to suppliers for securing timely supply of products, (iii) a decrease in trade payables of approximately RMB7.8 million, (iv) a decrease in other long term payables of approximately RMB11 million and (v) an increase in PRC corporate income tax paid of approximately RMB15.8 million due to the increase in taxable income as compared the figures for 2004 to those for 2005.

The Group's net cash inflow from operating activities significantly increased approximately 409.0% between 2003 and 2004 by approximately RMB33.9 million, from approximately RMB8.3 million in 2003 to approximately RMB42.2 million in 2004. The increase in net cash principally reflects (i) an increase in operating profit before working capital changes by approximately 17.2% from approximately RMB135.4 million in 2003 to approximately RMB158.7 million in 2004, (ii) a decrease in inventories of approximately RMB40.8 million due to an improvement in inventory management, (iii) a decrease in amounts due from associates of approximately RMB65.8 million due to the disposal of Yiyuantang in 2004 (iv) an increase in trade payables of approximately RMB45.6 million due to the consolidation of Chaopi Huaqing and Chaopi Flavourings since July 2004 and (v) an increase in other payables and accruals of approximately RMB35.9 million due to the consolidation of Chaopi Huaqing and Chaopi Flavourings since July 2004, as compared the figures for 2003 to those for 2004.

However, the increase in net cash inflow from operating activities was partly off-set by (i) an increase in trade receivables, prepayments, deposits and other receivables of approximately RMB100.4 million due to the consolidation of Chaopi Huaqing and Chaopi Flavourings since July 2004, (ii) an increase in net amount due from related parties of approximately RMB10.5 million, (iii) a sharp decrease in net amount due to Chaoyang Auxillary of RMB77.3 million, (iv) an increase of interest paid by RMB6.6 million due to the development of the Jiuxianqiao hypermarket, (v) an increase of PRC income tax paid by approximately RMB15.4 million due to the consolidation of two subsidiaries since July 2004 and the increase in taxable income, (vi) a decrease in other long term payables of approximately RMB37.1 million and (vii) a decrease in bills payable of approximately RMB23.4 million as compared the figures from 2003 to those for 2004.

Cash Flows from Investing Activities

Net cash outflow from investing activities during the Track Record Period has been primarily used for purchase of fixed assets, lease prepayments and various projects for the expansion of Distribution Outlets. Such purchases amounted to approximately RMB164.4 million, RMB156.7 million, RMB236.5 million and RMB132.3 million for each of the three years ended 31 December 2005 and the six months ended 30 June 2006 respectively.

Net cash outflow from investing activities increased significantly from approximately RMB29.8 million in first half of 2005 to approximately RMB113.5 million in first half of 2006. The increase was due to the establishment of new Retail Outlets.

Net cash outflow from investing activities increased, from approximately RMB120.8 million in 2004 to approximately RMB239.5 million in 2005. The increase was due to a combination of (i) an increase of approximately RMB151.1 million in cash used to purchase fixed assets, and (ii) pledged time deposits of approximately RMB13.3 million incurred in 2005, and partially off set by a decrease in purchases of lease prepayments for land use rights of approximately RMB71.3 million in 2005.

Net cash outflow from investing activities decreased between 2003 and 2004, from approximately RMB156.4 million to approximately RMB120.8 million. The decrease in 2004 was due to (i) a decrease of approximately RMB76.5 million in cash used to purchase fixed assets, (ii) cash received from acquisition of subsidiaries in 2004 of approximately RMB12.5 million, (iii) disposal of associates of approximately RMB15.0 million, and (iv) a decrease in pledged time deposits by approximately RMB10.2 million due to the settlement of bills payable in 2004 and partially off set by (i) a decrease in proceeds from disposal of fixed assets of approximately RMB13.2 million, and (ii) an increase of approximately RMB68.8 million in cash used to purchase lease prepayment for land use rights of four owned properties, between two years.

Cash Flows from Financing Activities

The Group's net cash outflow from financing activities increased significantly from approximately RMB4.8 million in first half of 2005 to approximately RMB108.6 million in first half of 2006. The increase was mainly due to the repayment of bank loans of approximately RMB398 million and the payment of dividend of approximately RMB72 million.

The Group's net cash inflow from financing activities increased significantly from approximately RMB60.7 million in 2004 to approximately RMB186.8 million in 2005. The increase in net cash inflow from financing activities was primarily due to a combination of (i) an increase in bank loans and other borrowings by approximately RMB53.6 million in 2005, (ii) a cash contribution of minority shareholders of approximately RMB7.1 million in 2005, (iii) a decrease of repayment of bank loans and other borrowings by approximately RMB127.8 million, (iv) proceeds of government grants of approximately RMB4.1 million received in 2005, offset by (v) one-off proceeds from change of capital contribution by Chaoyang Auxillary of approximately RMB57.0 million in 2004 and (vi) increase in dividends paid to minority shareholders of approximately RMB7.4 million in 2005.

The Group's net cash inflow from financing activities decreased significantly from approximately RMB150.2 million in 2003 to approximately RMB60.7 million in 2004. The decrease in net cash inflow from financing activities was primarily due to an increase of repayment of bank loans and other borrowings by approximately RMB373.1 million. In addition, dividends paid to shareholders and minority shareholders was increased significantly from approximately RMB4.4 million in 2003 to approximately RMB41.9 million in 2004 partly due to the consolidation of two former associates, Chaopi Huaqing and Chaopi Flavourings, in 2004. However, the decrease in net cash inflow from financing activities was partially set-off by a capital contribution of approximately RMB57.0 million by Chaoyang Auxillary to the Company in 2004 and an increase in bank loans and other borrowings by approximately RMB265.7 million in 2004.

Net Current Liabilities

As at 31 December 2003, 2004, 2005 and 30 June 2006, the Group had net current liabilities of approximately RMB327.0 million, RMB158.8 million, RMB278.8 million and RMB309.4 million, respectively, as the current liabilities exceeded current assets as at those dates. A significant portion of the Group's revenue is in the form of cash and the Group has been enjoying an average credit term longer than its inventory turnover days. Therefore, the Group has been able to make use of the longer term of trade payables to partially finance its operations. The decrease in net current liabilities in 2004 was mainly due to a reduction in the current portion of long-term borrowings. Taking into consideration the financial resources available to the Group, both internally generated funds and externally credit facilities, the Directors confirmed that the Group had not failed/would not fail to settle its liabilities as they fall due during the Track Record Period/in the foreseeable future.

MARKET RISK

Foreign currency risk

The Group collects 100% of revenue in RMB, some of which need to be converted into foreign currencies to pay dividends to the Shareholders upon Listing. Therefore the Group has a certain level of exposure to foreign exchange fluctuations. The exchange rates of RMB have been relatively stable during the past few years. The RMB is not a freely convertible currency. However, the PRC Government may take actions that could cause future exchange rates to vary significantly from current or historical exchange rates. Fluctuations in exchange rates may adversely affect the value, translated or converted into Hong Kong dollars, of our net assets, earnings and any dividends we declare. See "Risk factors – Risks relating to the PRC – Changes in foreign exchange regulations and fluctuation of the RMB."

Interest rate risk

The Group is exposed to risks resulting from fluctuations in interest rates on debt. The Group undertakes debt obligations to support general corporate purposes, including capital expenditures and working capital needs. The loans of the Group bear interest at rates that are subject to adjustment by our lenders in accordance with changes in relevant PBOC regulations. If the PBOC increases interest rates, our finance cost will be increased. In addition, to the extent that the Group may need to raise debt financing in the future, upward fluctuations in interest rates will increase the cost of new debt.

INDEBTEDNESS

Borrowings

As at the close of business 31 July 2006, being the latest practicable date for this indebtedness statement prior to the printing of this prospectus, the Group had outstanding borrowings of approximately RMB822.3 million, comprising (i) secured short-term bank loans of RMB208.0 million, (ii) unsecured short-term bank loans of RMB198.0 million, of which RMB18.0 million loans were consignment loans from a commercial entity, an Independent Third Party, (iii) secured long term bank loans of RMB144.0 million, (iv) unsecured short-term other borrowings of RMB172.3 million, and (v) unsecured long-term other borrowings of RMB100.0 million. The Group's borrowings are bearing interest at commercial rates ranging from 4.0% to 6.12% per annum.

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

Employee Loans

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

Under such arrangements, the Group paid interest to its employees at a rate lower than the Group's then prevailing bank loan interest rate (being a differential of approximately 0.5% per annum (on average) during the relevant period), whilst, the employees received interest which was at a rate higher than that generally offered for cash deposited with banks in the PRC (being a differential of approximately 2.0% per annum (on average) during the relevant period).

The Employee Loans were not made by way of monthly deductions from salaries, and were entirely voluntary in nature. Such Employee Loans were made at no fixed dates and were repayable on demand. No employee's employment or continued employment with the Group had ever been made conditional upon the participation of the Employee Loans arrangement with the Company.

As at 31 December 2003, the Group had unsecured Employee Loans of approximately RMB181 million, involving approximately 2,169 employees.

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

Hence, in 2004, the Company assessed different financing alternatives to repay the Employee Loans and to rationalize its financing arrangements such that they would be in compliance with the applicable PRC laws.

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

BITIC Loans and Employee Investments

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

Prior to granting the First BITIC Loan, BITIC had conducted credit due diligence on the Company. The First BITIC Loan was secured by a guarantee from the Company's controlling shareholder, Chaoyang Auxillary. Such guarantee from the Company's controlling shareholder has also covered all subsequent BITIC Loans extended to the Company, whilst other BITIC Loans which were extended to Chaopi Trading was secured by a corporate guarantee from the Company itself. The guarantee from the Company's controlling shareholder will, upon Listing, be replaced by a corporate guarantee from the Company and the pledge of the Company's 71.7% equity interest in Chaopi Trading. An annual interest rate of approximately 4.72% was offered by BITIC at that time for the First BITIC Loan, which was lower than the then prevailing interest rate for bank loans of approximately 5.31%, as quoted by PBOC.

In the process of obtaining the First BITIC Loan, the Company introduced BITIC to certain employees of the Group, as these employees, being members of the public, were amongst one of the trust deposit customer groups that, the Company believes, BITIC would, in its ordinary course of business, consider canvassing for funds. BITIC, as a professional and independent service provider, offered an investment proposal to those interested employees of the Group to invest in a trust loan programme such that the investments would be used to fund the BITIC Loans to be provided by BITIC to the Group from time to time (such investment and the further investments made by employees of the Group under this programme shall together be referred to as the "Employee Investments"). One attractive feature of the Employment Investments is that they offer a higher yield to the participating employees of the Group ("Participating Employees"). The Employment Investments made with BITIC in June 2004 carried an annual yield rate of approximately 4.0%, which was significantly higher than the 1.98% deposit interest rate quoted by the PBOC at that time.

Immediately before obtaining the First BITIC Loan, BITIC provided a one-day bridging loan of RMB90 million to the Company through Chaoyang Auxillary. The Company used such bridging loan together with its internal resources to fully repay the Employee Loans. Contemporaneous with the repayment of the Employee Loans, approximately 1,701 Participating Employees voluntarily made Employee Investments with BITIC in an aggregate amount of RMB130 million. In respect of the Employee Investments made by the Participating Employees, investment agreements ("Employee Investment Agreements") were entered into between certain employee representatives ("Employee Representatives") and BITIC. The Company understands that the Employee Representatives came to hold such position due to that personal relationship with the relevant Participating Employees and that was verbally agreed by the relevant Participating Employees. The Employee Representatives were charged with the responsibility of implementing the Employee Investments (including, without limitation, the execution of the Employee Investment Agreements, the collection and deposit of investment funds and other administrative dealings with BITIC) for and on behalf of the Participating Employees. The Company further understands that the Employee Representatives were selected by reason of convenience as well as due to their experience in financial and/or administrative matters, as all of them have held positions in the finance and/or other administrative departments within the Group for a long time. Each Employee Representative was given the role of representing their Participating Employees. By adopting such an arrangement, it was believed that the administrative process with BITIC could hence be undertaken more efficiently and effectively.

In the case of the first tranche of Employee Investments of RMB130 million as described above, Employee Investment Agreements were entered into between 30 Employee Representatives and BITIC. Although no formal written agreement was made between the relevant Participating Employees and the Employee Representatives at the time when the respective tranches of Employee Investments were made, a confirmation letter was subsequently executed in May 2006 by each of the first batch of 1,701 Participating Employees in respect of the first tranche of Employee Investments of RMB130 million as well as at other times by other subsequent Participating Employees in respect of subsequent tranches of Employee Investments and extensions thereof, in each case confirming and ratifying the role and authority of the Employee Representatives with retrospective effect ("Confirmation Letters"). The Directors confirm that, from the Group's perspective, any participation in the Employee Investments has always been and will continue to be entirely voluntary and personal, and any decision of an employee to participate in or withdraw from the Employee Investments would not affect his/her employment with the Group. Indeed, it was noted that out of the employees who held Employee Loans immediately prior to the full repayment of the Employee Loans in June 2004 as described above, approximately 844 employees ("Non-Participating Employees") had on their own accord decided not to participate in the Employee Investments. The portion of the Employee Loans previously attributed to these Non-Participating Employees amounted to approximately RMB66.8 million. The Directors further confirm that, as at the Latest Practicable Date, all of such Non-Participating Employees either remained in employment with the Group or have otherwise left the Group for reasons wholly unrelated to the Employee Investments, such as retirement.

Pursuant to the Employee Investment Agreements, the first tranche of the Employee Investments had an initial maturity period of two years. Pursuant to the supplemental agreements entered on 24 June 2006 between the Employee Representatives and BITIC and on 26 June 2006 between BITIC and the Group respectively, the maturity period of this first tranche of the Employee Investments as well as the due date of the First BITIC Loan were respectively extended from 24 June 2006 to 24 December 2007. However, out of the original 1,701 Participating Employees in this first tranche of the Employee Investments, 818 employees opted not to extend his/her investment and withdrew an aggregate investment sum of approximately RMB32.64 million upon their maturity on 24 June 2006. The aggregate investment sum in the extended first tranche of the Employee Investments, despite the addition of 23 Participating Employees investing an aggregate of approximately RMB2.64 million, was hence reduced to RMB100 million, and such size of the extended First BITIC Loan was hence also reduced to RMB100 million.

It is a general term of the Employee Investment Agreements that, unless certain events occur (such as any liquidation, dissolution, revocation of licence or prior consent of BITIC, collectively as the "Termination Events"), the Participating Employees are not permitted to withdraw from their Employee Investments prior to their maturity. Any losses incurred by BITIC arising out of any breach, variation or termination of the Employee Investment Agreements shall be borne by the relevant Employee Representatives, unless otherwise caused by a Termination Event or by BITIC. To the best knowledge, information and belief of the Directors, there has been no such withdrawal or termination of any Employee Investment Agreements. However, Participating Employees are permitted by private arrangements to assign their entitlements in the Employee Investments to other employees of the Group who thereby became Participating Employees. To the best knowledge, information and belief of the Directors, the investment sums involved in such private assignments were not substantial or material when compared to the aggregate investment sum under all the Employee Investments as a whole.

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

On 16 August 2004, a second tranche of Employee Investments of an aggregate investment sum of RMB50 million was made by 913 Participating Employees pursuant to supplemental agreements to the Employee Investment Agreements executed by 29 Employee Representatives. This second tranche of Employee Investments was lent to the Group by BITIC. Pursuant to supplemental agreements entered into in November 2005 between the Employee Representatives and BITIC and between BITIC and the Group respectively, the term of this second tranche of Employee Investments as well as the due date of the corresponding BITIC Loans were respectively extended from 15 November 2005 to 16 February 2007.

On 29 December 2004, a third tranche of Employee Investments of an aggregate investment sum of RMB40 million was made by 147 Participating Employees pursuant to the Employee Investment Agreements executed by 15 Employee Representatives. This third tranche of Employee Investments was lent to the Group by BITIC. Pursuant to supplemental agreements entered in 26 December 2005 between the Employee Representatives and BITIC and between BITIC and the Group respectively, the term of this third tranche of Employee Investments as well as the due date of the corresponding BITIC Loans were respectively extended from 29 December 2005 to 29 December 2006.

On 1 April 2005, a fourth tranche of Employee Investments of an aggregate investment sum of RMB62.3 million was made by 973 Participating Employees pursuant to the supplemental agreements to the Employee Investment Agreements executed by 28 Employee Representatives. This fourth tranche of Employee Investments was lent to the Group by BITIC, and has a maturity date of 1 October 2006.

On 29 December 2005, a fifth tranche of Employee Investments of an aggregate investment sum of RMB20 million was made by 124 Participating Employees pursuant to the supplemental agreements to the Employee Investment Agreements executed by 15 Employee Representatives. This fifth tranche of Employee Investments was lent to the Group by BITIC, and has a maturity date of 29 December 2006.

As at 30 June 2004, 31 December 2004, 31 December 2005 and 30 June 2006, the total accrued sum of Employee Investments made amounted to approximately RMB130 million, RMB220 million, RMB302.3 million and RMB272.3 million, respectively. As at the same dates, the total number of Participating Employees amounted to approximately 1,701 employees, 2,162 employees, 2,525 employees and 2,191 employees, respectively. Without taking account of any new tranches of Employment Investments or any extension of maturity in respect of the subsisting tranches of Employment Investments, as at the Latest Practicable Date and to the best of the knowledge, information and belief of the Directors, the latest expected maturity date of the subsisting tranches of the Employment Investments is 24 December 2007. The following table sets out a summary of movements in Employee Investments and the BITIC Loans for each of the three years ended 31 December 2005 and the six months ended 30 June 2006:

BITIC Loans and Employee Investments

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

Period	Participating Employees	Balance (RMB'million)	Yield on the Employee Investments	Interest rates on BITIC Loans	Settlement
24/6/04 – 24/12/07	918	100	4.50%	5.2475%	The 130 million loan was extended to 24 December 2007 upon expiry. The balance was reduced to 100 million and the number of employees participated was reduced to 918.
16/8/04 – 16/2/07	913	50	4.00% (16/8/04 – 31/3/05) 4.50% (1/4/05 – 16/2/07)	4.72% (16/8/04 – 31/3/05) 5.2475% (1/4/05 – 16/2/07)	N/A
1/4/05 – 1/10/06	973	62.3	4.50%	5.2475%	N/A
29/12/04 – 29/12/06	147	40	4.00%	4.72%	N/A
29/12/05 – 29/12/06	124	20	4.00%	4.72%	N/A
At 30 June 2006	**2,191***	**272.3**			

* *There were approximately 599, 965 and 729 employees participating in more than one tranche of Employee Investment as at 31 December 2004, 31 December 2005 and 30 June 2006 respectively.*

The PRC legal advisers to the Company have confirmed that the Employee Investments, BITIC Loans and Confirmation Letters were valid and comply with all relevant PRC laws and regulations. The primary reason that the Company chose to obtain the BITIC Loans in June 2004 was that the commercial terms offered by BITIC were the most favorable compared to the other potential lenders canvassed by the Group. From the perspective of the risks to, and the obligations of, the Group, the BITIC Loans are no different from any other loans from financial institutions. The BITIC Loans have been used by the Group for working capital purposes and it is intended that they will continue to be used by the Group for such purposes as well as to finance its operations in the future.

Apart from the BITIC Loans, the Group has also obtained other loan facilities from other financial institutions. As at 30 June 2006, the Group had short term borrowings of approximately RMB340.5 million and long term borrowings of approximately RMB144.5 million from such other financial institutions.

Other Borrowings

In addition, apart from bank loans, Employee Loans and the BITIC Loans, the Group had borrowings from various commercial entities or government bodies under the jurisdiction of SASAC of the Chaoyang District during the Track Record Period. All of those borrowings from various commercial entities and government bodies were repaid before the Listing. Based on the PRC legal opinion, the loans from the various commercial entities and government bodies did not comply with the relevant PRC Laws and the relevant loan agreements were not enforceable.

Chaoyang Auxillary has undertaken to indemnify the Company against any costs and penalties that the Group may suffer due to the non-compliance with the relevant PRC Laws in respect of borrowings from the said employees, the fact that the relevant loan agreements were not enforceable, and that the Group may be subject to a maximum penalty of 5% of the amount of the total borrowings.

In view of the lengthy bank loan application procedures to obtain funds in a timely manner to cope with the Group's fund requirement for its rapid business expansion and at a lower cost compared to bank loan, the Group accepted the borrowings from employees, BITIC and other commercial entities and government bodies under the jurisdiction of SASAC of the Chaoyang District during the Track Record Period.

Going forward, the Company will only obtain borrowings which are in compliance with the relevant PRC laws. All future borrowings must be reviewed by the legal unit of the Company to ensure compliance with the relevant PRC laws. Subsequent to the Listing, the Company will confirm whether all of its borrowings are in compliance with the relevant PRC Laws in its annual reports.

Security

As at 30 June 2006, the Group had an aggregate bank loans and other borrowings of RMB757.3 million, consisted of secured short term bank loans of RMB142.5 million, unsecured short term bank loans of RMB198.0 million, unsecured short term borrowings from BITIC of RMB172.3 million, secured long term bank loans of RMB144.5 million and unsecured long term borrowings from BITIC of RMB100.0 million. The Group's bank loans and other borrowings are secured by:

- corporate guarantee of RMB212.3 million provided by Chaoyang Auxillary which will be fully released and replaced by the Company's corporate guarantee and pledge of 71.7% equity interest in Chaopi Trading owned by the Company upon Listing.

- certain of the Company's construction in progress, comprising leasehold land and buildings and land use right with an aggregate carrying value of approximately RMB319 million as at 30 June 2006.

- certain of the Company's buildings with an aggregate net book value of approximately RMB124 million as at 30 June 2006.

- certain of the Group's pledged time deposits of RMB3 million as at 30 June 2006.

Contingent liabilities

As at 30 June 2006, the Group had no material contingent liabilities.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table sets forth the aggregate amounts, as at 30 June 2006, of the Group's future contractual operating lease commitments and capital commitments principally for the construction and acquisition of fixed assets on a consolidated basis:

(i) Capital commitments

	Total
	RMB'000
Contracted, but not provided for	104,881

(ii) Operating lease commitments – as lessee

	Payment due by period			
	Total	**Within one year**	**Within two to five years**	**After five years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Operating lease commitments	746,540	50,006	207,306	489,228

NO MATERIAL ADVERSE CHANGE

Save as described in the paragraph headed "Indebtedness" and "Contractual Obligations And Commitments" above, the Directors have confirmed that there has been no material change in the Group's financial or trading position since 30 June 2006 (being the date to which the Group's latest consolidated financial results were prepared, as set out in the Accountants' Report on the Group in Appendix I to this prospectus).

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

The Directors confirm that as at the Latest Practicable Date, there were no circumstances which would give rise to any disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

DIVIDEND AND WORKING CAPITAL

Dividend

During the Track Record Period, the Company's shareholders had approved the following dividend distributions:

1. a dividend for the year ended 31 December 2003 of RMB29,133,000;
2. a special dividend declared for the year ended 31 December 2004 of RMB3,000;
3. a dividend of RMB16 cents per Share for the year ended 31 December 2004 in the aggregate amount of RMB39,502,000; and
4. a dividend of RMB22.9 cents per Share for the year ended 31 December 2005 in the aggregate amount of RMB56,367,000.

The above dividends are either paid or will be paid before Listing.

The Company may distribute dividends by way of cash or by other means that the Board consider appropriate. A decision to distribute any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including our results of operations, cash flows, financial condition, the payment by the Company's subsidiaries of cash dividends to the Company, future prospects and other factors that the Directors may consider important.

In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution will be the lesser of (i) the net profit determined in accordance with the PRC GAAP and (ii) the net profit determined in accordance with the accounting standards of the overseas place where the Company's share listed.

In any case, the Company will pay dividends out of after-tax profits only after it has made the following allocations:

- recovery of accumulated losses, if any;
- allocations to the statutory surplus reserve fund equivalent to 10% of our after-tax profit, as determined under PRC GAAP;
- allocations to the statutory public welfare fund equivalent to between 5% and 10% of our after-tax profit, as determined under PRC GAAP (abolished from 1 January 2006); and
- allocations, if any, to a discretionary surplus reserve fund that are approved by the Shareholders in a Shareholders' meeting.

The minimum allocations to the statutory funds are 15% of the after-tax profit, as determined under PRC GAAP during the Track Record Period and change to 10% from 1 January 2006. When the statutory common reserve fund reaches and is maintained at or above 50% of the Company's registered capital, no further allocations to this statutory fund will be required. Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years.

The payout ratio of the profit that are available for distribution from the non-wholly owned subsidiaries is close to 100% based on the respective profit available for distribution prepared in accordance with the PRC GAAP. In addition, the Company directly, or indirectly through Chaopi Trading where the Company holds 76.42% of its equity interest, holds majority equity interests in these non-wholly owned subsidiaries. Therefore, the Directors confirm that the Company directly, or indirectly through Chaopi Trading, can elect majority members to the board of directors of each of those non-wholly owned subsidiaries. The respective boards of directors can in turn elect the chairman and appoint the general manager of their respective non-wholly owned subsidiaries. Hence, the Directors confirm that the Company (by itself or through Chaopi Trading) has direct control and influence of the dividend payout policy of each non-wholly subsidiary. Accordingly, the Directors do not foresee any significant difficulties in securing dividends from the Company's non-wholly owned subsidiaries for the payment of dividends to the shareholders of the Company. Going forward, the Directors confirm that the Group intends to pursue the current practice of the subsidiaries in respect of the distribution of dividends to the Company, subject to the best interests of the Group, and capital requirements of each of the subsidiaries from time to time.

Working Capital

As at 30 June 2006, the Group had bank loans of RMB485.0 million and other borrowings of RMB272.3 million from BITIC. The Directors are of the opinion that, taking into account the internally generated financial resources of the Group and its currently available facilities from banks and BITIC, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma adjusted net intangible assets has been prepared, on the basis of the notes set out below, to illustrate how the Share Offer may have affected the Group's net tangible assets had it occurred as at 30 June 2006.

The unaudited pro forma adjusted net tangible assets has been prepared for illustrative purpose only and, because of its nature, may not give a true picture of the financial position and results of the Group.

	Audited consolidated net tangible assets attributable to the equity holders of the Company as at 30 June 2006	**Estimated net proceeds from the Share Offer**	**Unaudited pro forma adjusted net tangible assets**	**Unaudited pro forma adjusted net tangible assets per Share**	**Unaudited pro forma adjusted net tangible assets per Share**
	RMB'000	*RMB'000*	*RMB'000*	*(RMB)*	*(HK$)*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on an Offer Price of HK$3.90 per H Share	347,193 (equivalent to about HK$340,385)	435,856 (equivalent to about HK$427,310)	783,049	2.14	2.10
Based on an Offer Price of HK$4.50 per H Share	347,193 (equivalent to about HK$340,385)	506,726 (equivalent to about HK$496,790)	853,919	2.33	2.28

Notes:

(1) The audited consolidated net tangible assets attributable to the equity holders of the Company represents the audited consolidated net assets attributable to the equity holders of the Company of approximately RMB349.7 million less intangible assets of approximately RMB2.5 million as at 30 June 2006. The financial information as at 30 June 2006 is extracted from the consolidated balance sheet of the Group set out in "Appendix 1 – Accountants' Report" to this prospectus.

(2) The estimated net proceeds from the Share Offer reflect the estimated proceeds from the Share Offer, net of related expenses and excluding 12,000,000 Sale H Shares to be received by the Company. This has been shown on the basis of both the upper and lower limits of the range of Offer Price, being HK$3.90 and HK$4.50 per Share.

(3) The number of Shares is based on a total of 366,620,000 Shares issued and outstanding during the entire year, adjusted as if the Share Offer had occurred at 1 January 2006, excluding any Shares that might be issued under the Over-allotment Option.

(4) The translation of Hong Kong dollars into Renminbi was at HK$1.00 to RMB1.02.

DISTRIBUTABLE RESERVES

According to the Company's Articles of Association, the amount of retained profits available for distribution to the shareholders of the Company is the lower of the amount determined in accordance with the PRC GAAP and the amount determined in accordance with HKFRSs. The Company's maximum distributable reserves as at 30 June 2006, which represent the Group's reserves as determined in accordance with the PRC GAAP after deduction of the minimum transfers to the statutory surplus reserve, amounted to approximately RMB38.2 million.

PROPERTY INTERESTS

Vigers Appraisal & Consulting Limited, an independent property valuer, has valued the Group's property interests as at 30 June 2006 and is of the opinion that the property interests is valued at an aggregate amount of approximately RMB576.4 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set forth in Appendix III to this prospectus.

As at 30 June 2006, the lessors of Chaopi Trading's Distribution Center in Beijing had not obtained the relevant building ownership certificate. In addition, the tenancy agreements entered into by Chaopi Trading and the lessors in respect of the Distribution Center had not been registered with the relevant PRC authorities as required under the PRC laws and regulations.

Though the wholesale distribution business contributed to over 35% of revenue of the Group during each of the Track Record Period, the Directors consider that the defects in title would not have an adverse impact to the Group should Chaopi Trading be evicted from such premises due to (i) such Distribution Center being a warehouse in nature; (ii) the dry product Logistic Centre can support part of such Distribution Center's function; (iii) such Distribution Center is located in rural area of Chaoyang District and a site with similar area and location can be easily identified, and (iv) most of the fixed assets installed, for example loading systems, are movable in nature and the costs incurred for relocation would be minimal.

In addition, the tenancy agreements of five operated Retail Outlets, including four supermarkets and one convenience store, have not been registered with the relevant PRC authorities as required under the PRC laws and regulations. For the aforementioned Retail Outlets, the respective lessors have not yet obtained the relevant building ownership certificates.

The convenience store recorded revenue of less than 1% of the turnover of the Group during the Track Record Period. One of the supermarkets commenced operations in July 2005 with a turnover in 2005 of approximately RMB6.3 million representing less than 1% of the turnover of the Group for the year ended 31 December 2005. The other 3 supermarkets commenced operations in January 2006. The Directors confirm that the revenue generated by each of the Retail Outlets situated in the abovementioned properties accounted for less than 1% of the turnover of the Group for the six months ended 30 June 2006. Therefore, the Directors confirm that these properties are not significant to the overall business activities of the Group.

In addition, with respect to the tenancy agreements of ten Retail Outlets entered into before 30 June 2006, including eight supermarkets and two convenience stores, nine of which including seven supermarkets and two convenience stores have not been registered with the relevant Chinese authorities. For six of the ten Retail Outlets, the lessors have not yet obtained the relevant building ownership certificates.

Subsequent to 30 June 2006, the Group has signed five tenancy agreements for the establishment of four supermarkets and one hypermarket respectively. All of them have not been registered with the relevant Chinese authorities. For three of the five Retail Outlets, the lessors have not yet obtained the relevant building ownership certificates.

The Company will:

(a) in respect of the leased properties numbered 48, 49 and 50 in the section headed "Property Valuation" in Appendix III to this prospectus, complete the registration of the such tenancies with the PRC authorities on or before 30 June 2007, failing which it would terminate such tenancies within 12 months thereafter;

(b) in respect of the leased properties numbered 41, 45, 46 and 88 in the section headed "Property Valuation" in Appendix III to this prospectus, complete the registration of the such tenancies with the PRC authorities on or before 31 December 2007, failing which it would terminate such tenancies within 12 months thereafter;

(c) in respect of the leased properties numbered 39, 42, 43, 47, 51, 53 and 89 in the section headed "Property Valuation" in Appendix III to this prospectus, procure the relevant lessors to obtain the relevant building ownership certificates and complete the registration of the such tenancies with the PRC authorities on or before 31 December 2008, failing which it would terminate such tenancies within 12 months thereafter; and

(d) in respect of the five tenancy agreements (for four supermarkets and one hypermarket) entered into by the Group subsequent to 30 June 2006 as described above, complete the relevant PRC registration for two of such supermarkets on or before 30 June 2007, one of such supermarkets on or before 31 December 2007, one of such supermarkets on or before 31 December 2008 and, based on an undertaking from the relevant lessor, the remaining hypermarket on or before 6 July 2011, in each case failing which it would terminate such tenancies within 12 months thereafter.

SPONSOR AGREEMENT

Neither DBS Asia nor its associates expect to obtain any material benefit as a result of the successful outcome of the Public Offer, other than the following: (i) by way of underwriting commissions to be paid to DBS Asia or its associates for acting as one of the Underwriters pursuant to the Underwriting Agreement; (ii) the advisery and documentation fees to be paid to DBS Asia as sponsor of the Share Offer; (iii) by way of a compliance adviser agreement entered into between DBS Asia and the Company and dated 30 March 2006 pursuant to which DBS Asia is appointed as the compliance adviser of the Company until 31 December, 2008 and the Company shall pay an agreed fee to DBS Asia for its provision of such services; and (iv) certain associates of DBS Asia whose ordinary business involves the trading of and dealing in securities, may be involved in the trading of and dealing in the H Shares after the Listing.

PLACING UNDERWRITERS

DBS Asia
CITIC Securities Corporate Finance (HK) Limited
BCOM Securities Company Limited
CCB International Capital Limited
CIMB-GK Securities (HK) Limited
First Shanghai Securities Limited
Quam Securities Company Limited

PUBLIC OFFER UNDERWRITERS

DBS Asia
CITIC Securities Corporate Finance (HK) Limited
BCOM Securities Company Limited
CCB International Capital Limited
CIMB-GK Securities (HK) Limited
First Shanghai Securities Limited
Quam Securities Company Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company and the Selling Shareholder are together offering the Offer Shares at the Offer Price for purchase subject to the terms and conditions set forth in this prospectus and the Application Forms.

In addition, the Company and the Selling Shareholder have together granted the Over-allotment Option to the Placing Underwriters, exercisable by the Global Coordinator, at any time from the Listing Date up to the date falling on the 30th day after the last day for lodging of applications under the Public Offer, to require the Company to allot and issue up to 18,000,000 additional new H Shares and the Selling Shareholder to sell up to 1,800,000 additional Sale H Shares, in aggregate representing 15% of the H Shares initially available under the Share Offer, on the same terms as those applicable to the Placing to cover over-allocations in the Placing.

Subject to the GEM Listing Committee granting listing of, and permission to deal in, the H Shares to be issued and sold as mentioned in this prospectus, and the Company and the Global Coordinator reaching an agreement on the Offer Price on or before the Price Determination Date, (i) the Placing Underwriters have severally (and not jointly or jointly and severally) agreed to procure placees to purchase, or failing which they shall purchase, the Placing Shares subject to the terms and conditions of the Underwriting Agreement; and (ii) the Public Offer Underwriters have severally (and not jointly or jointly and severally) agreed, subject to the terms and conditions of the Underwriting Agreement, to procure subscribers for, or failing which they shall subscribe for, the Public Offer Shares on the terms and conditions of this prospectus and the related Application Forms.

Grounds for termination

The respective obligations of the Underwriters to subscribe for/purchase, or procure subscribers/purchasers for, the Offer Shares are subject to termination. The Underwriters shall be entitled to terminate their obligations under the Underwriting Agreement upon the occurrence of any of the following events by notice in writing to the Company given by the Global Coordinator (acting for all the other Underwriters) at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (the ''Termination Time'') if prior to the Termination Time,

(a) there has come to the notice of the Global Coordinator:

(i) that any statement contained in this prospectus and the Application Forms, considered by the Global Coordinator in its sole and absolute opinion to be material, in relation to the Share Offer was when the same was issued, or has become, untrue, incorrect or misleading in any respect; or

(ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by the Global Coordinator in its sole and absolute opinion to be material to the Share Offer; or

(iii) any breach of any of the obligations imposed upon any party to the Underwriting Agreement which is considered by the Global Coordinator in its sole and absolute opinion to be material in the context of the Share Offer; or

(iv) any breach, considered by the Global Coordinator in its sole and absolute opinion to be material in the context of the Share Offer, of any of the warranties contained in the Underwriting Agreement;

(b) there shall occur:

(i) any event, or series of events, beyond the reasonable control of the Underwriters (including, without limitation, acts of government or orders of any court, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of God, acts of terrorism, outbreak of diseases or epidemics (including without limitation Severe Acute Respiratory Syndrome, avian influenza A (H5N1) or such related/mutated forms among human being or interruption or delay in transportation); or

(ii) any change in local, national, international, financial, economic, political, military, industrial, fiscal, regulatory or market conditions and matters and/or disaster (including any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange); or

(iii) any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong or the PRC; or

(iv) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for the US or by the European Union on the PRC; or

(v) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong or the PRC; or

(vi) any litigation or claim of material importance of any third party being threatened or instigated against any member of the Group; or

(vii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity; or

(viii) any loss or damage sustained by any member of the Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or

(ix) a petition is presented for the winding-up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group,

which in the sole and absolute opinion of the Global Coordinator (1) is or will or could be expected to have a material adverse effect on the business or financial condition or prospects of the Group; or (2) has or will have or could be expected to have a material adverse effect on the success of the Share Offer or the level of applications under the Public Offer or the level of interest under the Placing; or (3) makes it inadvisable or inexpedient for the Share Offer to proceed.

Commissions and expenses

The Underwriters will receive an underwriting commission of 3.5% of the aggregate Offer Price payable for the Offer Shares, out of which they will pay any sub-underwriting commission in connection with the Share Offer, and the Sponsor will also receive a documentation fee. Such fee, together with the underwriting commission, listing fees, legal and other professional fees, printing, translation and other fees and expenses relating to the Share Offer, which are estimated to be approximately HK$44 million in aggregate (assuming that the Over-allotment Option is not exercised and based on the Offer Price of HK$4.20 (being the mid-point of the indicative Offer Price range between HK$3.90 and HK$4.50)), will be payable by the Company as to approximately HK$42 million and the Selling Shareholder as to approximately HK$2 million, on the basis that the selling shareholder shall bear only the underwriting commission and other related fees in relation to the sale H shares whilst all other costs in relation to the share offer shall be borne by the Company. The Company will also pay for all expenses in connection with any exercise of the Over-allotment Option or over-allocations in the H Shares in the Placing (save for any underwriting commission in relation to over-allocations in the Sale H Shares in the Placing).

The underwriting commission relating to the new H Shares will be borne by the Company and the underwriting commission relating to the Sale H Shares will be deducted from the net proceeds to be delivered to the NSSF Council. Underwriting commission in connection with any over-allocations in the Sale H Shares in the Placing will be deducted from the net proceeds to be delivered to the NSSF Council.

Undertakings

The Company has undertaken to the Global Coordinator (acting on behalf of the Underwriters), and Chaoyang Auxillary has undertaken to the Global Coordinator (acting on behalf of the Underwriters) to procure, save as mentioned in this prospectus or with the prior written consent of the Global Coordinator (on behalf of the Underwriters) and in compliance with the GEM Listing Rules and the applicable PRC laws, that the Company would not allot or issue, or agree to allot or issue H Shares or other equity securities of the Company or grant or agree to grant any options, warrants or other rights to subscribe/purchase for or convertible or exchangeable into H Shares or other equity securities of the Company or announce any intention to do so from the date of this prospectus until the expiry of 6 months following the Listing Date, and in the event of the Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of 6 months following the expiry of the first 6 month period after the Listing Date, it would take all reasonable steps to ensure that any such act would not create a disorderly or false market for any H Shares or other equity securities of the Company.

The Selling Shareholder has undertaken with the Global Coordinator (acting on behalf of the Underwriters) that it would:

(a) fully and strictly comply with all restrictions (if any) applicable to it from time to time under the GEM Listing Rules and the Company Law on the disposal by it, or by the registered holder holding on trust for it, of any Relevant Securities in respect of which that it is (directly or indirectly), or is shown by this prospectus to be, the beneficial owner, unless appropriate waiver has been granted by the Stock Exchange or other relevant applicable authorities;

(b) subject to any waiver granted by the Stock Exchange under the GEM Listing Rules and set out in this prospectus, place all the Relevant Securities beneficially owned by it, directly or indirectly, or any interest therein in escrow with an escrow agent approved by the Global Coordinator (on behalf of the Underwriters) and acceptable to the Stock Exchange for the period commencing on the date of this prospectus and ending on 12 months after the Listing Date, to the extent required by the GEM Listing Rules;

(c) not, and would procure that none of the associates or the companies controlled by it or its nominees or trustees holding in trust for it would (unless with the prior written consent of the Stock Exchange and the Global Coordinator) (i) sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of any Relevant Securities) in respect of any of the Relevant Securities beneficially owned by it or its associates, nominees or trustees on the Listing Date; (ii) sell, transfer or otherwise dispose of any interest (or enter into an agreement to do any of the foregoing) in any shares in any company controlled by any of them which is directly, or through another company indirectly, the beneficial owner of any of the Relevant Securities; and (iii) pledge, charge, encumber or create any third-party rights in respect of any of the Relevant Securities beneficially owned by it or its associates, nominees or trustees, in each case within the period commencing on the date of this prospectus and ending on 12 months after the Listing Date; and

(d) upon any sale, transfer or other disposal of the Relevant Securities at any time after the expiry of the period commencing on the date of this prospectus and ending on 12 months after the Listing Date, would take all reasonable steps to ensure that such transfer or disposal will not create a disorderly or false market for the H Shares or other securities of the Company,

provided that the Selling Shareholder may, to the extent permitted by laws (in particular the relevant PRC laws) during the period commencing on the date of this prospectus and ending on 12 months after the Listing Date, in addition to disposals permitted pursuant to any waiver granted under the GEM Listing Rules, dispose of any number of the Relevant Securities or interests therein in accordance with the GEM Listing Rules provided that:

(i) within the period commencing on the date of this prospectus and ending on 12 months after the Listing Date, it should, if and when it pledges or charges any direct or indirect interest in any of the Relevant Securities in accordance with the requirements under rules 13.18 and 13.19 of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange, immediately inform the Company and the Global Coordinator in writing of such pledge or charge and disclose such details as may be required under the GEM Listing Rules; and

(ii) if and when it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest, immediately inform the Global Coordinator in writing together with the number of securities affected.

SPONSOR'S AND UNDERWRITERS' INTEREST IN THE COMPANY

The Sponsor will receive a documentation fee. The Global Coordinator and the other Underwriters will receive an underwriting commission of 3.5% of the aggregate Offer Price payable for the Offer Shares. Particulars of these commission and expenses are set forth under "Commissions and expenses" above. In addition, the Company will enter into a compliance adviser agreement with DBS Asia whereby DBS Asia will be retained as the compliance adviser of the Company up to the date the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the year ending 31 December 2008.

Save as disclosed above, none of the Global Coordinator and the Underwriters is interested legally or beneficially in H Shares of any member of the Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of the member of the Group nor any interest in the Share Offer.

PRICING

The Offer Price is expected to be fixed by agreement between DBS Asia (for itself and on behalf of the other Underwriters) and the Company on or before the Price Determination Date, which is currently expected to be 16 September 2006 or such other date as may be agreed between the parties, but in any event not later than 21 September 2006. If DBS Asia (for itself and on behalf of the other Underwriters) and the Company (for itself and on behalf of Chaoyang Auxillary) are unable to reach an agreement on the Offer Price on or before 21 September 2006, the Share Offer will not become unconditional and will lapse.

The Offer Price will not be more than HK$4.50 per Offer Share and is currently expected to be not less than HK$3.90 per Offer Share. DBS Asia (for itself and on behalf of the other Underwriters) may, with the consent of the Company (for itself and on behalf of Chaoyang Auxillary), reduce the aforesaid indicative Offer Price range below that stated in this prospectus (which is HK$3.90 per Offer Share to HK$4.50 per Offer Share). Potential investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but is currently not expected to be, lower than the indicative range of the Offer Price stated in this prospectus.

If, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, DBS Asia (for itself and on behalf of the other Underwriters), and with the consent of the Company (for itself and on behalf of Chaoyang Auxillary) thinks it appropriate (for instance, if the level of interest is below the indicative Offer Price range), the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the latest day for lodging applications under the Public Offer. In the event where the final Offer Price is lower than the indicative range of the Offer Price stated in this prospectus, the Company will, as soon as practicable following the decision to make such reduction, make an announcement on the GEM website notices of the reduction in the indicative Offer Price range.

The Offer Price, the level of indication of interests in the Placing and the results and basis of allotment of the Public Offer Shares are expected to be published on the GEM website on 22 September 2006.

PRICE PAYABLE ON SUBSCRIPTION

Based on the maximum Offer Price of HK$4.50, the price payable upon application will be the Offer Price of HK$4.50 per Offer Share plus 1% brokerage, SFC transaction levy of 0.005% and Stock Exchange trading fee of 0.005%, amounting to a total of HK$4,545.46 for each board lot of 1,000 H Shares. The Application Forms include a table showing the exact amount payable for all multiples of Offer Shares.

Further details are set forth in the section headed "How to apply for the Public Offer Shares" in this prospectus.

CONDITIONS OF THE SHARE OFFER

Acceptance of applications for the Offer Shares under the Share Offer are conditional upon:

1. the GEM Listing Committee granting listing of, and permission to deal in, the H Shares to be issued as mentioned in this prospectus (including any additional new H Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option); and

2. the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by DBS Asia, for itself and on behalf of the other Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise,

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 8:00 a.m. on the Listing Date. If these conditions are not fulfilled, all application monies will be returned, without interest, on the terms set out in the section ''How to apply for the Public Offer Shares'' in this prospectus. In the meantime, such monies will be held in a separate bank account with the receiving banker or other licensed bank(s) in Hong Kong.

If such conditions shall not have been fulfilled (or, where applicable, waived by DBS Asia (for itself and on behalf of the other Underwriters) on or before the day specified above, the Share Offer will lapse and the Stock Exchange shall be notified immediately. In such case, the Company will cause to be published the notice of the lapse of the Share Offer on the GEM website on the next day following such lapse.

THE SHARE OFFER

The Share Offer comprises the Public Offer and the Placing. A total of 132,000,000 H Shares, comprising 120,000,000 new H Shares and 12,000,000 Sale H Shares (excluding any new H Shares which may fall to be allotted and issued and any additional Sale H Shares which may be sold pursuant to the exercise of the Over-allotment Option), will initially be made available under the Share Offer. 13,200,000 new H Shares, representing approximately 10% of the total number of H Shares initially available under the Share Offer, will initially be offered for subscription under the Public Offer, and the remaining 118,800,000 H Shares, comprising 106,800,000 new H Shares and the whole of the 12,000,000 Sale H Shares and representing in aggregate approximately 90% of the total number of H Shares initially available under the Share Offer, will initially be offered for subscription and/or purchase, as the case may be, under the Placing.

INVESTORS MAY APPLY FOR H SHARES UNDER THE PUBLIC OFFER OR INDICATE AN INTEREST FOR H SHARES UNDER THE PLACING, BUT MAY NOT DO BOTH. The Public Offer is open to members of the public in Hong Kong. The Placing will involve selective marketing of H Shares to institutional and professional investors. Institutional and professional investors generally include high net worth individuals, brokers, dealers, companies and fund managers, whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Assuming the Over-allotment Option is not exercised, the H Shares will represent approximately 36.00% of the enlarged issued share capital of the Company immediately after completion of the Share Offer. If the Over-allotment Option is exercised in full, the H Shares will represent approximately 39.47% of the enlarged issued share capital of the Company immediately after completion of the Share Offer and the exercise of the Over-allotment Option.

The Public Offer is fully underwritten by the Public Offer Underwriters and the Placing is fully underwritten by the Placing Underwriters, in each case on a several basis, each being subject to the conditions set out in the paragraph headed ''Underwriting arrangements and expenses'' in the section headed ''Underwriting Arrangement for the Share Offer'' in this prospectus.

THE PUBLIC OFFER

The Company is initially offering 13,200,000 new H Shares, representing 10% of the total number of H Shares initially being offered in the Share Offer, for subscription by way of a public offer in Hong Kong. The Public Offer Shares are being offered at the Offer Price. The Public Offer is fully underwritten by the Public Offer Underwriters, subject to the terms and conditions of the Underwriting Agreement.

Allotment of Public Offer Shares will be based upon the level of valid applications received. The basis of allotment may vary depending upon the number of Public Offer Shares validly applied for by each applicant, but will otherwise be made on a strictly pro-rata basis. In addition, the allotment of Public Offer Shares in such circumstances may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of Public Offer Shares and that applicants who are not successful in the ballot may or may not receive any Public Offer Shares.

The Public Offer is conditional on the same conditions as set out in the paragraph headed ''Conditions of the Share Offer'' above. The total number of Public Offer Shares to be allotted and issued pursuant to the Public Offer may change as a result of exercise of the Over-allotment Option and any re-allocation of unsubscribed H Shares originally included in the Placing.

THE PLACING

The Company and Chaoyang Auxillary are initially offering 118,800,000 H Shares (comprising 106,800,000 new H Shares and the whole of 12,000,000 Sale H Shares) for subscription and/or purchase, as the case may be, at the Offer Price by way of placing. Subject to the Over-allotment Option, the Placing Shares represent approximately 90% of the total number of H Shares initially being offered in the Share Offer (assuming the Over-allotment Option is not exercised). The Placing is fully underwritten by the Placing Underwriters, subject to the terms and conditions of the Underwriting Agreement.

All Placing Shares will be available for subscription and/or purchase, as the case may be, by professional and institutional investors. It is expected that the Placing Underwriters or selling agents nominated by them will conditionally place the Placing Shares on behalf of the Company and Chaoyang Auxillary at the Offer Price with professional and institutional investors. Professional and institutional investors generally include high net worth individuals, brokers, dealers, companies and fund managers, whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

OFFER MECHANISM – BASIS OF ALLOCATION OF THE OFFER SHARES

The Public Offer

For allocation purposes only, the total number of Public Offer Shares initially available for subscription and purchase (as the case may be) under the Public Offer (taking into account any adjustment of Offer Shares between the Placing and the Public Offer referred to below), will be divided equally into two pools: pool A and pool B. Pool A will consist of not less than 6,600,000 Public Offer Shares and will be allocated on an equitable basis to successful applicants who have applied for Public Offer Shares with a total subscription amount (excluding SFC transaction levy, Stock Exchange trading fee and brokerage payable thereon) of HK$5 million or less; pool B will consist of not less than 6,600,000 Public Offer Shares and will be allocated on an equitable basis to successful applicants who have applied for Public Offer Shares with a total subscription amount (excluding SFC transaction levy, Stock Exchange trading fee and brokerage payable thereon) of more than HK$5 million and up to the total value of pool B. Applicants should be aware that applications within the same pool, and as well as between different pools, are likely to receive different allocation ratios. Where one of the pools is under-subscribed and the other pool is over-subscribed, the surplus Public Offer Shares from the under-subscribed pool will be transferred to the other pool to satisfy excess demand in the over-subscribed pool and be allocated accordingly. Applicants can only apply to receive an allocation of Public Offer Shares in either pool A or pool B but not from both pools. No applications will be accepted from investors applying for more than the total number of Public Offer Shares originally allocated to each pool. Multiple applications or suspected multiple applications within either pool or between pools will be rejected.

Each applicant under the Public Offer will be required to give an undertaking and confirmation in the application form submitted by it that it and any person(s) for whose benefit it is making the application will not receive any Placing Shares under the Placing, has not indicated and will not indicate an interest for any Placing Shares under the Placing, and its application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue, as the case may be. The Company, the Selling Shareholder, and DBS Asia have full discretion to reject or accept any application, or to accept only part of any application.

Allocation of the Public Offer Shares, including any Offer Shares which may be reallocated from the Placing, under the Public Offer will be based solely on the level of valid applications received under the Public Offer. If there is over-subscription under the Public Offer, the basis of allocation may vary depending on the number of Public Offer Shares validly applied for by each applicant. The allocation of the Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares in such circumstances than others who have applied for the same number of the Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

The Placing

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the potential investors are likely to buy further H Shares, or hold or sell their Shares, after the Listing. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Company and the Shareholders as a whole. Investors who have been allocated any Placing Shares under the Placing will not be allocated any Public Offer Shares under the Public Offer. Similarly, investors who have been allocated any Public Offer Shares under the Public Offer will not be allocated any Placing Shares under the Placing. In addition, the Directors and DBS Asia will, after taking into account the applications under the Public Offer, use their best endeavours to observe the minimum public float and minimum spread requirements under the Listing Rules when making allocations of the Placing Shares to investors who are anticipated to have a sizeable demand for such Shares.

Over-subscription

The allocation of the Offer Shares between the Public Offer and the Placing is subject to adjustment. If the number of H Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of H Shares initially available for subscription or purchase (as the case may be) under the Public Offer, then H Shares will be reallocated to the Public Offer from the Placing, so that the total number of H Shares available under the Public Offer will increase to not less than 39,600,000 H Shares (representing not less than 30% of the total number of the Offer Shares available under the Share Offer, assuming the Over-allotment Option is not exercised). If the number of H Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of H Shares initially available for subscription or purchase (as the case may be) under the Public Offer, then the number of H Shares to be reallocated to the Public Offer from the Placing will be increased so that the total number of H Shares available under the Public Offer will increase to not less than 52,800,000 H Shares (representing not less than 40% of the total number of Offer Shares available under the Share Offer, assuming the Over-allotment Option is not exercised at all). If the number of H Shares validly applied for under the Public Offer represents 100 times or more the number of H Shares initially available for subscription or purchase (as the case may be) under the Public Offer, then the number of H Shares to be reallocated to the Public Offer from the Placing will be increased so that the total number of H Shares available under the Public Offer will increase to not less than 66,000,000 H Shares (representing not less than 50% of the total number of the Offer Shares available under the Share Offer, assuming the Over-allotment Option is not exercised). In each such case, the additional H Shares reallocated to the Public Offer will be allocated equally between pool A and pool B and the number of H Shares allocated to the Placing will be correspondingly reduced. The Placing Shares to be reallocated from the Placing to the Public Offer may comprise H Shares offered by the Company and/or Sale H Shares offered by the Selling Shareholder.

Under-subscription

If the Public Offer is not fully taken up, DBS Asia, on behalf of the Public Offer Underwriters, has the authority to reallocate all or any untaken Public Offer Shares originally included in the Public Offer to the Placing, in such number as it deems appropriate provided that there is sufficient demand under the Placing to take up such reallocated Shares. The Public Offer Shares to be reallocated from the Public Offer to the Placing comprise H Shares to be offered by the Company. If the Placing is not fully taken up, DBS Asia, on behalf of the Placing Underwriters, has the authority to reallocate all or any untaken Placing Shares originally included in the Placing to the Public Offer, in such number as it deems appropriate provided that there is sufficient demand under the Public Offer to take up such reallocated Shares. The Placing Shares to be reallocated from the Placing to the Public Offer may comprise new H Shares to be offered by the Company and/or the Sale H Shares to be offered by the Selling Shareholder. Details of any reallocation of Shares between the Public Offer and the Placing will be disclosed in the results announcement, which is expected to be made on or about Friday, 22 September 2006.

SALE H SHARES

In accordance with the relevant PRC regulations, the Selling Shareholder is offering 12,000,000 Sale H Shares, representing all State-owned Shares in the Company to be converted into H Shares, for sale as part of the Placing. Pursuant to an approval issued by SASAC dated 9 July 2005, an equal number of the State-owned Shares was allocated from Chaoyang Auxillary to the NSSF Council as Sale H Shares, which in turn authorised the Company to sell on its behalf of the Sale H Shares in the Share Offer. The NSSF Council granted such authorisation on 22 August 2005. Accordingly, as a term of the Underwriting Agreement, the net proceeds of the Sale H Shares will be remitted to the designated back account of the NSSF Council in accordance with the relevant PRC regulations.

OVER-ALLOTMENT AND STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public offer prices of the securities. In Hong Kong and certain other jurisdictions, the price at which stabilisation is effected is not permitted to exceed the Offer Price.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilisation) Rules includes (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price, (ii) selling or agreeing to sell shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price, (iii) subscribing, or agreeing to subscribe, for shares pursuant to the over-allotment option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase shares for the sole purpose of preventing or minimizing any reduction in the market price, (v) selling shares to liquidate a long position held as a result of those purchases and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

In connection with the Share Offer, the Global Coordinator, as stabilising manager, or any person acting for it, may over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the last day for the lodging of applications under the Public Offer. Any market purchases of H Shares will be effected in compliance with all applicable laws and regulatory requirements. However there is no obligation on the stabilising manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the stabilising manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Public Offer. The number of H Shares that may be over-allocated will not exceed the number of H Shares that may be issued under the Over-allotment Option, namely 19,800,000 H Shares, which is 15% of the number of H Shares initially available under the Share Offer.

As a result of effecting transactions to stabilise or maintain the market price of the H Shares, the Global Coordinator, or any person acting for it, may maintain a long position in the H Shares. The size of the long position, and the period for which the stabilising manager, or any person acting for it, will maintain the long position is at the discretion of the stabilising manager and is uncertain. In the event that the stabilising manager liquidates this long position by making sales in the open market, there may be a decline in the market price of the H Shares.

Stabilising action by the Global Coordinator, or any person acting for it, is not permitted to support the price of the H Shares for longer than the stabilising period, which begins on the day on which trading of the H Shares commences on the Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Public Offer. The stabilising period is expected to end on 13 October 2006. As a result, demand for the H Shares, and their market price, may fall after the end of the stabilising period.

The Company will ensure or procure that a public announcement on the GEM website in compliance with the Securities and Futures (Price Stabilisation) Rules will be made within seven days of the expiration of the stabilising period.

Any stabilising action taken by the stabilising manager, or any person acting for it, may not necessarily result in the market price of the H Shares staying at or above the Offer Price either during or after the stabilising period. Bids for or market purchases of the H Shares by the Global Coordinator, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the H Shares by subscribers or purchasers.

COMMENCEMENT OF DEALINGS IN THE H SHARES

Dealings in the H Shares on GEM are expected to commence on 25 September 2006.

The H Shares will be traded in board lots of 1,000 each.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the H Shares to be issued and sold pursuant to the Share Offer and any H Shares which may fall to be allotted and sold pursuant to any exercise of the Over-allotment Option on GEM by the GEM Listing Committee and the compliance by the Company with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on GEM or such other date as determined by HKSCC. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

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

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

1. METHODS TO APPLY FOR THE PUBLIC OFFER SHARES

There are two ways to make an application for the Public Offer Shares. You may either use a **White** or **Yellow** Application Form or you may give **Electronic Application Instructions** to cause HKSCC Nominees to apply on your behalf for the Public Offer Shares. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **White** or **Yellow** Application Form and by giving **Electronic Application Instructions**.

2. WHICH APPLICATION METHOD YOU SHOULD USE

(a) WHITE Application Forms

Use a **WHITE** Application Form if you want the Public Offer Shares to be issued in your own name.

(b) YELLOW Application Forms

Use a **YELLOW** Application Form if you want the Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant maintained in CCASS.

(c) Instruct HKSCC to make an electronic application on your behalf

Instead of using a **YELLOW** Application Form, you may **electronically** instruct HKSCC via CCASS to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf. Any Public Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

3. WHERE TO COLLECT THE PROSPECTUSES AND THE APPLICATION FORMS

You can collect a **WHITE** Application Form and a prospectus from:–

Any participant of the Stock Exchange

or

DBS Asia Capital Limited
22nd Floor, The Center
99 Queen's Road Central
Hong Kong

or any of the following branches of **DBS Bank (Hong Kong) Limited** and **Standard Chartered Bank (Hong Kong) Limited**:–

For **DBS Bank (Hong Kong) Limited**:

District	Branch	Address
Hong Kong Island:	**Head Office**	**Ground Floor, The Center 99 Queen's Road Central**
	United Centre Branch	**1st Floor, United Center 95 Queensway, Admiralty**
	Des Voeux Road Central Branch	**39-41 Des Voeux Road Central Central**
	North Point Branch	**Ground Floor, 391 King's Road North Point**
Kowloon:	**Nathan Road Branch**	**Ground Floor, 742-744 Nathan Road Mongkok**
	Tsimshatsui Branch	**Ground Floor, 22-24 Cameron Road Tsimshatsui**
	Yue Man Square Branch	**Shop 3-5 & Ground Floor Mido Mansion 51-63 Yue Man Square Kwun Tong**
	Amoy Plaza Branch	**G45-46B, Amoy Plaza Ngau Tau Kok**
New Territories:	**Yuen Long Branch**	**Ground Floor, 1-5 Tai Tong Road Yuen Long**
	New Town Plaza Branch	**Shop No. 533, Level 5 New Town Plaza Phase 1 Shatin**
	Tsuen Wan Branch	**Ground Floor, 23 Chung On Street Tsuen Wan**

For **Standard Chartered Bank (Hong Kong) Limited**:

District	Branch	Address
Hong Kong Island:	**Des Voeux Road Branch**	**Standard Chartered Bank Building 4-4A, Des Voeux Road Central, Central**
	88 Des Voeux Road Branch	**88 Des Voeux Road Central, Central**
	Hennessy Road Branch	**399 Hennessy Road, Wanchai**
	Leighton Centre Branch	**Shop 12-16, UG/F, Leighton Centre 77 Leighton Road, Causeway Bay**
	Quarry Bay Branch	**G/F, Westlands Gardens, 1027 King's Road, Quarry Bay**
Kowloon:	**Tsimshatsui Branch**	**G/F, 10 Granville Road, Tsimshatsui**
	Cheung Sha Wan Branch	**828 Cheung Sha Wan Road Cheung Sha Wan**
	Kwun Tong Branch	**88-90 Fu Yan Street, Kwun Tong**
	Yaumati Branch	**546-550 Nathan Road, Yaumati**
	San Po Kong Branch	**Shop A, G/F Perfect Industrial Building 31 Tai Yau Street, San Po Kong**
New Territories:	**Shatin Centre Branch**	**Shop 32C, Level 3 Shatin Shopping Arcade Shatin Centre 2-16 Wang Pok Street, Shatin**

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on 12 September 2006 till 12:00 noon on 15 September 2006 from:–

The Depository Counter of HKSCC
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

or

The Customer Service Centre of HKSCC
Upper Ground Floor
V-Heun Building
128-140 Queen's Road Central
Hong Kong

or your stockbrokers may have forms available.

4. HOW TO COMPLETE THE APPLICATION FORMS

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in case of joint applicant(s)) at your own risk at the address stated in the Application Form.

If your application is made through a duly authorised attorney, the Company and the Sponsor, the Global Coordinator and the Underwriters (or their respective agents or nominees), each acting as an agent of the Company, may accept the application at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. The Global Coordinator, acting as an agent of the Company, shall have full discretion to reject or accept any application, in full or in part, without assigning any reason.

5. APPLICATIONS BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS

General

CCASS Participants may give **Electronic Application Instructions** to HKSCC to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **Electronic Application Instructions** through the CCASS Phone System by calling 2979-7888 or the CCASS Internet System at https://ip.ccass.com (using the procedures contained in ''An Operating Guide for Investor Participants'' in effect from time to time). HKSCC can also input **Electronic Application Instructions** for you if you go to:–

HKSCC's Customer Service Centre
Upper Ground Floor, V-Heun Building
128-140 Queen's Road Central
Hong Kong

and complete an input request form.

Copies of this prospectus are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **Electronic Application Instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to the Company and its share registrars.

WARNING

The subscription of the Public Offer Shares by giving **Electronic Application Instructions** is only a facility provided to CCASS Participants. The Company, the Sponsor, the Global Coordinator and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **Electronic Application Instructions** through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. In the event that CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System for submission of **Electronic Application Instructions**, they should either (i) submit the **WHITE** or **YELLOW** Application Form or (ii) go to HKSCC's Customer Service Centre to complete an application instruction input request form before 12:00 noon on 15 September 2006.

Giving Electronic Application Instructions to HKSCC to apply for the Public Offer Shares by HKSCC Nominees on your behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **Electronic Application Instructions** to apply for the Public Offer Shares,

– HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

– HKSCC Nominees does the following things on behalf of each of the persons:–

(a) agrees that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to that person's CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted **Electronic Application Instructions** on that person's behalf;

(b) undertakes and agrees to accept the Public Offer Shares in respect of which that person has given **Electronic Application Instructions** or any lesser number;

(c) undertakes and confirms that the person has not applied for or taken up any Placing Shares nor otherwise participated in the Placing;

(d) (if the **Electronic Application Instructions** are given for that person's own benefit) declares that only one set of **Electronic Application Instructions** has been given for that person's benefit;

(e) (if that person is an agent for another person) declares that it has given only one set of **Electronic Application Instructions** for the benefit of that other person, and that it is duly authorised to give those instructions as that other person's agent;

(f) understands that the above declaration will be relied upon by the Company in deciding whether or not to make any allotment of Public Offer Shares in respect of the **Electronic Application Instructions** given by that person and that person may be prosecuted if that person makes a false declaration;

(g) authorises the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Public Offer Shares allotted in respect of that person's **Electronic Application Instructions** and to send H share certificates and/or refund monies in accordance with arrangements separately agreed between the Company and HKSCC;

(h) confirms that that person has read the terms and conditions and application procedures set forth in this prospectus and agrees to be bound by them;

(i) confirms that that person has only relied on the information and representations in this prospectus in giving that person's **Electronic Application Instructions** or instructing that person's broker/custodian to give **Electronic Application Instructions** on that person's behalf;

(j) agrees that the Company, the Underwriters and any other parties involved in the Public Offer are liable only for the information and representations contained in this prospectus;

(k) agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentations;

(l) agrees to disclose that person's personal data to the Company and its agents and any information which they require about that person;

(m) agrees that any application made by HKSCC Nominees on behalf of that person pursuant to electronic application instructions given by that person is irrevocable before 18 September 2006, such agreement to take effect as a collateral contract with the Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any public offer shares to any person before 18 September 2006 except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before 18 September 2006 if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

(n) agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **Electronic Application Instructions** can be revoked and that acceptance of that application will be evidenced by the press announcement on results of the Public Offer published by the Company;

(o) agrees to the arrangement, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **Electronic Application Instructions** relating to the Public Offer Shares.

(p) agree with the Company, for itself and for the benefit of each shareholder of the Company (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each shareholder of the Company, with each CCASS Participant giving electronic application instructions) to observe and comply with the Company Law, the Special Regulations on Listing Overseas and the Articles of Association of the Company;

(q) agree with the Company, for itself and for the benefit of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company (and so that the Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company, with each CCASS Participant giving electronic application instructions):

(a) to refer all differences and claims arising from the Articles of Association of the Company or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association of the Company;

(b) that any award made in such arbitration shall be final and conclusive; and

(c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;

(r) agree with the Company (for the Company itself and for the benefit of each shareholder of the Company) that H Shares in the Company are freely transferable by their holders; and

(s) authorize the Company to enter into a contract on its behalf with each director and officer of the Company whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association of the Company.

(t) agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

Effect of giving Electronic Application Instructions

By giving **Electronic Application Instructions or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions, you (and if you are joint applicants, each jointly and severally) are deemed to do the following things. Neither HKSCC nor HKSCC Nominees will be liable to the Company or any other person in respect of the things mentioned below:–**

– instruct and authorise HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for the Public Offer Shares on your behalf;

– instruct and authorise HKSCC to arrange payment of the maximum indicative Offer Price, brokerage, the SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or the Offer Price is less than the maximum indicative Offer Price, refund of the application money by crediting your designated bank account; or

– instruct and authorise HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

Minimum application amount and permitted multiples

You may give **Electronic Application Instructions** in respect of a minimum of 1,000 Public Offer Shares. Such instructions in respect of more than 1,000 Public Offer Shares must be in one of the multiples set forth in the table on the Application Forms.

Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of the Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of the Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **Electronic Application Instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made. Further information is set forth under "How many applications you may make for the Public Offer Shares" below.

Allocation of the Public Offer Shares

For the purpose of allocating the Public Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives **Electronic Application Instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.

Personal data

Information set forth under the section headed "Personal Data" in the Application Forms applies to all personal data held by the Company and its share registrars about you in the same way as it applies to personal data about all applicants other than HKSCC Nominees.

6. HOW MANY APPLICATIONS YOU MAY MAKE FOR THE PUBLIC OFFER SHARES

There is only one situation where you may make more than one application for the Public Offer Shares:–

If you are a nominee, in which case you may both give **Electronic Application Instructions** to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked "For nominees" you must include:–

– an account number; or

– some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner. If you do not include this information, the application will be treated as being for your own benefit.

Multiple applications are not allowed.

It will be a term and condition of all applications that by completing and delivering an Application Form or by giving **Electronic Application Instructions** to HKSCC, you:–

– (if the application is made for your own benefit) **warrant** that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or through giving **Electronic Application Instructions** to HKSCC;

– (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or through giving **Electronic Application Instructions** to HKSCC, and that you are duly authorised to sign the Application Form or give **Electronic Application Instructions** as that other person's agent.

Multiple applications or suspected multiple applications will be rejected. All of your applications will be rejected as multiple applications if you, or you and your joint applicants together:–

– make more than one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** Application Form or by giving **Electronic Application Instructions** to HKSCC (if you are a CCASS Participant or applying through a CCASS Broker Participant or a CCASS Custodian Participant);

– apply (whether individually or jointly with others) on one **WHITE** or **YELLOW** Application Form or by giving **Electronic Application Instructions** to HKSCC (if you are a CCASS Participant or applying through a CCASS Broker Participant or a CCASS Custodian Participant) for more than 100% of the Public Offer Shares initially available in either Pool A or Pool B; or

– have received or been placed or allocated (including conditionally and/or provisionally) with any Placing Shares; or

– both apply on a **WHITE** or **YELLOW** Application Form for Public Offer Shares and gives Electronic Application Instructions to HKSCC; or

– make one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** Application Form or by giving **Electronic Application Instructions** to HKSCC (if you are a CCASS Participant or applying through a CCASS Broker Participant or a CCASS Custodian Participant), and make any application for the Placing.

All of your applications will also be rejected as multiple applications if more than one application is made for your benefit (including the part of an application made by HKSCC Nominees acting on **Electronic Application Instructions**). If an application is made by an unlisted company and

– the only business of that company is dealing in securities; and

– you exercise statutory control over that company,

then that application will be treated as being for your benefit.

Unlisted company *means a company with no equity securities listed on the Stock Exchange.*

Statutory control *means you:–*

– *control the composition of the board of directors of that company; or*

– *control more than half the voting power of that company; or*

– *hold more than half the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).*

Offer Price

The maximum indicative Offer Price is HK$4.50. You must also pay the brokerage of 1%, the SFC transaction levy of 0.005% and the Stock Exchange trading fee of 0.005%. This means that for every 1,000 Public Offer Shares you will need to pay HK$4,545.46. The table below sets out the total amount payable for all multiples of the Offer Shares up to 6,600,000 Offer Shares.

Number of Public Offer Shares applied for	Amount payable on application *HK$*	Number of Public Offer Shares applied for	Amount payable on application *HK$*	Number of Public Offer Shares applied for	Amount payable on application *HK$*
1,000	4,545.46	90,000	409,090.50	900,000	4,090,905.00
2,000	9,090.90	100,000	454,545.00	950,000	4,318,177.50
3,000	13,636.36	150,000	681,817.50	1,000,000	4,545,450.00
4,000	18,181.80	200,000	909,090.00	1,500,000	6,818,175.00
5,000	22,727.26	250,000	1,136,362.50	2,000,000	9,090,900.00
6,000	27,272.70	300,000	1,363,635.00	2,500,000	11,363,625.00
7,000	31,818.16	350,000	1,590,907.50	3,000,000	13,636,350.00
8,000	36,363.60	400,000	1,818,180.00	3,500,000	15,909,075.00
9,000	40,909.06	450,000	2,045,452.50	4,000,000	18,181,800.00
10,000	45,454.50	500,000	2,272,725.00	4,500,000	20,454,525.00
20,000	90,909.00	550,000	2,499,997.50	5,000,000	22,727,250.00
30,000	136,363.50	600,000	2,727,270.00	5,500,000	24,999,975.00
40,000	181,818.00	650,000	2,954,542.50	6,000,000	27,272,700.00
50,000	227,272.50	700,000	3,181,815.00	6,500,000	29,545,425.00
60,000	272,727.00	750,000	3,409,087.50	6,600,000	29,999,970.00
70,000	318,181.50	800,000	3,636,360.00		
80,000	363,636.00	850,000	3,863,632.50		

You must pay the maximum indicative Offer Price, the brokerage, the Stock Exchange trading fee and the SFC transaction levy in full when you apply for the Public Offer Shares. Your payment must be made by one cheque or one banker's cashier order and must comply with the terms of the Application Forms.

If your application is successful, the brokerage will be paid to participants of the Stock Exchange and the transaction levy will be paid to the SFC and the trading fee will be paid to the Stock Exchange.

If the Offer Price as finally determined is less than HK$4.50, appropriate refund (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to applicants, **WITHOUT INTEREST**. Particulars of the procedures for refund are set forth below under "Despatch/collection of H Share certificates and refund of application money" below.

7. TIME FOR APPLYING FOR THE PUBLIC OFFER SHARES

WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon (Hong Kong time) on Friday, 15 September 2006, or, if the Application Lists are not open on that day, then by 12:00 noon (Hong Kong time) on the day the Application Lists are open.

Your completed Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of DBS Bank (Hong Kong) Limited and Standard Chartered Bank (Hong Kong) Limited listed under "Where to collect the prospectuses and the Application Forms" above at the following times:–

Tuesday, 12 September 2006	–	9:00 a.m. to 4:00 p.m.
Wednesday, 13 September 2006	–	9:00 a.m. to 4:00 p.m.
Thursday, 14 September 2006	–	9:00 a.m. to 4:00 p.m.
Friday, 15 September 2006	–	9:00 a.m. to 12:00 noon

The Application Lists will open from 11:45 a.m. (Hong Kong time) to 12:00 noon (Hong Kong time) on Friday, 15 September 2006.

Electronic Application Instructions

CCASS Broker/Custodian Participants should input **Electronic Application Instructions** at the following times on the following dates:–

Tuesday, 12 September 2006	–	9:00 a.m. to 8:30 p.m.
Wednesday, 13 September 2006	–	8:00 a.m. to 8:30 p.m.
Thursday, 14 September 2006	–	8:00 a.m. to 8:30 p.m.
Friday, 15 September 2006	–	8:00 a.m. to 12:00 noon

(*) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Broker/Custodian Participants.

CCASS Investor Participants can input **Electronic Application Instructions** from 9:00 a.m. on Tuesday, 12 September 2006 until 12:00 noon on Friday, 15 September 2006 (24 hours daily, except the last application day).

The latest time for inputting your **Electronic Application Instructions** (if you are a CCASS Participant) is 12:00 noon on 15 September 2006, or, if the Application Lists are not open on that day, by the time and date stated under ''Effects of bad weather on the opening of the Application Lists'' below.

Application Lists

The Application Lists will be open from 11:45 a.m. to 12:00 noon on 15 September 2006.

No proceedings will be taken on applications for the Shares and no allotment of any such Shares will be made until after the closing of the Application Lists. No allocation of any of the Public Offer Shares until the closing of the Application Lists.

8. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The Application Lists will not open if there is:–

– a tropical cyclone warning signal number eight or above, or

– a **Black** rainstorm warning signal,

in force at any time between 9:00 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time) on 15 September in Hong Kong. Instead they will open between 11:45 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time) on the next Business Day which does not have either of those warnings in force at any time between 9:00 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time).

Business Day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

If the Application Lists do not open and close on 15 September 2006, the dates mentioned in the section headed ''Expected timetable of the Share Offer'' in this prospectus and the related Application Forms and other dates mentioned in this prospectus (including, without limitation, the latest time for the exercise of termination rights under the Underwriting Agreement) may be affected. A press announcement will be made on the GEM website at www.hkgem.com.

9. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED THE PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted Public Offer Shares are set out in Application Forms, and you should read them carefully. You should note in particular the following situations in which Public Offer Shares will not be allotted to you:–

If your application is revoked

By depositing an Application Form or submitting **Electronic Application Instructions**, you agree that your application or the application made by HKSCC on your behalf may not be revoked before Monday, 18 September 2006. This agreement will take effect as a collateral contract with us, and will become binding when you lodge your Application Form or submit your **Electronic Application Instructions** and an application has been made by HKSCC Nominees on your behalf. This collateral contract will be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person until after the expiration of the fifth day after closing of the Application Lists except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked after the expiration of the 5th day after the opening of the Application Lists if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicants have not been so notified, or if applicants have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted will remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

For the avoidance of doubt, the Company and all other parties involved in Share Offer acknowledge that each CCASS Participant who gives, or causes to give, **Electronic Application Instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance).

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked or withdrawn. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allotment, and where such basis of allotment is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

At the full discretion of us or our agents

The Company and its agents have full discretion to reject or accept any application, or to accept only part of an application, and do not have to give any reason for any rejection or acceptance.

If your application is rejected

Your application will be rejected if:–

- it is a multiple application or a suspected multiple application;
- your Application Form is not filled in correctly in accordance with the instructions thereon;
- your payment is not made correctly;
- you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- you or the person for whose benefit you are applying have applied for or taken up or indicated an interest for or have received or have been or will be placed or allocated (including conditionally and/or provisionally) the Placing Shares; or
- we believe that by accepting your application, we would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is, or is suspected to have been, completed and/or signed or of any other jurisdiction.

If your application is not accepted

Your application (including the part of an application made by HKSCC Nominees acting upon **Electronic Application Instructions**) will not be accepted if either:–

- the Underwriting Agreement does not become unconditional; or
- the Underwriting Agreement is terminated in accordance with its respective terms; or
- no agreement has been reached on the Offer Price on the Price Determination Date.

If the allotment of the Public Offer Shares is void

The allotment of the Public Offer Shares to you or to HKSCC Nominees (if you give **Electronic Application Instructions** or apply by a **YELLOW** Application Form) will be void if the Listing Committee does not grant permission to list the Shares either:–

- within three weeks from the closing of the Applications Lists; or
- within a longer period of up to six weeks if the Listing Committee notifies us of that longer period within three weeks of the closing of the Application Lists.

10. PUBLICATION OF RESULTS OF THE PUBLIC OFFER

The Company expects to publish the final Offer Price, indication of the level of interest in the Placing, results of applications under the Public Offer and the basis of allotment of the Public Offer Shares and the Hong Kong Identity Card/ passport/ Hong Kong Business Registration members of successful applicants on Friday, 22 September 2006 on the GEM website at *www.hkgem.com*.

11. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Listing Committee grants the listing of, and permission to deal in, the H Shares to be issued/converted as mentioned in this prospectus on GEM and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealing in the Shares on GEM or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. Investors should seek the advice of their stockbroker(s) or other professional adviser(s) for details of those settlement arrangements as such arrangements will affect their rights and interests.

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

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

12. DESPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND OF APPLICATION MONEY

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application.

H Share certificates will only become valid certificates of title when the Share Offer has become unconditional in all respects and the Underwriting Agreement has not been terminated in accordance with its terms, which is expected to be at 8:00 a.m. (Hong Kong time) on the Listing Date.

Your application monies, or an appropriate portion thereof, together with the related brokerage fee, Stock Exchange trading fee, the SFC transaction levy, will be refunded, **WITHOUT INTEREST** if:–

- your application is rejected, not accepted or only accepted in part;
- the Offer Price as finally determined is less than the maximum indicative Offer Price;
- the conditions of the Share Offer are not fulfilled in accordance with the section headed "Structure and conditions of the Share Offer" in this prospectus;

– any application is revoked or any allocation pursuant thereto has become void; or

– any of the reasons set forth under "Circumstances in which you will not be allocated the Public Offer Shares".

It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

Pursuant to a measure to improve security as agreed and adopted by The Hong Kong Association of Banks, the Hong Kong Monetary Authority, the Federation of Share Registrars and the SFC with effect from 9 August 2004, refund cheques will be printed with part of your Hong Kong identity card number or passport number. For joint applicants, the identity information of the first-named applicant will be printed. When a refund cheque is presented to a bank, the bank will cross-check both the name and the printed part of the Hong Kong identity card or passport number of the payee shown on the cheque against the bank's own record on the information of the account holder. If there is a discrepancy, the bank might request other proof of identity or take other steps for verification. If the bank is unable to be satisfied with the identity of the payee, the bank might reject the deposit of the refund cheque concerned. You are therefore advised to ensure that your identification numbers are accurately filled in on your application form to avoid delay in cashing your refund cheques. A cheque deposit might be rejected if you fail to fill in correct identity information. When in doubt, you should enquire with the Share Registrar.

If you have given **Electronic Application Instructions**, your refunds (if any) will be credited to your designated bank account (if you are applying as a CCASS Investor Participant) or the designated bank account of the designated CCASS Participant through which you are applying (if you are applying through a CCASS Broker/Custodian Participant) on Friday, 22 September 2006. If you have instructed your designated CCASS Participant (other than CCASS Investor Participant) to give **Electronic Application Instructions** on your behalf, you can check the amount of refund (if any) payable to you with that designated CCASS Participant. If you have applied as CCASS Investor Participant, you can check the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, 22 September 2006 or in the activity statement made available to you by HKSCC immediately after the credit of refund monies to your bank account.

You will receive one H Share certificate for all the Public Offer Shares issued to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **Electronic Application Instructions** where Share certificates will be deposited into CCASS as described below under "Deposit of Share certificates into CCASS").

Subject to the provisions mentioned below, in due course there will be sent to you by ordinary post, at your own risk to the address specified on your Application Form:–

– for applicants on **WHITE** Application Forms: (i) Share certificate for all the Public Offer Shares applied for, if the application is wholly successful; or (ii) Share certificate for the number of Public Offer Shares successfully applied for, if the application is partially successful; and/or

– for applicants on **WHITE** or **YELLOW** Application Forms, a refund cheque crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for: (i) the surplus application monies for the Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price as determined and the maximum indicative Offer Price upon application in the event that the Offer Price is less than the application, in each case including related brokerage fee at the rate of 1.0%, the Stock Exchange trading fee of 0.005%, and the SFC transaction levy of 0.005%, **WITHOUT INTEREST**. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

In a contingency situation involving a very high level of over-subscription, at the discretion of our Company and the Global Coordinator, applications for certain small denominations of the Public Offer Shares may be eliminated in a pre-balloting. In such circumstances, the cheques or banker's cashier orders accompanying such applications on the Application Forms will not be presented for clearing.

Subject as mentioned below, refund cheques (if any) and H Share certificates for successful applicants under **WHITE** Application Form is expected to be posted on Friday, 22 September 2006. The Company reserve the right to retain any H Share certificates and any surplus application monies pending clearance of cheque(s) or banker's cashier order(s).

If you are applying for 1,000,000 Public Offer Shares or more on a **WHITE** or **YELLOW** Application Form and have indicated your intention on your Application Form to collect your refund cheque (where applicable) and/or (for applicants using **WHITE** Application Forms) H Share certificate (where applicable) from the Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, and have provided all information required by your Application Form, you may collect (where applicable) your refund cheque and/or (where applicable) H Share certificate from the office of the Company's Hong Kong share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, 22 September 2006 or any other date notified by us in the newspapers as the date of despatch of H Share certificates/refund cheques. If you are an individual who opts for collection in person, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for collection in person, the authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop must be presented for collection. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Company's Hong Kong share registrar and transfer office. If you do not collect your H Share certificate and/or refund cheque, they will be despatched promptly to you by ordinary post to the address as specified in your Application Form at your own risk.

If you have applied for less than 1,000,000 Public Offer Shares or if you have applied for 1,000,000 Public Offer Shares or more on a **WHITE** or **YELLOW** Application Form but have not indicated in your Application Form that you wish to collect your H Share certificate and/or refund cheque in person, your H Share certificate (if applying by using a **WHITE** Application Form) and/or refund cheque (if applicable) will be sent to the address on your Application Form on Friday, 22 September 2006 or any other date notified by us in the newspapers as the date of despatch of H Share certificates/refund cheques by ordinary post and at your own risk.

Deposit of Share certificates into CCASS

If you apply for the Public Offer Shares using a **YELLOW** Application Form or by giving **Electronic Application Instructions**, and your application is wholly or partially successful, your Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant's stock account or the stock account of your designated CCASS Participant as instructed by you at the close of business on Friday, 22 September 2006, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of the Public Offer Shares allotted to you with that CCASS Participant.

The Company expects to publish the application results of CCASS Investor Participants using **YELLOW** Application Form and the application results of CCASS Participants applying by giving **Electronic Application Instructions** (and where the CCASS Participants is a broker or custodian, we shall include information relating to the beneficial owner, the Hong Kong identity card numbers, passport numbers or other identification code (Hong Kong business registration number for corporations), if supplied) on Friday, 22 September 2006. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 22 September 2006 or such other date as shall be determined by HKSCC or HKSCC Nominees. CCASS Investor Participants applying by giving **Electronic Application Instructions** can also check the result of application via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, 22 September 2006.

If you are applying as a CCASS Investor Participant, you can check your new account balance via the CCASS Phone System and CCASS Internet System immediately after the credit of the Public Offer Shares to your stock account. HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account.

13. BOARD LOT

H Shares will be traded in board lots of 1,000 H Shares. The stock code for the Shares on GEM is 8245.

ERNST & YOUNG
安永會計師事務所

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

12 September 2006

The Directors
Beijing Jingkelong Company Limited
DBS Asia Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Beijing Jingkelong Company Limited (the "Company"), its subsidiaries and associates for each of the three years ended 31 December 2005 and the six months ended 30 June 2006 (the "Relevant Periods") and the six months ended 30 June 2005 (the "30 June 2005 Financial Information"), for inclusion in the prospectus of the Company dated 12 September 2006 (the "Prospectus") in connection with the placing and public offering of the shares of the Company.

The Company was established as a state-owned enterprise under the name of Beijing Guandongdian Shang Sha in the People's Republic of China (the "PRC") in May 1994 with a registered capital of RMB2 million. In February 1996, the Company changed its name to Beijing Jingkelong Shang Sha. In June 1997, the Company's registered capital was increased to RMB22.19 million. In May 2002, the Company was transformed into a limited liability company with a registered capital of RMB236.66 million and was renamed as Beijing Jingkelong Supermarket Chain Company Limited. In December 2002, the Company changed its name to Beijing Jingkelong Supermarket Chain Group Company Limited. With effect from 1 November 2004, the Company was transformed into a joint stock company with limited liability by converting its net assets as at 31 December 2003, as determined in accordance with the applicable relevant PRC accounting principles and financial regulations (the "PRC GAAP"), net of dividends declared in August 2004, into 246,620,000 shares of RMB1 each, and was renamed as Beijing Jingkelong Company Limited.

In the opinion of the directors of the Company, the parent and ultimate holding company of the Company is Beijing Chaoyang Auxillary Food Company ("Chaoyang Auxillary").

The Company and its subsidiaries (collectively the "Group") are principally engaged in the retail and wholesale distribution of daily consumer products in the Greater Beijing Region. The retail distribution business, comprising a network of hypermarkets, supermarkets and convenience stores (collectively the "Retail Outlets" and individually a "Retail Outlet"), operates in the distribution of live and fresh produce, dry products, beverages, processed food and daily necessities, whereas the wholesale distribution business provides the wholesale supply of daily consumer products to consumers, including the Retail Outlets and other retail operators, and trading companies.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries and associates. All of these entities are private limited liability companies, which have substantially similar characteristics to a private company incorporated in Hong Kong.

Name	Place and date of incorporation and operations	Paid-up registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Subsidiaries					
Beijing Jingkelong (Langfang) Company Limited ("Jingkelong Langfang")	Langfang, PRC 26 April 2000	RMB10,000,000	80.00	–	Retail of general merchandise
Beijing Chaopi Trading Company Limited ("Chaopi Trading")	Beijing, PRC 31 May 2002*	RMB96,000,000	76.42	–	Wholesale of general merchandise
Beijing Xinyang Tongli Commercial Facilities Company Limited ("Xinyang Tongli")	Beijing, PRC 31 May 2002*	RMB1,600,000	52.03	–	Production of plastic packing materials and production, installation and maintenance of commercial equipment
Beijing Jingkelong Supermarket Chain Company Limited	Beijing, PRC 5 July 2006	RMB5,000,000	100.00	–	Retail of general merchandise
Beijing Chaopi Huaqing Beverage Company Limited ("Chaopi Huaqing") **	Beijing, PRC 13 December 2000	RMB9,000,000	–	39.91	Wholesale of drinks and food
Beijing Chaopi Flavourings Company Limited ("Chaopi Flavourings") **	Beijing, PRC 29 April 2001	RMB9,500,000	–	40.22	Wholesale of flavourings, edible oil and food
Beijing Chaopi Shuanglong Alcohol Sales Company Limited ("Chaopi Shuanglong") **	Beijing, PRC 29 August 2002	RMB12,000,000	–	45.09	Wholesale of alcoholic beverages
Beijing Chaopi Jinglong Oil Sales Company Limited ("Chaopi Jinglong") **	Beijing, PRC 9 May 2005	RMB12,000,000	–	41.44	Wholesale of edible oil
Shijiazhuang Chaopi Xinlong Trading Company Limited ("Chaopi Shijiazhuang") **	Shijiazhuang, PRC 12 September 2005	RMB2,000,000	–	45.09	Wholesale of alcoholic beverages
Qingdao Chaopi Jinlong Trading Company Limited ("Chaopi Qingdao") **	Qingdao, PRC 28 September 2005	RMB2,000,000	–	45.09	Wholesale of alcoholic beverages
Associates					
Beijing Chaopi Tianxing Vegetables Company Limited	Beijing, PRC 31 July 2002	RMB310,000	–	27.11	Retail of fruits and vegetables
Beijing Chaopi Ziguang Trading Company Limited	Beijing, PRC 8 December 2003	RMB1,100,000	–	34.73	Wholesale of alcoholic beverages

* *Represent the date of change of legal status from a state-owned enterprise to a limited liability company.*

** *The companies are directly held by Chaopi Trading as to more than 50% equity interests and are recognised as the subsidiaries of Chaopi Trading. Since the Company holds a 76.42% equity interest in Chaopi Trading, such companies are accounted for as subsidiaries of the Company, though the equity interests indirectly attributable to the Company are less than 50%.*

Note: The Company, its subsidiaries and associates were all established in the PRC and have adopted 31 December as their financial year end date. The financial statements of the Company and its subsidiaries (the "PRC GAAP Consolidated Financial Statements") were prepared in accordance with the PRC GAAP. The audited financial statements of the Company for the two years ended 31 December 2005 prepared in accordance with the PRC GAAP were audited by Ernst & Young Hua Ming Certified Public Accountants (安永華明會計師事務所) which is not a certified public accountant firm registered in Hong Kong. The audited financial statements of the Company for the year ended 31 December 2003 and the audited financial statements of all its subsidiaries and associates, except for Jingkelong Langfang, for the three years ended 31 December 2005 prepared in accordance with the PRC GAAP were audited by Beijing Hua Long Certified Public Accountants Co., Ltd. (北京華龍會計師事務所有限責任公司). The auditors of Jingkelong Langfang for the year ended 31 December 2003 and the two years ended 31 December 2005 were Langfang Zhixin Certified Public Accountants Co., Ltd. (廊坊至信會計師事務所有限責任公司) and Langfang Huaanda Certified Public Accountants Co., Ltd. (廊坊華安達會計師事務所有限責任公司), respectively. The management accounts of all the Group companies were prepared in accordance with the PRC GAAP.

For the purpose of this report, the directors of the Company have prepared the Company's and the Group's accounts for each of the Relevant Periods, or from their respective dates of establishment or dates of acquisition, whichever is a shorter period, in accordance with the accounting principles generally accepted in Hong Kong and the accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") (the "HK GAAP accounts"). In preparing this report, no adjustments were considered necessary to restate the audited HK GAAP accounts to conform to the accounting policies referred to in Section 1 of this report, which are in compliance with the HK GAAP. The HK GAAP accounts have been audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The financial information of the consolidated income statement, consolidated statements of changes in equity and consolidated cash flow statements of the Group and the statements of changes in equity of the Company for the Relevant Periods and the consolidated balance sheets of the Group and the balance sheets of the Company as at 31 December 2003, 2004 and 2005 and 30 June 2006 (the "Financial Information") set out in this report have been prepared based on the audited HK GAAP accounts. We have examined the Financial Information in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The directors of the respective companies now comprising the Group are responsible for preparing accounts which give a true and fair view. The directors of the Company are responsible for preparing the HK GAAP accounts and the Financial Information which give a true and fair view. In preparing these accounts and the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion and a review conclusion on such information in respect of the Relevant Periods and for the six months ended 30 June 2005, respectively, and to report our opinion and review conclusion to you.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of state of affairs of the Company and of the Group as at 31 December 2003, 2004 and 2005 and 30 June 2006 and of the Group's consolidated income statement and cash flows for each of the Relevant Periods.

The unaudited 30 June 2005 Financial Information has been prepared solely for the purpose of this report. The directors of the Company are responsible for preparing this comparative financial information. It is our responsibility to form an independent conclusion, based on our review, on this comparative financial information and to report our conclusion to you. For the purpose of this report, we have performed a review of the 30 June 2005 Financial Information in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consists principally of making enquiries of management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope and provides a lower level of assurance than the audit or examination procedures described in the preceding paragraphs and, accordingly we do not express an audit opinion on the 30 June 2005 Financial Information.

On the basis of our review, for the purpose of this report, we are not aware of any material modification that should be made to the 30 June 2005 Financial Information.

1. PRINCIPAL ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with the accounting principles generally accepted in Hong Kong and Hong Kong Financial Reporting Standards ("HKFRSs", which also include Hong Kong Accounting Standards ("HKASs") and interpretations) issued by the HKICPA. HKFRS 1 "*First-time Adoption of Hong Kong Financial Reporting Standards*" has been applied in preparing the Financial Information. The Financial Information has been prepared on a historical cost basis, except for the measurement at fair value of financial instruments in accordance with HKAS 39 "*Financial Instruments: Recognition and Measurement*". The accounting policies set out below have been consistently applied throughout the Relevant Periods. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries for the Relevant Periods. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All significant intercompany balances and transactions within the Group, including unrealised profits arising from intragroup transactions, are eliminated on consolidation. Unrealised losses are eliminated unless when costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share or registered capital, and is able to govern the financial and operating policies of that company so as to benefit from its activities.

Minority interests represent the interests of outside shareholders in the income statement and net assets of the Company's subsidiaries. They are presented in the consolidated balance sheet within the equity section, separately from the equity attributable to shareholders of the parent.

(b) Subsidiaries

A subsidiary is an entity, whose financial and operating polices the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

(c) Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

(d) Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisition is initially recognised in the consolidated balance sheet as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or secondary reporting format determined in accordance with HKAS 14 "*Segment Reporting*".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

(e) Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The excess for associates is included in the Group's share of the associates' profit or loss in the period in which the investments are acquired.

(f) Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties, goodwill and non-current assets/disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only when the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

(g) Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

(h) Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Buildings	20 to 25 years
Leasehold improvement	Over the lease terms
Machinery	5 to 10 years
Office equipment	5 years
Motor vehicles	5 to 8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and various infrastructure projects under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(i) Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are stated at cost including transaction costs and are depreciated on the straight-line basis to write off the cost of each property over their estimated useful lives between 20 to 25 years, after taking into account their estimated residual values.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

(j) Lease prepayments

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

(k) Intangible assets

Intangible assets represent the acquisition costs of software less accumulated amortisation and impairment losses. Intangible assets are amortised on the straight-line basis over 10 years.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis for all inventories except motor vehicles, the cost of which is determined on the individual basis. Cost, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(m) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(n) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(o) Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, reevaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

(p) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

(q) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(r) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

(s) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

(t) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

(u) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary difference except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(v) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(w) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from sale of merchandise and produce, when the significant risks and rewards of ownership of the merchandise and produce have passed to the buyer and the amount of revenue can be measured reliably;

(ii) income from suppliers, comprising promotion income, display space leasing fee and warehouse storage space income, according to the underlying contract terms and as these services are provided in accordance therewith;

(iii) rental income, on a time proportion basis over the lease terms; and

(iv) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

(x) Retirement benefits scheme

The Company and its subsidiaries participate in defined contribution retirement benefits schemes organised by the local government authorities in the PRC. The Company and its subsidiaries are required to make contributions to the retirement benefits schemes which are based on a certain percentage of the total salary of those employees and have no further obligation for post-retirement benefits. The contributions are charged to the income statement of the Group as they become payable in accordance with the rules of the schemes.

(y) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as a part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate based on the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining qualifying assets, has been applied to the expenditure on the individual assets.

(z) Dividends

Dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

(aa) Foreign currencies

The functional and presentation currency of the Group is RMB. Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated into RMB at the applicable exchange rates ruling at that date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(ab) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

(ac) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write-down amount requires management's estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and writedown charge/reversal in the period in which such estimate has been changed.

(ii) Provision for doubtful debts

Provision for doubtful debts is made based on assessment of the recoverability of trade receivables and other receivables. The identification of doubtful debts requires management's estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and doubtful debt expenses/write-back in the period in which such estimate has been changed.

(ad) Impact of issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, to the Financial Information. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2007:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 requires disclosures relating to financial instruments and incorporates many of the disclosure requirements of HKAS 32. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

The Group expects that the adoption of the above pronouncements will not have significant impact on the Group's financial statements in the period of initial application.

2. CONSOLIDATED INCOME STATEMENT

The following is a summary of the consolidated income statement of the Group for the Relevant Periods and the six months ended 30 June 2005:

		Year ended 31 December 2003			Year ended 31 December 2004			Year ended 31 December 2005			Six months ended 30 June 2005			Six months ended 30 June 2006		
		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*(a)*	2,894,108	364,926	3,259,034	3,568,865	97,893	3,666,758	4,121,748	–	4,121,748	2,053,799	–	2,053,799	2,161,105	–	2,161,105
Cost of sales		(2,544,695)	(326,157)	(2,870,852)	(3,164,852)	(89,137)	(3,253,989)	(3,621,667)	–	(3,621,667)	(1,808,520)	–	(1,808,520)	(1,898,019)	–	(1,898,019)
Gross profit		349,413	38,769	388,182	404,013	8,756	412,769	500,081	–	500,081	245,279	–	245,279	263,086	–	263,086
Other income	*(c)*	111,191	2,145	113,336	154,700	1,362	156,062	143,668	–	143,668	83,375	–	83,375	93,566	–	93,566
Selling and distribution costs		(280,309)	(22,767)	(303,076)	(317,899)	(7,232)	(325,131)	(369,764)	–	(369,764)	(179,580)	–	(179,580)	(182,612)	–	(182,612)
Administrative expenses		(92,102)	(12,048)	(104,150)	(88,285)	(1,358)	(89,643)	(88,924)	–	(88,924)	(50,337)	–	(50,337)	(61,921)	–	(61,921)
Other expenses		(5,967)	(1,571)	(7,538)	(5,800)	(1,422)	(7,222)	(20,452)	–	(20,452)	(9,399)	–	(9,399)	(11,024)	–	(11,024)
Profit from operating activities	*(d)*	82,226	4,528	86,754	146,729	106	146,835	164,609	–	164,609	89,338	–	89,338	101,095	–	101,095
Finance costs	*(g)*	(20,183)	(2,761)	(22,944)	(20,988)	(130)	(21,118)	(19,073)	–	(19,073)	(10,547)	–	(10,547)	(8,687)	–	(8,687)
Share of net profits and losses of associates		3,725	(334)	3,391	2,177	508	2,685	(32)	–	(32)	(60)	–	(60)	(10)	–	(10)
Profit before tax		65,768	1,433	67,201	127,918	484	128,402	145,504	–	145,504	78,731	–	78,731	92,398	–	92,398
Tax	*(h)*	(20,519)	(658)	(21,177)	(44,127)	(106)	(44,233)	(47,158)	–	(47,158)	(26,794)	–	(26,794)	(33,277)	–	(33,277)
Profit for the year/period		45,249	775	46,024	83,791	378	84,169	98,346	–	98,346	51,937	–	51,937	59,121	–	59,121
Attributable to:																
Equity holders of the parent		38,172	695	38,867	73,167	361	73,528	75,098	–	75,098	38,422	–	38,422	47,305	–	47,305
Minority interests		7,077	80	7,157	10,624	17	10,641	23,248	–	23,248	13,515	–	13,515	11,816	–	11,816
		45,249	775	46,024	83,791	378	84,169	98,346	–	98,346	51,937	–	51,937	59,121	–	59,121
Dividends	*(i) (2)*			29,133			39,505			56,367			–			–
Earnings per share																
– basic for profit for the year/period (RMB)	*(j)*			15.8 cents			29.8 cents			30.5 cents			15.6 cents			19.2 cents
– basic for profit from continuing operations (RMB)				15.5 cents			29.7 cents			30.5 cents			15.6 cents			19.2 cents

Notes:

(a) Revenue

Revenue represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts. The allowances for returns and trade discounts were approximately RMB40 million, RMB44 million, RMB36 million, RMB15 million and RMB18 million for each of the three years ended 31 December 2005 and the six months ended 30 June 2005 and 2006, respectively. An analysis of the Group's revenue for the Relevant Periods and the six months ended 30 June 2005 is as follows:

	Year ended 31 December 2003			Year ended 31 December 2004			Year ended 31 December 2005			Six months ended 30 June 2005			Six months ended 30 June 2006		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
										(Unaudited)	(Unaudited)	(Unaudited)			
Sale of merchandise and produce															
– Retailing	1,864,672	–	1,864,672	2,009,270	–	2,009,270	2,060,573	–	2,060,573	1,052,799	–	1,052,799	1,121,636	–	1,121,636
– Wholesaling	1,026,615	–	1,026,615	1,555,895	–	1,555,895	2,057,361	–	2,057,361	998,077	–	998,077	1,037,148	–	1,037,148
Sale of pharmaceuticals	–	95,889	95,889	–	–	–	–	–	–	–	–	–	–	–	–
Trading of automobiles and provision of related repair services	–	269,037	269,037	–	97,893	97,893	–	–	–	–	–	–	–	–	–
Others	2,821	–	2,821	3,700	–	3,700	3,814	–	3,814	2,923	–	2,923	2,321	–	2,321
Total	2,894,108	364,926	3,259,034	3,568,865	97,893	3,666,758	4,121,748	–	4,121,748	2,053,799	–	2,053,799	2,161,105	–	2,161,105

(b) Discontinued operations

The discontinued operations represented the sale of pharmaceuticals, the trading of automobiles and the provision of related repair services, which were respectively conducted by Beijing Yiyuantang Medicine Chain Company Limited ("Yiyuantang"), a then 70.13%-owned subsidiary, and Beijing City Tengyuan Xingye Vehicle Service Limited Company ("Tengyuan"), a then 62.73%-owned subsidiary. The operating results of Yiyuantang were consolidated into the Group's consolidated income statement until June 2003 when the Company disposed of half of its equity interests therein to a third party. Together with all the equity interests in Tengyuan, the remaining half of the equity interests in Yiyuantang was sold to Chaoyang Auxillary in June 2004.

In the opinion of the directors of the Company, the disposal of the discontinued operations above-mentioned is consistent with the Group's long term strategy to concentrate on retail chain and wholesaling operations of general merchandise and produce.

The carrying amounts of the total assets and liabilities relating to the discontinued operations included in the consolidated balance sheets at the end of each of the Relevant Periods are as follows:

	31 December 2003	31 December 2004	31 December 2005	30 June 2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	107,278	–	–	–
Total liabilities	(90,209)	–	–	–
Net assets	17,069	–	–	–

The earnings per share are as follows:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
				(Unaudited)	
Basic – from discontinued operations (RMB) *(Section 2, note (j))*	0.28 cents	0.15 cents	–	–	–

(c) Other income

	Year ended 31 December 2003			Year ended 31 December 2004			Year ended 31 December 2005			Six months ended 30 June 2005			Six months ended 30 June 2006		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
										(Unaudited)	(Unaudited)	(Unaudited)			
Income from suppliers	39,180	18	39,198	58,377	–	58,377	76,564	–	76,564	44,607	–	44,607	56,972	–	56,972
Promotion income	19,563	18	19,581	35,585	–	35,585	42,765	–	42,765	21,426	–	21,426	31,441	–	31,441
Display space leasing fee	8,813	–	8,813	12,915	–	12,915	18,332	–	18,332	15,119	–	15,119	19,261	–	19,261
Others	10,804	–	10,804	9,877	–	9,877	15,467	–	15,467	8,062	–	8,062	6,270	–	6,270
Rental income	32,802	307	33,109	34,497	–	34,497	36,950	–	36,950	17,080	–	17,080	19,641	–	19,641
Net compensation on demolished properties *(note 1)*	21,968	–	21,968	11,982	–	11,982	11,129	–	11,129	11,129	–	11,129	5,667	–	5,667
Interest income	5,934	240	6,174	8,875	112	8,987	8,378	–	8,378	6,740	–	6,740	7,200	–	7,200
Gain on exchange of property, plant and equipment *(Section 3, note (h))*	–	–	–	27,486	–	27,486	–	–	–	–	–	–	–	–	–
Gain on disposal of a subsidiary *(note 2)*	–	887	887	–	–	–	–	–	–	–	–	–	–	–	–
Gain on disposal of an associate *(note 2)*	–	–	–	–	1,248	1,248	–	–	–	–	–	–	–	–	–
Gain on disposal of property, plant and equipment *(note 3)*	4,090	–	4,090	2,710	–	2,710	–	–	–	–	–	–	–	–	–
Gain on sale wastes	836	–	836	2,063	–	2,063	3,010	–	3,010	1,476	–	1,476	1,586	–	1,586
Franchise fee	837	–	837	1,256	–	1,256	1,688	–	1,688	1,590	–	1,590	1,068	–	1,068
Excess over the cost of a business combination	–	–	–	169	–	169	1,972	–	1,972	–	–	–	–	–	–
Government grants	–	–	–	50	–	50	–	–	–	–	–	–	133	–	133
Other	5,544	693	6,237	7,235	2	7,237	3,977	–	3,977	753	–	753	1,299	–	1,299
Total	111,191	2,145	113,336	154,700	1,362	156,062	143,668	–	143,668	83,375	–	83,375	93,566	–	93,566

Notes:

(1) During the Relevant Periods, the Group entered into agreements with Chaoyang Auxillary and some unrelated real estate developers that certain retail outlet properties were demolished and re-possessed by the developers by which the Group has remedied for the loss of business and the related property, plant and equipment, primarily leasehold improvements, and machinery and equipment of the affected properties, arising from the demolition and re-possession. The net compensation on demolished properties represented the gross compensation received from Chaoyang Auxillary and the developers in excess of the carrying amounts of the related property, plant and equipment upon demolition.

(2) The gain on disposal of a subsidiary in 2003 and the gain on disposal of an associate in 2004 were related to the sale of half of the equity interests in Yiyuantang to a third party in July 2003 and the remaining equity interests therein to Chaoyang Auxillary in June 2004, respectively (Section 2, note (b)).

(3) Included in the gain on disposal of property, plant and equipment in 2004 was an amount of approximately RMB4.4 million arising from the change of capital contribution made by Chaoyang Auxillary, details of which are disclosed in note (b) to Section 6 below.

(d) Profit from operating activities

Profit from operating activities is arrived at after charging/(crediting):

	Year ended 31 December 2003			Year ended 31 December 2004			Year ended 31 December 2005			Six months ended 30 June 2005			Six months ended 30 June 2006		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Cost of inventories sold	2,544,695	326,157	2,870,852	3,164,852	89,137	3,253,989	3,621,667	–	3,621,667	1,808,520	–	1,808,520	1,898,019	–	1,898,019
Depreciation	46,239	4,810	51,049	43,872	1,744	45,616	53,490	–	53,490	26,986	–	26,986	28,396	–	28,396
Amortisation – lease prepayments	–	–	–	125	–	125	752	–	752	376	–	376	376	–	376
– intangible assets	617	–	617	1,063	–	1,063	312	–	312	143	–	143	160	–	160
Goodwill written off	–	–	–	186	–	186	–	–	–	–	–	–	–	–	–
Excess over the cost of a business combination	–	–	–	(169)	–	(169)	(1,972)	–	(1,972)	–	–	–	–	–	–
Operating lease expenses on property	18,850	417	19,267	34,245	–	34,245	39,539	–	39,539	21,103	–	21,103	22,079	–	22,079
(Gain)/loss on disposal of subsidiaries	–	(887)	(887)	–	1,410	1,410	–	–	–	–	–	–	–	–	–
Gain on disposal of an associate	–	–	–	–	(1,248)	(1,248)	–	–	–	–	–	–	–	–	–
(Gain)/loss on disposal of property, plant and equipment, net	(4,090)	–	(4,090)	(2,710)	–	(2,710)	1,468	–	1,468	823	–	823	2	–	2
Provision for bad and doubtful debts	2,984	1,421	4,405	909	–	909	8,818	–	8,818	3,510	–	3,510	3,738	–	3,738
Provision/(write-back of provision) against inventories	3,750	–	3,750	2,067	–	2,067	(569)	–	(569)	(549)	–	(549)	–	–	–
Impairment loss of investments	–	–	–	1,188	–	1,188	–	–	–	–	–	–	–	–	–
Rental income	(32,802)	(307)	(33,109)	(34,497)	–	(34,497)	(36,950)	–	(36,950)	(17,080)	–	(17,080)	(19,641)	–	(19,641)
Net compensation on demolished properties	(21,968)	–	(21,968)	(11,982)	–	(11,982)	(11,129)	–	(11,129)	(11,129)	–	(11,129)	(5,667)	–	(5,667)
Interest income	(5,934)	(240)	(6,174)	(8,875)	(112)	(8,987)	(8,378)	–	(8,378)	(6,740)	–	(6,740)	(7,200)	–	(7,200)
Auditors' remuneration	121	90	211	312	80	392	160	–	160	–	–	–	20	–	20
Staff costs															
Directors' and supervisors' emoluments *(Section 2, note (f))*	2,133	–	2,133	2,335	–	2,335	1,908	–	1,908	1,747	–	1,747	2,454	–	2,454
Other staff cost															
– Wages, salaries and social security costs	147,517	16,090	163,607	145,648	3,083	148,731	160,495	–	160,495	78,152	–	78,152	94,329	–	94,329
– Retirement benefits contributions *(Section 2, note (e))*	18,456	1,660	20,116	18,450	296	18,746	16,417	–	16,417	10,977	–	10,977	8,560	–	8,560

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-owned Enterprises").

For the each of the three years ended 31 December 2005 and the six months ended 30 June 2006, sales to the Group's twenty largest customers represented approximately 20.2%, 20.8%, 30.5% and 33.2% of the Group's total revenue respectively. To the best knowledge of the Directors, out of the sales to the twenty largest customers, transactions with State-owned enterprises represented approximately 14.9%, 14.7%, 12.2%, and 12.5% of the transaction values of the Group's twenty largest customers for the each of the three years ended 31 December 2005 and the six months ended 30 June 2006.

For the each of the three years ended 31 December 2005 and the six months ended 30 June 2006, purchases from the Group's twenty largest suppliers represented approximately 40.9%, 36.8%, 40.0%, and 34.7% of the Group's total purchase respectively. To the best knowledge of the Directors, out of the purchases from the twenty largest customers, transactions with State-owned enterprises represented approximately 27.1%, 28.3%, 31.1%, and 34.4% of the transaction values of the Group's twenty largest suppliers for the each of the three years ended 31 December 2005 and the six months ended 30 June 2006.

(e) Retirement benefits

The aggregate contributions of the Group to retirement benefit schemes were approximately RMB20 million, RMB19 million, RMB17 million, RMB11 million, and RMB9 million for the three years ended 31 December 2005 and the six months ended 30 June 2005 and 2006, respectively.

(f) Directors', supervisors' and senior executives' emoluments

Details of the remuneration of the directors' and supervisors' during the Relevant Periods and the six months ended 30 June 2005, disclosed pursuant to the Rules Governing of the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Directors					Supervisors				
	Year ended 31 December			Six months ended 30 June		Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006	2003	2004	2005	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)					(Unaudited)	
Fees	–	–	–	–	–	–	–	–	–	–
Other emoluments:										
Salaries, allowances and benefits in kind	1,397	1,339	1,151	1,025	1,527	446	685	523	496	828
Retirement benefits contributions	220	203	161	153	58	70	108	73	73	41
Total	1,617	1,542	1,312	1,178	1,585	516	793	596	569	869

The names of the directors and supervisors of the Company and their remuneration for the Relevant Periods and the six months ended 30 June 2005 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Name of the directors					
Dai Jing	119	–	–	–	–
Bai Xian Rong	214	220	–	–	–
Chen Li Min	263	348	–	–	–
Gu Han Lin	264	176	–	–	–
Wei Ting Zhan	264	270	270	333	159
Li Jian Wen	278	350	400	365	751
Liu Yue Jin	215	178	260	197	374
Li Shun Xiang	–	–	–	–	–
Li Chun Yan	–	–	258	229	233
Fan Fa Ming	–	–	35	18	17
Deng Xiao Feng	–	–	21	18	–
Huang Jiang Ming	–	–	35	18	17
Chung Chi Kong	–	–	33	–	34
	1,617	1,542	1,312	1,178	1,585
Name of the supervisors					
Tian Jun Ying	103	–	–	–	–
Ma Xiu Rong	127	145	–	–	–
Liu Wen Yu	110	125	–	–	–
Wang Shu Ying	176	205	–	–	307
Yang Bao Qun	–	–	–	–	–
Chen Jie	–	60	205	232	159
Qu Xin Hua	–	258	331	307	375
Chen Zhong	–	–	30	15	14
Cheng Xiang Hong	–	–	30	15	14
	516	793	596	569	869
Total	2,133	2,335	1,908	1,747	2,454

The emoluments of each of the directors and supervisors for each of the Relevant Periods and the six months ended 30 June 2005 fell within the range of nil to HK$1,000,000 (equivalent to RMB1,020,000).

The five individuals whose remuneration was the highest in the Group during the Relevant Periods and the six months ended 30 June 2005 are all non-director and non-supervisor employees.

The remuneration paid to the above non-director and non-supervisor employees is as follows:

	Year ended 31 December			Six months ended 31 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Salaries, allowances and benefits in kind	2,244	2,276	5,348	4,839	6,676
Retirement benefits contributions	72	77	119	42	49
	2,316	2,353	5,467	4,881	6,725

The number of non-director, non-supervisor, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees				
	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
				(Unaudited)	
Nil to HK$1,000,000 (equivalent to RMB1,020,000)	5	5	3	4	1
HK$1,000,001 to HK$1,500,000 (equivalent to RMB1,020,001 to RMB1,530,000)	–	–	2	1	3
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,530,001 to RMB2,040,000)	–	–	–	–	1
	5	5	5	5	5

(g) Finance costs

	Year ended 31 December 2003			Year ended 31 December 2004			Year ended 31 December 2005			Six months ended 30 June 2005			Six months ended 30 June 2006		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
										(Unaudited)	(Unaudited)	(Unaudited)			
Interest on bank loans repayable:															
– Within five year	9,790	997	10,787	15,895	126	16,021	16,205	–	16,205	8,360	–	8,360	11,409	–	11,409
– Over five years	–	–	–	–	–	–	293	–	293	–	–	–	–	–	–
Interest on other borrowings from:															
– Employees *(note)*	10,581	–	10,581	4,168	–	4,168	–	–	–	–	–	–	–	–	–
– Other enterprises	3,312	1,764	5,076	7,125	4	7,129	14,175	–	14,175	7,187	–	7,187	7,338	–	7,338
	23,683	2,761	26,444	27,188	130	27,318	30,673	–	30,673	15,547	–	15,547	18,747	–	18,747
Less: Interest capitalised	(3,500)	–	(3,500)	(6,200)	–	(6,200)	(11,600)	–	(11,600)	(5,000)	–	(5,000)	(10,060)	–	(10,060)
	20,183	2,761	22,944	20,988	130	21,118	19,073	–	19,073	10,547	–	10,547	8,687	–	8,687

Note:

The Group acquired certain borrowings from the employees. The borrowings are unsecured, bear annual interest rate of 5% to 6%, and are repayable on demand. At 31 December 2003, total employee borrowings amounted to RMB181 million, which were fully repaid by June 2004.

(h) Tax

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The Group is not liable for income tax in Hong Kong as it did not have assessable income currently arising in Hong Kong during the Relevant Periods and the six months ended 30 June 2005. Under the prevailing PRC income tax law, except for certain preferential treatment available to a subsidiary of the Company, Chaopi Shuanglong, the Group and its associates are subject to corporate income tax ("CIT") at a rate of 33% on their respective taxable income during the Relevant Periods and the six months ended 30 June 2005.

The determination of income tax in the consolidated income statement of the Group is as follows:

	Year ended 31 December 2003			Year ended 31 December 2004			Year ended 31 December 2005			Six months ended 30 June 2005			Six months ended 30 June 2006		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Current CIT – the PRC	19,364	658	20,022	33,011	106	33,117	43,682	–	43,682	25,320	–	25,320	31,292	–	31,292
Deferred CIT	1,155	–	1,155	11,116	–	11,116	3,476	–	3,476	1,474	–	1,474	1,985	–	1,985
CIT reported in consolidated income statement	20,519	658	21,177	44,127	106	44,233	47,158	–	47,158	26,794	–	26,794	33,277	–	33,277

A reconciliation of CIT applicable to profit before tax at the statutory CIT rate to CIT at the Group's effective CIT rate, and a reconciliation of the statutory CIT rate to the effective tax rate, for each of the Relevant Periods and the six months ended 30 June 2005 are as follows:

	Year ended 31 December 2003				Year ended 31 December 2004				Year ended 31 December 2005				Six months ended 30 June 2005				Six months ended 30 June 2006			
	Continuing operations	Discontinued operations	Total	%	Continuing operations	Discontinued operations	Total	%	Continuing operations	Discontinued operations	Total	%	Continuing operations	Discontinued operations	Total	%	Continuing operations	Discontinued operations	Total	%
	RMB'000	*RMB'000*	*RMB'000*		*RMB'000*	*RMB'000*	*RMB'000*		*RMB'000*	*RMB'000*	*RMB'000*		*RMB'000* (Unaudited)	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)		*RMB'000*	*RMB'000*	*RMB'000*	
Profit before tax	65,768	1,433	67,201		127,918	484	128,402		145,504	–	145,504		78,731	–	78,731		92,398	–	92,398	
CIT at PRC statutory CIT rate	21,703	473	22,176	33.0	42,213	160	42,373	33.0	48,016	–	48,016	33.0	25,981	–	25,981	33.0	30,491	–	30,491	33.0
Expenses not deductible for tax	2,288	872	3,160	4.7	3,980	502	4,482	3.5	5,756	–	5,756	4.0	4,953	–	4,953	6.3	1,844	–	1,844	2.0
Tax losses not recognised	845	–	845	1.2	84	–	84	–	24	–	24	–	21	–	21	–	98	–	98	0.1
Tax exemption *(note)*	(2,624)	–	(2,624)	(3.9)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Tax losses utilised from previous periods	–	–	–	–	(390)	–	(390)	(0.3)	(89)	–	(89)	–	(88)	–	(88)	(0.1)	–	–	–	–
Non taxable income	(1,229)	(182)	(1,411)	(2.1)	(2,367)	(580)	(2,947)	(2.3)	(3,896)	–	(3,896)	(2.7)	(3,262)	–	(3,262)	(4.1)	–	–	–	–
Others	(464)	(505)	(969)	(1.4)	607	24	631	0.5	(2,653)	–	(2,653)	(1.9)	(811)	–	(811)	(1.0)	844	–	844	0.9
CIT charged at Group's effective rate	20,519	658	21,177	31.5	44,127	106	44,233	34.4	47,158	–	47,158	32.4	26,794	–	26,794	34.1	33,277	–	33,277	36.0

Note:

Pursuant to the applicable corporate income tax laws and regulations in Beijing, the PRC, newly formed tertiary industry enterprises are eligible for apply for corporate income tax exemption of one year. Chaopi Shuanglong was approved by the relevant PRC tax authority to have a one year corporate income tax exemption for 2003.

The share of tax attributable to associates amounting to RMB1,199,000, RMB2,100,000, RMB300, RMB1,723 and Nil for the three years ended 31 December 2005 and the six months ended 30 June 2005 and 2006, respectively, is included in "Share of net profits and losses of associates" on the face of the consolidated income statement.

(i) Profit appropriations

(1) Statutory reserve funds

(a) Statutory surplus reserve

In accordance with the PRC Company Law and the respective companies' articles of association, the Company and its subsidiaries are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses), determined in accordance with PRC GAAP, to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of registered capital after such usages.

(b) Statutory public welfare fund

In accordance with the PRC Company Law and the respective companies' articles of association, the Company and its subsidiaries are required to appropriate 5% to 10% of the annual statutory net profit after tax (after offsetting any prior years' losses), determined in accordance with PRC GAAP, to the statutory public welfare fund, which will be utilised to build or acquire capital items, such as dormitories and other facilities for the employees of the Company and its subsidiaries, and cannot be used to pay for staff welfare expenses. Titles of these capital items will remain with the respective companies now comprising the Group. No allocation to the statutory public welfare fund is required from 1 January 2006 with the effectiveness of the revised PRC Company Law on 1 January 2006.

The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

(2) Dividends

The proposed dividend for the year ended 31 December 2003 was RMB29,133,000 which was approved by the Company's shareholders on 12 February 2004.

A special dividend declared for the year ended 31 December 2004 was RMB3,000 which was approved by the Company's shareholders on 12 August 2004.

The proposed dividend of RMB16 cents per share for the year ended 31 December 2004 was about RMB39,502,000, which was approved by the Company's shareholders on 20 May 2005.

The proposed dividend of RMB22.9 cents per share for the year ended 31 December 2005 was about RMB56,367,000, which was approved by the Company's shareholders on 21 March 2006.

For the period before the listing of the Company's shares, for dividend purposes the amount which the Company can legally distribute by way of a dividend is determined by reference to its profit available for distribution as reflected in its PRC statutory financial statements which are prepared in accordance with PRC GAAP. This profit differs from that reflected in this report which is prepared in accordance with HKFRSs.

Upon the Listing of the Company's shares, the net profit after tax of the Company for the purpose of profit distribution will be the lesser of (i) the net profit determined in accordance with PRC GAAP and (ii) the net profit determined in accordance with the accounting standards of overseas places where the Company's share listed.

(j) Earnings per share

The calculations of basic earnings per share are as follows:

	Year ended 31 December			**Six months ended 30 June**	
Earnings	**2003**	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Net profit attributable to ordinary equity holders from continuing operations	38,172	73,167	75,098	38,422	47,305
Net profit attributable to ordinary equity holders from discontinued operations	695	361	–	–	–
Net profit attributable to ordinary equity holders	38,867	73,528	75,098	38,422	47,305

	Number of shares				
	Year ended 31 December			**Six months ended 30 June**	
Shares	**2003**	**2004**	**2005**	**2005**	**2006**
				(Unaudited)	
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation *(note)*	246,620,000	246,620,000	246,620,000	246,620,000	246,620,000

Note:

Earnings per share for each of the Relevant Periods and the six months ended 30 June 2005 have been computed by dividing the net profit attributable to equity holders of the parent by the number of shares in issue on the assumption that the 246,620,000 shares in issue as at the date of this report had been in issue throughout the Relevant Periods and the six months ended 30 June 2005.

No diluted earnings per share have been presented as the Company did not have any dilutive potential shares during the Relevant Periods and the six months ended 30 June 2005.

3. BALANCE SHEETS

Set out below is a summary of the consolidated balance sheets of the Group and the balance sheets of the Company as at the end of each of the Relevant Periods:

Group

		As at 31 December			As at 30 June
	Notes	**2003**	**2004**	**2005**	**2006**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	*(a)*	594,090	619,391	813,455	909,348
Lease prepayments for land use rights	*(b)*	2,501	73,698	72,946	72,570
Interests in associates	*(d)*	92,478	887	918	645
Available-for-sale equity investments	*(e)*	1,938	350	350	350
Intangible assets	*(f)*	571	1,360	2,080	2,529
Other long term lease prepayments	*(g)*	–	4,667	–	17,910
Other long term assets	*(h)*	22,414	–	–	–
		713,992	700,353	889,749	1,003,352
Current assets					
Inventories	*(i)*	389,626	348,690	382,164	339,615
Trade receivables, net	*(j)*	230,024	399,245	455,072	325,179
Prepayments, deposits and other receivables	*(k)*	121,336	145,831	181,130	154,335
Short term investments		–	1,200	–	–
Due from related parties	*(l)*	–	3,497	36	–
Due from Chaoyang Auxillary	*(l)*	–	7,602	–	–
Pledged deposits	*(m)*	16,407	–	13,291	3,000
Cash and cash equivalents	*(m)*	194,717	176,865	220,741	239,068
		952,110	1,082,930	1,252,434	1,061,197
TOTAL ASSETS		1,666,102	1,783,283	2,142,183	2,064,549

	Notes	As at 31 December 2003 RMB'000	2004 RMB'000	2005 RMB'000	As at 30 June 2006 RMB'000
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the parent					
Capital		236,660	246,620	246,620	246,620
Reserves		12,308	36,371	55,797	103,102
Proposed final dividend		29,133	39,502	56,367	–
		278,101	322,493	358,784	349,722
Minority interests		45,903	57,097	73,920	69,646
Total equity		324,004	379,590	432,704	419,368
Non-current liabilities					
Bank loans and other borrowings	*(n)*	5,000	130,000	150,000	244,500
Other long term payables	*(o)*	56,835	19,705	8,750	8,750
Deferred income	*(s)*	–	–	3,733	3,600
Deferred tax liabilities	*(p)*	1,155	12,271	15,747	17,732
		62,990	161,976	178,230	274,582
Current liabilities					
Trade payables	*(q)*	506,557	635,375	642,030	617,291
Bills payable	*(r)*	37,100	–	–	–
Tax payable		17,782	25,800	26,553	23,886
Other payables and accruals	*(o)*	102,441	142,198	209,379	214,453
Bank loans and other borrowings	*(n)*	523,942	432,000	640,604	512,800
Due to Chaoyang Auxillary	*(l)*	71,389	5,811	11,880	642
Due to related parties	*(l)*	13,000	–	–	–
Deferred income – current portion	*(s)*	–	–	267	267
Dividend payable		6,897	533	536	1,260
		1,279,108	1,241,717	1,531,249	1,370,599
Total liabilities		1,342,098	1,403,693	1,709,479	1,645,181
TOTAL EQUITY AND LIABILITIES		1,666,102	1,783,283	2,142,183	2,064,549

Company

	Notes	As at 31 December 2003	2004	2005	As at 30 June 2006
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	(a)	533,446	566,164	750,550	847,081
Lease prepayments for land use rights	(b)	2,501	73,698	72,946	72,570
Interests in subsidiaries	(c)	81,368	117,218	178,768	144,640
Interests in associates	(d)	30,291	–	–	–
Available-for-sale equity investments	(e)	100	–	–	–
Intangible assets	(f)	571	1,360	2,080	2,529
Other long term lease prepayments	(g)	–	4,667	–	17,910
Other long term assets	(h)	22,414	–	–	–
		670,691	763,107	1,004,344	1,084,730
Current assets					
Inventories	(i)	176,800	121,779	135,019	104,047
Trade receivables, net	(j)	2,877	3,792	10,818	9,274
Prepayments, deposits and other receivables	(k)	57,767	63,223	89,015	91,525
Due from related parties	(l)	–	3,497	36	–
Due from Chaoyang Auxillary	(l)	–	7,602	–	–
Cash and cash equivalents	(m)	122,637	143,514	143,755	127,471
		360,081	343,407	378,643	332,317
TOTAL ASSETS		1,030,772	1,106,514	1,382,987	1,417,047
EQUITY AND LIABILITIES					
Equity					
Capital		236,660	246,620	246,620	246,620
Reserves		9,323	30,139	34,858	82,236
Proposed final dividend		29,133	39,502	56,367	–
Total equity		275,116	316,261	337,845	328,856
Non-current liabilities					
Bank loans and other borrowings	(n)	2,000	130,000	150,000	244,500
Other long term payables	(o)	37,026	17,500	8,750	8,750
Deferred income	(s)	–	–	3,733	3,600
Deferred tax liabilities	(p)	1,155	12,271	15,747	17,732
		40,181	159,771	178,230	274,582
Current liabilities					
Trade payables	(q)	309,720	330,144	356,641	383,445
Tax payable		10,016	7,532	4,741	4,027
Other payables and accruals	(o)	65,960	86,273	176,357	181,070
Bank loans and other borrowings	(n)	256,872	206,000	326,300	244,800
Due to Chaoyang Auxillary	(l)	66,010	–	2,070	–
Deferred income – current portion	(s)	–	–	267	267
Dividend payable		6,897	533	536	–
		715,475	630,482	866,912	813,609
Total liabilities		755,656	790,253	1,045,142	1,088,191
TOTAL EQUITY AND LIABILITIES		1,030,772	1,106,514	1,382,987	1,417,047

Notes:

(a) Property, plant and equipment

Group

	Buildings	Leasehold improvements	Machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:							
At 1 January 2003	278,724	43,143	171,351	69,918	33,958	28,250	625,344
Additions	4,954	14,268	14,796	12,508	11,635	121,536	179,697
Transfers	4,172	22,835	10,439	965	–	(38,411)	–
Disposals	(3,783)	–	(12,112)	(5,909)	(5,053)	–	(26,857)
Disposal of discontinued operations	(23,054)	–	(1,842)	(3,534)	(2,428)	–	(30,858)
At 31 December 2003	261,013	80,246	182,632	73,948	38,112	111,375	747,326
Additions	50,315	2,717	29,841	8,370	5,897	55,979	153,119
Transfers	782	5,493	1,532	3,739	–	(11,546)	–
Acquisition of a subsidiary	–	–	923	413	3,326	–	4,662
Take-back by Chaoyang Auxillary *(note (b) to Section 6)*	(63,639)	–	–	–	–	–	(63,639)
Disposals	(911)	(1,070)	(428)	(3,065)	(1,677)	–	(7,151)
Disposal of discontinued operations	(5,378)	(1,530)	(3,009)	(1,377)	(16,984)	(9,049)	(37,327)
At 31 December 2004	242,182	85,856	211,491	82,028	28,674	146,759	796,990
Additions	5,794	10,890	39,552	1,744	1,996	184,414	244,390
Transfers	2,370	23,639	14,562	638	–	(41,209)	–
Acquisition from Chaoyang Auxillary	–	6,830	1,448	139	105	–	8,522
Disposals	–	–	(9,957)	(3,145)	(3,170)	–	(16,272)
At 31 December 2005	250,346	127,215	257,096	81,404	27,605	289,964	1,033,630
Additions	45	6,336	15,869	3,641	651	99,648	126,190
Transfers	6,980	290	7,947	1,181	–	(16,398)	–
Disposals	–	–	(8,055)	(114)	(2,202)	–	(10,371)
At 30 June 2006	257,371	133,841	272,857	86,112	26,054	373,214	1,149,449
Accumulated depreciation:							
At 1 January 2003	25,780	5,164	54,514	27,258	13,991	–	126,707
Provided during the year	12,137	5,575	16,488	11,620	5,229	–	51,049
Disposals	(32)	–	(7,678)	(4,950)	(4,308)	–	(16,968)
Disposal of discontinued operations	(3,391)	–	(694)	(1,575)	(1,892)	–	(7,552)
At 31 December 2003	34,494	10,739	62,630	32,353	13,020	–	153,236
Acquisition of a subsidiary	–	–	170	201	1,142	–	1,513
Provided during the year	8,741	2,703	17,613	12,638	3,921	–	45,616
Take-back by Chaoyang Auxillary *(note (b) to Section 6)*	(11,019)	–	–	–	–	–	(11,019)
Disposals	(911)	–	(299)	(2,053)	(1,397)	–	(4,660)
Disposal of discontinued operations	(1,035)	(120)	(1,258)	(560)	(4,114)	–	(7,087)
At 31 December 2004	30,270	13,322	78,856	42,579	12,572	–	177,599
Provided during the year	9,145	5,524	21,821	13,972	3,028	–	53,490
Acquisition from Chaoyang Auxillary	–	–	1,140	64	75	–	1,279
Disposals	–	–	(6,603)	(2,954)	(2,636)	–	(12,193)
At 31 December 2005	39,415	18,846	95,214	53,661	13,039	–	220,175
Provided during the period	5,356	2,893	12,707	5,502	1,938	–	28,396
Disposals	–	–	(6,509)	(108)	(1,853)	–	(8,470)
At 30 June 2006	44,771	21,739	101,412	59,055	13,124	–	240,101
Net book value:							
At 30 June 2006	212,600	112,102	171,445	27,057	12,930	373,214	909,348
At 31 December 2005	210,931	108,369	161,882	27,743	14,566	289,964	813,455
At 31 December 2004	211,912	72,534	132,635	39,449	16,102	146,759	619,391
At 31 December 2003	226,519	69,507	120,002	41,595	25,092	111,375	594,090

Certain of the Group's bank loans and bills payable were secured by the Company's buildings with an aggregate net book value of approximately RMB33 million and RMB32 million, respectively, as at 31 December 2003 and 31 December 2004. As at 31 December 2003, certain of the Group's motor vehicles with an aggregate net book value of RMB7.8 million were pledged for securing bank loans to employees. As a result of disposal of Tengyuan in June 2004, the Group has had no such assets pledged since then.

As at 31 December 2005, a secured bank loan of RMB100 million was secured by the Company's buildings with an aggregate net book value of approximately RMB103 million.

As at 30 June 2006, secured bank loans of RMB277 million were secured by the Company's buildings and construction in progress with book values of RMB124 million and RMB319 million, respectively.

Except the properties under construction, all the properties have obtained the building ownership certificates.

Company

	Buildings	Leasehold improvements	Machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:							
At 1 January 2003	252,745	41,773	162,304	53,764	9,690	21,482	541,758
Additions	2,123	7,599	9,998	7,980	1,642	115,678	145,020
Transfers	3,405	21,179	10,379	966	–	(35,929)	–
Disposals	(3,734)	–	(11,941)	(5,049)	(859)	–	(21,583)
At 31 December 2003	254,539	70,551	170,740	57,661	10,473	101,231	665,195
Additions	50,314	1,897	13,172	4,985	1,665	52,001	124,034
Transfers	782	4,072	1,519	100	–	(6,473)	–
Take-back by Chaoyang Auxillary *(note (b) to Section 6)*	(63,639)	–	–	–	–	–	(63,639)
Disposals	–	–	(428)	(1,930)	(1,125)	–	(3,483)
At 31 December 2004	241,996	76,520	185,003	60,816	11,013	146,759	722,107
Additions	5,794	9,105	13,018	7,080	1,996	184,414	221,407
Transfers	2,370	23,639	14,562	638	–	(41,209)	–
Acquisition from Chaoyang Auxillary	–	6,830	1,448	139	105	–	8,522
Acquisition from a subsidiary	–	–	2,187	251	–	–	2,438
Disposals	–	–	(9,944)	(3,131)	(1,401)	–	(14,476)
At 31 December 2005	250,160	116,094	206,274	65,793	11,713	289,964	939,998
Additions	45	6,336	13,495	1,647	221	98,148	119,892
Transfers	6,980	290	7,947	1,181	–	(16,398)	–
Acquisition from a subsidiary	–	–	497	–	–	–	497
Disposals	–	–	(8,055)	(77)	(2,127)	–	(10,259)
At 30 June 2006	257,185	122,720	220,158	68,544	9,807	371,714	1,050,128
Accumulated depreciation:							
At 1 January 2003	21,729	5,146	51,104	22,356	5,469	–	105,804
Provided during the year	10,893	1,662	15,650	9,125	1,657	–	38,987
Disposals	–	–	(7,589)	(4,609)	(844)	–	(13,042)
At 31 December 2003	32,622	6,808	59,165	26,872	6,282	–	131,749
Provided during the year	8,625	2,029	15,946	10,348	1,123	–	38,071
Take-back by Chaoyang Auxillary *(note (b) to Section 6)*	(11,019)	–	–	–	–	–	(11,019)
Disposals	–	–	(299)	(1,635)	(924)	–	(2,858)
At 31 December 2004	30,228	8,837	74,812	35,585	6,481	–	155,943
Provided during the year	9,102	4,246	18,332	9,701	1,214	–	42,595
Acquisition from Chaoyang Auxillary	–	–	1,140	64	75	–	1,279
Acquisition from a subsidiary	–	–	335	105	–	–	440
Disposals	–	–	(6,601)	(2,951)	(1,257)	–	(10,809)
At 31 December 2005	39,330	13,083	88,018	42,504	6,513	–	189,448
Provided during the period	5,356	2,073	9,935	3,672	996	–	22,032
Disposals	–	–	(6,509)	(74)	(1,850)	–	(8,433)
At 30 June 2006	44,686	15,156	91,444	46,102	5,659	–	203,047
Net book value:							
At 30 June 2006	212,499	107,564	128,714	22,442	4,148	371,714	847,081
At 31 December 2005	210,830	103,011	118,256	23,289	5,200	289,964	750,550
At 31 December 2004	211,768	67,683	110,191	25,231	4,532	146,759	566,164
At 31 December 2003	221,917	63,743	111,575	30,789	4,191	101,231	533,446

The Group's and the Company's investment properties, included in the item buildings, are situated in the PRC and are stated at cost less accumulated depreciation as follows:

	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
As at 1 January	22,616	22,625	22,963	22,963
Additions	9	338	–	–
As at 31 December/30 June	22,625	22,963	22,963	22,963
Accumulated depreciation:				
As at 1 January	2,441	3,319	4,259	5,150
Provided during the year/period	878	940	891	446
As at 31 December/30 June	3,319	4,259	5,150	5,596
Net book value	19,306	18,704	17,813	17,367
Fair value	25,812	26,114	26,732	27,044

The investment properties are leased to third parties under operating leases, further summary details of which are included in note (v) to Section 3 below.

The fair values of the investment properties as at the end of each of the Relevant Periods were determined based on the valuations performed by Vigers Appraisal & Consulting Limited ("Vigers"), an independent firm of professional valuers. The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation. As at 31 December 2003 and 2004, as the Group was in the process of obtaining the relevant building ownership certificates, the fair values then were provided by Vigers for indicative purpose.

(b) Lease prepayments for land use rights

Group and Company

	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
As at 1 January	–	2,501	73,823	73,823
Additions	2,501	71,322	–	–
As at 31 December/30 June	2,501	73,823	73,823	73,823
Accumulated amortisation:				
As at 1 January	–	–	125	877
Provided during the year/period	–	125	752	376
As at 31 December/30 June	–	125	877	1,253
Net book value	2,501	73,698	72,946	72,570

(c) Interests in subsidiaries

Details of the interests in subsidiaries of the Company are set out below:

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted investments, at cost	75,175	66,269	84,352	84,352
Amounts due from subsidiaries	79,762	108,158	151,931	110,167
Amounts due to subsidiaries	(73,569)	(57,209)	(57,515)	(49,879)
	81,368	117,218	178,768	144,640

Particulars of the subsidiaries held by the Company are set out in Section 1.

Included in the amounts due from subsidiaries as at 31 December 2005 and 30 June 2006 were consignment loans lent by the Company (the "Lender") to Chaopi Trading, Chaopi Flavourings, Chaopi Huaqing, Chaopi Jinglong (collectively the "Borrowers") amounting to RMB30 million, RMB20 million, RMB29.5 million and RMB20 million, respectively, to finance the Borrowers' working capital. The consignment loans were arranged via Beijing Bank Jiulongshan Branch (the "Bank"). However, the Bank has no liability to either the Lender or the Borrowers in case of default. These consignment loans were unsecured, bearing an annual interest rate of 5.58%. Except the loan to Chaopi Trading maturing on 31 December 2006, all the loans will mature on 9 December 2006.

Except for the aforementioned consignment loans, all the amounts due from/to subsidiaries are unsecured, interest-free and have no fixed repayment terms.

(d) Interests in associates

Group

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share of net assets	26,114	369	337	327
Amounts due from associates	66,364	518	581	318
	92,478	887	918	645

Company

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted equity investments, at cost	13,580	–	–	–
Less: Impairment loss of investments	(353)	–	–	–
	13,227	–	–	–
Amounts due from associates	17,064	–	–	–
	30,291	–	–	–

Particulars of the associates held by the Company are set out in Section 1.

Amounts due from associates are unsecured, interest-free and have no fixed repayment terms.

(e) Available-for-sale equity investments

Group

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted equity investments	1,938	1,538	1,538	1,538
Less: Impairment loss of investments	–	(1,188)	(1,188)	(1,188)
	1,938	350	350	350

Company

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted equity investments	100	–	–	–

(f) Intangible assets

The intangible assets of the Group and the Company represented the carrying amount of software acquired.

	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
As at 1 January	1,770	2,587	4,439	5,471
Additions	817	1,852	1,032	609
As at 31 December/30 June	2,587	4,439	5,471	6,080
Accumulated amortisation:				
As at 1 January	1,399	2,016	3,079	3,391
Provided during the year/period	617	1,063	312	160
As at 31 December/30 June	2,016	3,079	3,391	3,551
Net book value	571	1,360	2,080	2,529

(g) Other long term lease prepayments

Other long term lease prepayments of the Group and the Company as at 31 December 2004 represented rental expenses prepaid for two years commencing from January 2006. In 2005, the commencement of the rental period has been postponed to an uncertain date due to the ongoing negotiation between the lessor who sublet the premise to the Company and the original landlord of the premise. The prepaid balance was then transferred out into other receivables as at 31 December 2005.

Other long term lease prepayments of the Group and the Company as at 30 June 2006 represented rental deposits for leasing eight premises for five to eighteen years commencing from the mid of 2006.

(h) Other long term assets

Other long term assets of the Group and the Company as at 31 December 2003 represented a property, with a then carrying amount of approximately RMB22.4 million, relinquished by the Company in 2002. Pursuant to an agreement entered into with an unrelated property developer in June 2002, the Company agreed to relinquish one of its properties for re-development purpose, in exchange for a property located in a similar area from the property developer upon completing the re-development. Upon relinquishment, the carrying amount of the property was approximately RMB22.4 million. The re-development was completed in December 2004 and a property located in a similar area was transferred to and taken possession by the Company.

Based on the valuation in August 2005 by Vigers, which was prepared based on an open market, existing use basis, the property transferred to the Company by the developer was approximately valued at RMB49.9 million as at 31 December 2004. Accordingly, approximately RMB27.5 million, representing an excess of the fair value of the exchange property of approximately RMB49.9 million transferred to the Company over the then carrying amount of the property relinquished by the Company of approximately RMB22.4 million, was credited to the consolidated income statement.

(i) Inventories

Group

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Merchandise and produce for resale	387,451	349,863	382,345	339,205
Less: Provision	(2,630)	(3,257)	(2,469)	(1,986)
	384,821	346,606	379,876	337,219
Low value consumables	4,805	2,084	2,288	2,396
	389,626	348,690	382,164	339,615

Company

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Merchandise and produce for resale	176,307	122,126	135,307	104,362
Less: Provision	(861)	(611)	(416)	(416)
	175,446	121,515	134,891	103,946
Low value consumables	1,354	264	128	101
	176,800	121,779	135,019	104,047

(j) Trade receivables, net

The Group normally allows a credit period of not more than 60 days to its customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables of the Group and the Company, based on invoice date, and net of provision, is analysed as follows:

Group

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 2 months	201,718	339,745	400,397	273,724
2 to 6 months	23,523	54,500	50,360	44,055
6 months to 1 year	4,157	4,774	2,457	4,891
1 to 2 years	626	226	1,858	2,509
	230,024	399,245	455,072	325,179

Company

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 2 months	288	3,114	10,751	4,792
2 to 6 months	768	464	47	407
6 to 1 year	1,199	166	–	4,055
1 to 2 years	622	48	20	20
	2,877	3,792	10,818	9,274

(k) Prepayments, deposits and other receivables

Group

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments to suppliers	37,544	61,766	86,177	50,542
Other receivables and prepaid expenses	16,172	21,341	35,167	48,006
Input value-added tax receivables	67,620	62,724	59,786	55,787
	121,336	145,831	181,130	154,335

Company

	As at 31 December			As at 30 June
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments to suppliers	1,247	3,407	5,122	4,772
Other receivables and prepaid expenses	9,790	18,450	41,985	48,848
Input value-added tax receivables	46,730	41,366	41,908	37,905
	57,767	63,223	89,015	91,525

Included in other receivables and prepaid expenses were dividend receivables from Chaopi Trading amounting to Nil, approximately RMB6.9 million, RMB16.9 million and RMB15.8 million as at 31 December 2003, 2004 and 2005 and 30 June 2006, respectively.

(l) Amounts due from/to Chaoyang Auxillary and related parties

Amounts due from/to Chaoyang Auxillary and related parties included borrowings, lendings and current account with Chaoyang Auxillary and related parties, respectively. All the amounts due from/ to Chaoyang Auxillary and related parties are unsecured. Apart from the following amounts with Chaoyang Auxillary and related parties, all the amounts due from/to Chaoyang Auxillary and related parties are interest-free and have no fixed repayment terms:

Maturity date		Interest rate per annum	As at 31 December 2003	2004	2005	As at 30 June 2006
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to Chaoyang Auxillary:						
March	2004	5.31%	4,000	–	–	–
December	2004	4.425%	3,610	–	–	–
June	2006	5.58%	–	600	600	–
*		5.31%	56,198	–	–	–
*		5.58%	–	4,000	4,000	–
*		4.72%	–	–	4,000	–
Amounts due to related parties:						
March	2004	5.31%	4,000	–	–	–
April	2004	5.31%	3,000	–	–	–
August	2004	5.31%	6,000	–	–	–
Amounts due from Chaoyang Auxillary:						
June	2005	5.58%	–	11,000	–	–

* *No fixed repayment date*

(m) Cash and cash equivalents and pledged deposits

Group

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	194,717	176,865	220,741	239,068
Pledged time deposits	16,407	–	13,291	3,000
	211,124	176,865	234,032	242,068
Less: Pledged time deposits –				
Pledged for automobile consumption loans granted to customers	(2,586)	–	–	–
Pledged for bills payable *(Section 3, note (r))*	(13,821)	–	–	–
Pledged for short term bank loans *(Section 3, note (n))*	–	–	(13,291)	(3,000)
Cash and cash equivalents	194,717	176,865	220,741	239,068

Company

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	122,637	143,514	143,755	127,471

The amounts of the Group's bank balances and cash, including pledged bank deposits, are not freely convertible and are subject to exchange control as at each of the respective balance sheet dates.

Cash at banks earns interest at floating rates based on daily bank deposits rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

(n) Bank loans and other borrowings

Group

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans:				
Secured	6,000	3,000	144,304	287,000
Unsecured	314,170	290,000	320,000	198,000
	320,170	293,000	464,304	485,000
Other borrowings:				
Unsecured	208,772	269,000	326,300	272,300
	528,942	562,000	790,604	757,300
Bank loans repayable:				
Within one year or on demand	317,170	293,000	364,304	340,500
In the second year	3,000	–	–	9,125
In the third to fifth years, inclusive	–	–	–	135,375
Over five years	–	–	100,000	–
Other borrowings repayable:				
Within one year or on demand	206,772	89,000	176,300	172,300
In the second year	2,000	180,000	150,000	100,000
Total bank loans and other borrowings	528,942	562,000	790,604	757,300
Less: Portion classified as current liabilities	(523,942)	(432,000)	(640,604)	(512,800)
Long term portion	5,000	130,000	150,000	244,500

Company

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans:				
Secured	–	–	100,000	277,000
Unsecured	100,000	120,000	110,000	–
	100,000	120,000	210,000	277,000
Other borrowings:				
Unsecured	158,872	216,000	266,300	212,300
	258,872	336,000	476,300	489,300
Bank loans repayable:				
Within one year or on demand	100,000	120,000	110,000	132,500
In the second year	–	–	–	9,125
In the third to fifth years, inclusive	–	–	–	135,375
Over five years	–	–	100,000	–
Other borrowings repayable:				
Within one year or on demand	156,872	86,000	216,300	112,300
In the second year	2,000	130,000	50,000	100,000
Total bank and other borrowings	258,872	336,000	476,300	489,300
Less: Portion classified as current liabilities	(256,872)	(206,000)	(326,300)	(244,800)
Long term portion	2,000	130,000	150,000	244,500

(A) Bank loans

All of the Group's and the Company's bank loans, which are denominated in RMB, bear annual interest rates ranging from 5.025% to 6.160%, 5.025% to 6.138%, 3.60% to 6.138% and 4.0% to 6.12% as at 31 December 2003, 2004 and 2005 and 30 June 2006, respectively.

(i) Secured bank loans

As at 31 December 2003 and 2004, the secured bank loans of the Group are secured by certain of the Group's buildings, which had an aggregate net book value of approximately RMB33 million and RMB32 million, respectively. These secured bank loans were also guaranteed by the Company and a minority shareholder of a subsidiary.

As at 31 December 2005, the secured bank loans of the Group and the Company amounting to RMB100 million were secured by certain of the Company's buildings with an aggregate net book value of approximately RMB103 million (Section 3, note (a)). In addition, as at 31 December 2005, the secured bank loan of the Group amounting to RMB44.3 million were secured by certain of the Group's pledged time deposits (Section 3, note (m)).

As at 30 June 2006, the secured bank loans of the Group and the Company amounting to RMB277 million were secured by certain of the Company's buildings and construction in progress with an aggregate net book value of approximately RMB443 million (Section 3, note (a)). In addition, as at 30 June 2006, the secured bank loan of the Group amounting to RMB10 million were secured by certain of the Group's pledged time deposits (Section 3, note (m)).

(ii) Unsecured bank loans

As at 31 December 2003, the unsecured bank loans of the Group and the Company amounting to RMB100 million (the Company: RMB100 million) was guaranteed by Beijing Blue Island Tower, an unrelated third party, amounting to RMB4.17 million (the Company: Nil) was guaranteed by Chaoyang Auxillary and amounting to RMB210 million (the Company: Nil) was guaranteed by the Company.

As at 31 December 2004, the unsecured bank loans of the Group and the Company amounting to RMB100 million (the Company: RMB100 million) was guaranteed by Beijing Blue Island Tower, amounting to RMB20 million (the Company: RMB20 million) was guaranteed by Chaoyang Auxillary and amounting to RMB170 (the Company: Nil) million was guaranteed by the Company.

As at 31 December 2005, the unsecured bank loans of the Group and the Company amounting to RMB100 million (the Company: RMB100 million) was guaranteed by Beijing Blue Island Tower and amounting to RMB200 million (the Company: Nil) was guaranteed by the Company. In addition, there were consignment loans from third parties amounting to RMB20 million (the Company: RMB10 million) as at 31 December 2005.

As at 30 June 2006, the unsecured bank loans of the Group amounting to RMB180 million was guaranteed by the Company. In addition, there were consignment loans from a third party amounting to RMB18 million as at 30 June 2006.

Consignment loans are tri-partite arrangements, under which banks, as entrusted by certain non-financial institutions, lend the Group the funds sourced from such non-financial institutions at a management fee. Such non-financial institutions are considered the providers of the consignment loans. Consignment loans generally bear interest rates higher than those of normal bank borrowings. As advised by the Company's PRC counsel, Zhong Lun Wen De Law Firm, that such consignment loan arrangements are in compliance with applicable laws and regulations in Mainland China.

(B) Other borrowings

Except for interest-free borrowings of RMB2 million, RMB22 million, RMB20 million and nil as at 31 December 2003, 2004 and 2005 and 30 June 2006, respectively, all of the Group's and the Company's other borrowings, which are denominated in RMB, bear annual interest rates ranging from 3.00% to 6.24%, 3.60% to 5.31%, 3.60% to 5.25% and 4.72% to 5.25% as at 31 December 2003, 2004 and 2005 and 30 June 2006, respectively.

Included in unsecured other borrowings of the Group and the Company as at 31 December 2003 were borrowings from employees amounting to RMB181 million (the Company: RMB142 million) and other loans amounting to RMB27.8 million (the Company: RMB16.9 million). The Company obtained a one-day bridging loan of RMB90 million from BITIC (as further defined below) through Chaoyang Auxillary. The Company used such bridging loan together with its internal resources to fully repay the borrowings from employees before 30 June 2004 (Section 2, note (g)). Please also refer to "Further Information on the Employee Loans, the BITIC Loans and the Employee Investments" under the Financial Information of the Prospectus for information.

Included in unsecured other borrowings of the Group and the Company as at 31 December 2004 were borrowings from Beijing International Trust and Investment Company Limited ("BITIC"), a non-bank financial institution, amounting to RMB220 million (the Company: RMB180 million) and other loans amounting to RMB49 million (the Company: RMB36 million). The BITIC borrowing of RMB180 million was guaranteed by Chaoyang Auxillary and the remaining BITIC borrowing of RMB40 million was guaranteed by the Company.

Included in unsecured other borrowings of the Group and the Company as at 31 December 2005 were borrowings from BITIC amounting to RMB302.3 million (the Company: RMB242.3 million) and other loans amounting to RMB24 million (the Company: RMB24 million). The BITIC borrowing of RMB242.3 million was guaranteed by Chaoyang Auxillary and the remaining BITIC borrowing of RMB60 million was guaranteed by the Company.

Unsecured other borrowings of the Group and the Company as at 30 June 2006 were borrowings from BITIC amounting to RMB272.3 million (the Company: RMB212.3 million). The BITIC borrowing of RMB212.3 million was guaranteed by Chaoyang Auxillary and the remaining BITIC borrowing of RMB60 million was guaranteed by the Company.

(o) Other payables and accruals

Group

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accrued salaries, wages and benefits	104,327	111,637	93,989	79,969
Deposit from suppliers/lessees	9,932	13,550	91,794	108,063
Interest expense payable	8,678	4,159	6,037	2,851
Rental expense payable	1,994	1,025	3,862	6,402
Accrued operating expenses	6,611	3,566	1,014	1,157
Others	27,734	27,966	21,433	24,761
Total	159,276	161,903	218,129	223,203

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payables and accruals:				
Within one year or on demand	102,441	142,198	209,379	214,453
In the second year, accrued salaries, wages and benefits	39,335	10,955	8,750	8,750
In the third to fifth years, inclusive accrued salaries, wages and benefits	17,500	8,750	–	–
Total other payables and accruals	159,276	161,903	218,129	223,203
Less: Portion classified as current liabilities	(102,441)	(142,198)	(209,379)	(214,453)
Long term portion – accrued salaries, wages and benefits	56,835	19,705	8,750	8,750

Company

	As at 31 December			As at 30 June
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accrued salaries, wages and benefits	74,518	78,400	73,374	65,624
Deposit from suppliers/lessees	7,577	10,212	86,691	101,794
Interest expense payable	5,244	3,969	5,726	2,668
Rental expense payable	1,032	423	2,525	5,089
Accrued operating expenses	2,899	225	923	1,093
Others	11,716	10,544	15,868	13,552
Total	102,986	103,773	185,107	189,820

	As at 31 December			As at 30 June
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payables and accruals:				
Within one year or on demand	65,960	86,273	176,357	181,070
In the second year, accrued salaries, wages and benefits	19,526	8,750	8,750	8,750
In the third to fifth years, inclusive accrued salaries, wages and benefits	17,500	8,750	–	–
Total other payables and accruals	102,986	103,773	185,107	189,820
Less: Portion classified as current liabilities	(65,960)	(86,273)	(176,357)	(181,070)
Long term portion – accrued salaries, wages and benefits	37,026	17,500	8,750	8,750

(p) Deferred tax liabilities

The movements in deferred tax liabilities of the Group and the Company during the Relevant Period are as follows:

	As at 31 December			As at 30 June
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period	–	1,155	12,271	15,747
Additions during the year/period	1,155	11,116	3,476	1,985
At end of year/period	1,155	12,271	15,747	17,732
Provision in respect of:				
Temporary difference arising from capitalised interest expenses into construction in progress	1,155	3,201	7,029	9,190
Temporary differences arising from gain on exchange of property, plant and equipment	–	9,070	8,718	8,542
	1,155	12,271	15,747	17,732

(q) Trade payables

An aged analysis of the trade payables of the Group and the Company, based on invoice date, is analysed as follows:

Group

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 2 months	429,615	569,473	581,688	550,094
2 to 6 months	57,952	53,264	46,608	57,516
6 months to 1 year	5,872	4,358	3,576	2,669
1 to 2 years	4,967	4,306	2,976	2,215
Over 2 years	8,151	3,974	7,182	4,797
	506,557	635,375	642,030	617,291

Included in trade payables were the balances of cash advances made by customers into the Jingkelong cards of Nil, RMB62 million, RMB94 million and RMB105 million as at 31 December 2003, 2004 and 2005 and 30 June 2006, respectively.

Company

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 2 months	239,164	277,078	304,629	328,094
2 to 6 months	54,219	43,613	43,026	49,028
6 months to 1 year	4,164	2,754	2,151	1,561
1 to 2 years	4,851	3,244	1,163	1,034
Over 2 years	7,322	3,455	5,672	3,728
	309,720	330,144	356,641	383,445

Included in trade payables were the balances of cash advances made by customers into the Jingkelong cards of Nil, RMB53 million, RMB81 million and RMB89 million as at 31 December 2003, 2004 and 2005 and 30 June 2006, respectively.

(r) Bills payable

Group

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 90 days	37,100	–	–	–

Included in the Group's balances were bills payable to unrelated parties amounting to RMB24.6 million as at 31 December 2003. The remaining bills payable of RMB12.5 million were discounted by the Group with banks prior to 31 December 2003.

In addition to a guarantee of RMB9 million by Chaoyang Auxillary, the Group's bills payable as at 31 December 2003 were secured by certain of the Group's buildings (Section 3, note (a)) and the pledged time deposits (Section 3, note (m)).

(s) Deferred income

Group and Company

	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount as at 1 January	–	–	–	4,000
Received during the year/period	–	–	4,000	–
Released to the income statement	–	–	–	(133)
Carrying amount as at 31 December/30 June	–	–	4,000	3,867
Current portion	–	–	(267)	(267)
Non-current portion	–	–	3,733	3,600

In 2005, Beijing Municipal Commission of Development and Reform and Beijing Municipal Chao Yang District Finance Bureau granted RMB3 million and RMB1 million to the Company for the construction of a fresh produce logistics centre and a logistics system, respectively. The constructions have been completed as at 31 December 2005. Therefore, the amounts are recorded in government grants and amortised over the useful lives of the corresponding assets commencing from 1 January 2006.

(t) Contingent liabilities

As at 31 December 2003, 2004 and 2005, and 30 June 2006, the Group and the Company had the following contingent liabilities:

Group

	As at 31 December			As at 30 June
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guarantee given to banks in connection with facilities granted to associates	10,000	–	–	–
Guarantee given to banks in connection with automobile consumption loans granted to employees of a then subsidiary	6,112	–	–	–
Guarantee given to banks in connection with automobile consumption loan granted to customers who purchased automobiles from a then subsidiary	41,862	–	–	–
	57,974	–	–	–

Company

	As at 31 December			As at 30 June
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guarantee given to banks in connection with facilities granted to subsidiaries	228,500	173,000	200,000	180,000
Guarantee given to other financial institutions in connection with facilities granted to subsidiaries	–	40,000	60,000	60,000
Guarantee given to banks in connection with facilities granted to associates	10,000	–	–	–
	238,500	213,000	260,000	240,000

(u) Pledge of assets

Details of the Group's and the Company's assets for securing bank loans and bills payable, and the automobile consumption loans granted to employees and customers during the Relevant Periods are included in notes (a), (m), (n) and (r) to Section 3 above, respectively.

(v) Commitments

(1) Capital commitments

As at 31 December 2003, 2004 and 2005 and 30 June 2006, the Group and the Company had the following capital commitments, principally for the construction and acquisition of property, plant and equipment:

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for	85,976	65,403	38,788	104,881

(2) Operating lease commitments

(a) As lessor

The Group and the Company lease its properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 15 years.

As at the end of each of the Relevant Periods, the Group and the Company had the following total future minimum lease receivables under non-cancellable operating leases in respect of buildings with its tenants falling due as follows:

Group

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	19,847	21,686	23,988	19,230
In the second to fifth years, inclusive	67,914	73,860	74,898	53,433
After five years	33,771	22,255	22,901	18,299
	121,532	117,801	121,787	90,962

Company

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	19,346	21,011	19,788	14,242
In the second to fifth years, inclusive	66,903	73,115	58,098	38,493
After five years	31,611	20,275	21,101	16,499
	117,860	114,401	98,987	69,234

(b) As lessee

The Group and the Company lease certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 5 to 20 years.

As at the end of the Relevant Periods, the Group and the Company had the following total future minimum lease payments under non-cancellable operating leases falling due as follows:

Group

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	15,263	40,227	43,574	50,006
In the second to fifth years, inclusive	58,635	165,743	178,404	207,306
After five years	158,315	501,215	446,073	489,228
	232,213	707,185	668,051	746,540

Company

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	8,173	27,207	27,988	33,912
In the second to fifth years, inclusive	34,634	116,181	125,828	150,984
After five years	115,638	424,503	381,675	409,368
	158,445	567,891	535,491	594,264

4. FINANCIAL INSTRUMENTS

Financial assets of the Group mainly include cash and cash equivalents, pledged time deposits, trade receivables, other receivables and long term investments. Financial liabilities of the Group mainly include trade payables, other payables, bank loans and other borrowings.

The carrying amounts of the Group's financial instruments approximated to their fair values as at balance sheet date. Fair value estimates are made at a specific point in time and all based on the relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise bank loans, other interest-bearing loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year/period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and commodity price risk. The board of directors reviews and approves policies for managing each of these risks and they are summarised below:

(i) Interest rate risk

The Group's income statement is affected by changes in interest rates due to the impact of such changes on interest income and expenses from bank balances and bank loans and other borrowings. The Group's policy is to obtain the most favourable interest rates available.

(ii) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing borrowings. The Group's financing activities are managed centrally by maintaining an adequate level of cash and cash equivalents to finance the Group's operations. The Group also ensures the availability of bank credit facilities to address any short term funding requirements.

The Group's surplus funds are also managed centrally by placing them with reputable financial institutions.

(iii) Credit risk

Credit risk arises mainly from the risk that counterparties defaulting on the terms of their agreements. The carrying amounts of cash and cash equivalents, pledged time deposits, trade receivables, other receivables and available-for-sale equity investments represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group monitors the exposure to credit risk on an ongoing basis and credit evaluations are performed on customers requiring credit over a certain amount. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The credit risk on balances of cash and cash equivalents is low as these balances are placed with reputable financial institutions.

As at 31 December 2003, 2004 and 2005 and 30 June 2006, there was no significant concentration of credit risk.

(iv) Commodity price risk

The Group's exposure to price risk is minimal.

6. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The changes in the consolidated shareholders' equity of the Group for the Relevant Periods and the six months ended 30 June 2005 are as follows:

	Attributable to equity holders of the parent									
	Paid-in capital	Issued share capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Proposed final dividend	Retained profits	Subtotal	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2003	236,660	–	–	1,198	599	9,142	777	248,376	52,503	300,879
2002 dividend declared	–	–	–	–	–	(9,142)	–	(9,142)	(2,188)	(11,330)
Net profit for the year	–	–	–	–	–	–	38,867	38,867	7,157	46,024
Appropriation to reserves	–	–	–	4,578	2,289	–	(6,867)	–	–	–
Equity interest disposal	–	–	–	–	–	–	–	–	(11,569)	(11,569)
Proposed final 2003 dividend	–	–	–	–	–	29,133	(29,133)	–	–	–
As at 31 December 2003 and 1 January 2004	236,660	–	–	5,776	2,888	29,133	3,644	278,101	45,903	324,004
2003 dividend declared	–	–	–	–	–	(29,133)	–	(29,133)	(6,400)	(35,533)
Capitalisation of reserves upon transformation into a joint stock company (a)	(236,660)	246,620	–	(3,997)	(1,999)	–	(3,964)	–	–	–
Net profit for the year	–	–	–	–	–	–	73,528	73,528	10,641	84,169
Transfer to capital reserves (b)	–	–	4,426	–	–	–	(4,426)	–	–	–
Appropriation to reserves	–	–	–	6,532	3,266	–	(9,798)	–	–	–
Equity interest acquisition	–	–	–	–	–	–	–	–	15,307	15,307
Equity interest disposal	–	–	–	–	–	–	–	–	(6,654)	(6,654)
Equity interest transfer	–	–	–	–	–	–	–	–	(1,700)	(1,700)
Proposed final 2004 dividend	–	–	–	–	–	39,502	(39,502)	–	–	–
Special 2004 dividend declared	–	–	–	–	–	–	(3)	(3)	–	(3)
As at 31 December 2004 and 1 January 2005	–	246,620	4,426	8,311	4,155	39,502	19,479	322,493	57,097	379,590
2004 dividend declared	–	–	–	–	–	(39,502)	–	(39,502)	(10,715)	(50,217)
Net profit for the year	–	–	–	–	–	–	75,098	75,098	23,248	98,346
Release of unpaid liability	–	–	695	–	–	–	–	695	–	695
Appropriation to reserves	–	–	–	10,211	5,105	–	(15,316)	–	–	–
Equity interest injection	–	–	–	–	–	–	–	–	7,132	7,132
Equity interest transfer	–	–	–	–	–	–	–	–	(1,972)	(1,972)
Equity interest acquisition	–	–	–	–	–	–	–	–	(870)	(870)
Proposed final 2005 dividend	–	–	–	–	–	56,367	(56,367)	–	–	–
As at 31 December 2005 and 1 January 2006	–	246,620	5,121	18,522	9,260	56,367	22,894	358,784	73,920	432,704
2005 dividend declared	–	–	–	–	–	(56,367)	–	(56,367)	(16,090)	(72,457)
Net profit for the period	–	–	–	–	–	–	47,305	47,305	11,816	59,121
As at 30 June 2006	–	246,620	5,121	18,522	9,260	–	70,199	349,722	69,646	419,368

(Unaudited)	Attributable to equity holders of the parent									
	Paid-in capital	Issued share capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Proposed final dividend	Retained profits	Subtotal	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2004 and 1 January 2005	–	246,620	4,426	8,311	4,155	39,502	19,479	322,493	57,097	379,590
2004 dividend declared	–	–	–	–	–	(39,502)	–	(39,502)	(10,715)	(50,217)
Net profit for the period	–	–	–	–	–	–	38,422	38,422	13,515	51,937
Equity interest injection	–	–	–	–	–	–	–	–	5,492	5,492
As at 30 June 2005	–	246,620	4,426	8,311	4,155	–	57,901	321,413	65,389	386,802

The changes in the shareholders' equity of the Company for the Relevant Periods and the six months ended 30 June 2005 are as follows:

	Paid-in capital	Issued share capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Proposed final dividend	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2003	236,660	–	–	570	285	9,142	2,024	248,681
2002 dividend declared	–	–	–	–	–	(9,142)	–	(9,142)
Net profit for the year	–	–	–	–	–	–	35,577	35,577
Appropriation to reserves	–	–	–	3,427	1,714	–	(5,141)	–
Proposed final 2003 dividend	–	–	–	–	–	29,133	(29,133)	–
As at 31 December 2003 and 1 January 2004	236,660	–	–	3,997	1,999	29,133	3,327	275,116
2003 dividend declared	–	–	–	–	–	(29,133)	–	(29,133)
Capitalisation of reserves upon transformation into a joint stock company (a)	(236,660)	246,620	–	(3,997)	(1,999)	–	(3,964)	–
Net profit for the year	–	–	–	–	–	–	70,281	70,281
Transfer to capital reserves (b)	–	–	4,426	–	–	–	(4,426)	–
Appropriation to reserves	–	–	–	4,647	2,324	–	(6,971)	–
Proposed final 2004 dividend	–	–	–	–	–	39,502	(39,502)	–
Special 2004 dividend declared	–	–	–	–	–	–	(3)	(3)
As at 31 December 2004 and 1 January 2005	–	246,620	4,426	4,647	2,324	39,502	18,742	316,261
2004 dividend declared	–	–	–	–	–	(39,502)	–	(39,502)
Release of unpaid liability	–	–	695	–	–	–	–	695
Net profit for the year	–	–	–	–	–	–	60,391	60,391
Appropriation to reserves	–	–	–	6,631	3,316	–	(9,947)	–
Proposed final 2005 dividend	–	–	–	–	–	56,367	(56,367)	–
As at 31 December 2005 and 1 January 2006	–	246,620	5,121	11,278	5,640	56,367	12,819	337,845
2005 dividend declared	–	–	–	–	–	(56,367)	–	(56,367)
Net profit for the period	–	–	–	–	–	–	47,378	47,378
As at 30 June 2006	–	246,620	5,121	11,278	5,640	–	60,197	328,856

(Unaudited)	Paid-in capital *RMB'000*	Issued share capital *RMB'000*	Capital reserve *RMB'000*	Statutory surplus reserve *RMB'000*	Statutory public welfare fund *RMB'000*	Proposed final dividend *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
As at 31 December 2004 and 1 January 2005	–	246,620	4,426	4,647	2,324	39,502	18,742	316,261
2004 dividend declared	–	–	–	–	–	(39,502)	–	(39,502)
Net profit for the period	–	–	–	–	–	–	34,051	34,051
As at 30 June 2005	–	246,620	4,426	4,647	2,324	–	52,793	310,810

(a) On 1 November 2004, the Company was transformed from a limited liability company into a joint stock company with limited liability by converting its net assets as at 31 December 2003, as determined in accordance with the PRC GAAP into 246,620,000 domestic shares of RMB1.00 each. As at 31 December 2004, the Company's authorised and issued share capital is RMB246,620,000, divided into 246,620,000 domestic shares of RMB1.00 each.

(b) On 11 June 2004, the equity owners of the Company entered into an agreement whereby the mode of capital contribution by Chaoyang Auxillary in May 2002 was approved to change from buildings to cash.

In May 2002, when the Company converted from a state-owned enterprise into a limited liability company, Chaoyang Auxillary pledged to increase its investment in the Company to RMB176.5 million which included, among others, contributing buildings of approximately RMB57 million into the Company. Since taking possession of the property in April 2002, the Company had not been able to register the property ownership with the relevant authorities for the aforesaid buildings so contributed by Chaoyang Auxillary under its name. To comply with the relevant rules governing capital contribution stipulated by the State Administration of Industry and Commerce, the PRC, under which an investor is required to contribute other assets to substitute the original contributed assets when the title of which is not transferred to and is registered under the name of the investee within the time limit specified in the rules, all the shareholders of the Company agreed on 11 June 2004 to have Chaoyang Auxillary change its mode of capital contribution to cash of approximately RMB57 million, equivalent to the amount of the buildings originally contributed in May 2002, and take back the above-mentioned buildings upon cash contribution. The shareholders of the Company further agreed that there should be no change to the registered capital and the respective equity interests of each of the shareholders immediately after the completion of the agreement. Chaoyang Auxillary contributed cash of approximately RMB57 million and took back the above-mentioned buildings in June 2004.

An amount of approximately RMB4.4 million, representing an excess of the above cash contribution of approximately RMB57 million over the then carrying amount of the above-mentioned buildings of approximately RMB52.6 million on the date of completion of the agreement, was credited to the income statement and then appropriated to the capital reserve account as additional paid-in capital arising from the change of capital contribution mode by Chaoyang Auxillary.

(c) As set out in note (i) to Section 2, for dividend purposes, the amount for which the Company can legally distribute by way of a dividend is determined by reference to its profit as reflected in its PRC statutory financial statements prepared in accordance with the PRC GAAP. These profits differ from those that are reflected in this report, which are prepared in accordance with the HKFRSs.

Upon listing of the Company's shares on the Growth Enterprise Market of the Stock Exchange, the Company may not distribute dividends exceeding the lower of the Group's distributable reserves as determined under the PRC GAAP and the HKFRSs. In accordance with the Company Law of the PRC, profit after tax can be distributed as dividends after appropriation to the statutory surplus reserve as set out in note (i) to Section 2.

The Company's maximum distributable reserves as at 30 June 2006, which represent the Company's reserves as determined in accordance with the PRC GAAP after deduction of the minimum transfers to the statutory surplus reserve as set out in note (i) to Section 2, amounted to approximately RMB38.2 million.

7. CONSOLIDATED CASH FLOW STATEMENTS

The consolidated cash flow statements of the Group for the Relevant Periods and the six months ended 30 June 2005 are as follows:

		Year ended 31 December			Six months ended 30 June	
		2003	2004	2005	2005	2006
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		67,201	128,402	145,504	78,731	92,398
Adjustments for:						
Finance costs		22,944	21,118	19,073	10,547	8,687
Interest income		(6,174)	(8,987)	(8,378)	(6,740)	(7,200)
Dividend income from an available-for-sale equity investment		–	–	(30)	–	–
Excess over the cost of a business combination		–	(169)	(1,972)	–	–
Goodwill written off		–	186	–	–	–
Amortisation		617	1,188	1,064	519	536
Impairment loss of investments		–	1,188	–	–	–
(Gain)/loss on disposal of subsidiaries	*(b)*	(887)	1,410	–	–	–
Gain on disposal of an associate		–	(1,248)	–	–	–
Gain on exchange of property, plant and equipment		–	(27,486)	–	–	–
Share of net profits and losses of associates		(3,391)	(2,685)	32	60	10
Gain on disposal of a short term investments		–	–	(18)	(18)	–
(Gain)/loss on disposal of property, plant and equipment, net		(4,090)	(2,710)	1,468	823	2
Government grants		–	(50)	–	–	(133)
Depreciation		51,049	45,616	53,490	26,986	28,396
Provision for bad and doubtful debts		4,405	909	8,818	3,510	3,738
Provision/(write-back of provision) against inventories		3,750	2,067	(569)	(549)	–
Operating profit before working capital changes		135,424	158,749	218,482	113,869	126,434
(Increase)/decrease in inventories		(98,883)	40,830	(32,905)	70,278	42,549
(Increase)/decrease in trade receivables		(68,315)	(82,679)	(65,389)	115,943	128,380
(Increase)/decrease in prepayments, deposits and other receivables		9,514	(17,730)	(32,021)	57,307	30,467
(Increase)/decrease in a net amount due from related parties		4,953	(10,497)	3,461	3,244	36
(Increase)/decrease in amounts due from associates		(29,481)	65,846	(63)	218	263
(Increase)/decrease in other long term lease prepayments		–	(4,667)	4,667	–	(17,910)
Increase/(decrease) in trade payables		56,331	45,552	(7,763)	(138,555)	(18,618)
Increase/(decrease) in bills payable		17,100	(23,440)	–	–	–
Increase/(decrease) in other payables and accruals		1,998	35,872	67,105	(640)	5,074
Increase/(decrease) in other long term payables		2,838	(37,128)	(10,955)	(10,955)	–
Increase/(decrease) in a net amount due from/to Chaoyang Auxillary		6,016	(77,314)	13,671	9,697	(11,238)
Cash generated from operations		37,495	93,394	158,290	220,406	285,437
Interest paid		(17,433)	(24,029)	(18,802)	(10,796)	(11,036)
PRC corporate income tax paid		(11,763)	(27,122)	(42,929)	(34,963)	(33,959)
Net cash inflow from operating activities		**8,299**	**42,243**	**96,559**	**174,647**	**240,442**

	Notes	Year ended 31 December 2003 RMB'000	2004 RMB'000	2005 RMB'000	Six months ended 30 June 2005 RMB'000 (Unaudited)	2006 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received		6,174	8,987	8,378	6,740	7,200
Dividend received		835	2,735	30	–	–
Proceeds of disposal of short term investments		–	–	1,218	1,218	–
Purchases of property, plant and equipment		(161,862)	(85,384)	(236,520)	(40,199)	(132,312)
Purchases of lease prepayments for land use rights		(2,501)	(71,322)	–	–	–
Purchases of intangible assets		(817)	(1,851)	(1,034)	–	(609)
Proceeds from disposal of property, plant and equipment		13,979	777	2,612	2,440	1,899
Acquisition of subsidiaries	(a)	–	12,515	–	–	–
Additional investment in subsidiaries		–	(1,628)	(880)	–	–
Investment in associates		(1,700)	–	–	–	–
Disposal of subsidiaries	(b)	(2,388)	(1,448)	–	–	–
Disposal of an associate		–	14,984	–	–	–
Increase in short term investments		–	(1,200)	–	–	–
Increase/(decrease) in pledged time deposits		(8,082)	2,085	(13,291)	–	10,291
Net cash outflow from investing activities		**(156,362)**	**(120,750)**	**(239,487)**	**(29,801)**	**(113,531)**
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from change of capital contribution		–	57,046	–	–	–
Cash contribution of minority shareholders		–	2,150	7,132	5,492	–
Proceeds from government grants		–	50	4,076	4,000	–
New bank loans and other borrowings		377,260	643,000	696,604	242,300	365,000
Repayment of bank loans and other borrowings		(222,670)	(595,772)	(468,000)	(216,000)	(398,304)
Prepayment of listing expenses		–	(3,876)	(2,800)	(1,014)	(3,547)
Dividends paid to shareholders		–	(28,552)	(29,466)	(29,466)	(42,047)
Dividends paid to minority shareholders		(4,356)	(13,391)	(20,742)	(10,141)	(29,686)
Net cash inflow/(outflow) from financing activities		**150,234**	**60,655**	**186,804**	**(4,829)**	**(108,584)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		2,171	(17,852)	43,876	140,017	18,327
Cash and cash equivalents at beginning of year/period		192,546	194,717	176,865	176,865	220,741
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		**194,717**	**176,865**	**220,741**	**316,882**	**239,068**

Notes:

(a) Acquisition of subsidiaries

In June 2004, the Company's subsidiary, Chaopi Trading entered into two equity transfer agreements with Chaoyang Auxillary to acquire additional 11.11% and 12.50% equity interests in Chaopi Huaqing and Chaopi Flavourings, respectively. Upon the completion of the equity transfer, Chaopi Trading owned total equity interest of 52.22% and 56.25% in Chaopi Huaqing and Chaopi Flavourings, respectively. Chaopi Huaqing and Chaopi Flavourings became the subsidiaries of Chaopi Trading from then onwards.

The acquisition of additional interests in Chaopi Huaqing and Chaopi Flavourings is accounted for under the purchase method of accounting. On the effective date of the acquisition, the assets and liabilities of Chaopi Huaqing and Chaopi Flavourings were as follows:

	Chaopi Huaqing	Chaopi Flavourings	Total
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	1,116	2,033	3,149
Trade receivables	32,536	60,851	93,387
Cash and bank balances	2,135	13,839	15,974
Prepayments, deposits and other receivables	11,001	3,779	14,780
Inventories	8,786	22,112	30,898
Trade payables	(14,931)	(51,532)	(66,463)
CIT payable	(293)	(1,782)	(2,075)
Other payables and accruals	(27,928)	(32,972)	(60,900)
	12,422	16,328	28,750
Less: Minority interest	(6,226)	(7,144)	(13,370)
Less: Carrying amounts of investments in associates before the acquisition	(4,816)	(7,143)	(11,959)
Net assets acquired arising from increase in equity interests attributable to the Group	1,380	2,041	3,421
Goodwill/(Excess over the cost of a business combination) on acquisition	(74)	112	38
	1,306	2,153	3,459
Satisfied by:			
Cash	1,306	2,153	3,459

An analysis of the inflow of cash and cash equivalents in respect of the acquisition of additional equity interests in Chaopi Huaqing and Chaopi Flavourings is as follows:

	RMB'000
Total cash consideration	(3,459)
Cash and bank balances acquired	15,974
Net inflow of cash and cash equivalents in respect of the acquisition of additional equity interests in Chaopi Hauqing and Chaopi Flavourings	12,515

Since their acquisition, Chaopi Huaqing and Chaopi Flavourings contributed approximately RMB99.4 million and RMB268.2 million, respectively, to the Group's turnover, and approximately a net loss of RMB0.26 million and a net profit of RMB3 million, respectively, to the consolidated profit after tax and before minority interests for the year ended 31 December 2004.

(b) Disposal of subsidiaries

(i) Disposal of Yiyuantang in 2003

Pursuant to an equity transfer agreement entered into between the Company and BITIC on 8 July 2003, the Company disposed of its 35.065% equity interests in Yiyuantang for a cash consideration of RMB14,467,000. Immediately after the disposal, the Company had only 35.065% equity interests in Yiyuantang.

On the effective date of disposal on 23 June 2003, the assets and liabilities of Yiyuantang were as follows:

	RMB'000
Property, plant and equipment	23,306
Interests in associates	2,363
Trade receivables	23,298
Amounts due from related parties	1,198
Cash and bank balances	16,855
Prepayments, deposits and other receivables	10,582
Inventories	36,787
Short term bank loan	(5,000)
Trade payables	(51,525)
CIT payable	733
Other payables and accruals	(13,717)
Amounts due to related parties	(6,151)
	38,729
Less: Minority interests	(11,569)
Less: Carrying amounts of investments in associates held after the disposal	(13,580)
Net assets disposed of arising from the partial disposition of equity interests attributable to the Group	13,580
Gain on disposal of a subsidiary	887
	14,467
Satisfied by:	
Cash	14,467

An analysis of the outflow of cash and cash equivalents in respect of the disposal of Yiyuantang is as follows:

	RMB'000
Cash consideration	14,467
Cash and bank balances disposed of	(16,855)
Net outflow of cash and cash equivalents in respect of the disposal of Yiyuantang	(2,388)

Prior to its disposition, Yiyuantang contributed approximately RMB96.1 million to the Group's turnover and approximately a net loss of RMB1.4 million to the consolidated profit after tax and before minority interests for the year ended 31 December 2003.

(ii) Disposal of Tengyuan in 2004

Pursuant to an equity transfer agreement entered into between the Company and Chaoyang Auxillary on 21 June 2004, the Company transferred all its equity interests of 62.73% in Tengyuan.

On the effective date of disposal on 21 June 2004, the assets and liabilities of Tengyuan were as follows:

	RMB'000
Property, plant and equipment	30,240
Trade receivables	6,192
Cash and bank balances	10,486
Pledged deposits	14,322
Prepayments, deposits and other receivables	11,632
Inventories	28,939
Short term bank loan	(9,170)
Trade payables	(1,032)
Bills payable	(13,660)
CIT payable	(52)
Other payables and accruals	(60,795)
Minority interest	(447)
	16,655
Less: Minority interests	(6,207)
Net assets disposed of arising from the disposition of equity interests attributable to the Group	10,448
Loss on disposal of a subsidiary	(1,410)
Cash consideration	9,038
Satisfied by:	
Cash	9,038

An analysis of the outflow of cash and cash equivalents in respect of the disposal of Tengyuan is as follows:

	RMB'000
Cash consideration	9,038
Cash and bank balances disposed of	(10,486)
Net outflow of cash and cash equivalents in respect of the disposal of Tengyuan	(1,448)

Prior to its disposition, Tengyuan contributed approximately RMB98.2 million to the Group's turnover and approximately RMB20,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2004.

(c) The net cash flow attributable to discontinued operations

	Year ended 31 December			**Six months ended 30 June**	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Operating	10,311	1,391	–	–	–
Investing	(20,492)	(10,498)	–	–	–
Financing	16,624	141	–	–	–
Net cash inflow/(outflow)	6,443	(8,966)	–	–	–

8. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of assets. No further geographical segment information is presented as the Group's customers and operations are located in the PRC.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments during the Relevant Periods and the six months ended 30 June 2005 are as follows:

(i) the retailing segment engages in the distribution of live and fresh produce, dry products, beverages, processed food and daily necessities through Retail Outlets;

(ii) the wholesaling segment engages in the wholesale supply of daily consumer products to consumers including the Retail Outlets and other retail operators, and trading companies;

(iii) the pharmaceuticals segment engages in the retailing and wholesaling of prescribed and over-the-counter pharmaceuticals; and

(iv) the automobile segment engages in the trading of motor vehicles and the provision of related repair services.

Segment assets and liabilities mainly comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Year ended 31 December 2003	Continuing operations			Discontinued operations			
	Retailing	Wholesaling	Others*	Pharmaceuticals	Automobile	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue							
Sales to external customers	1,864,672	1,026,615	2,821	95,889	269,037	–	3,259,034
Intersegment sales	105,950	149,773	7,913	–	1,311	(264,947)	–
Interest income	3,118	2,802	14	65	175	–	6,174
Other income	102,865	1,862	530	821	197	–	106,275
	2,076,605	1,181,052	11,278	96,775	270,720	(264,947)	3,371,483
Results							
Segment results	57,382	24,584	260	(806)	4,447	–	85,867
Gain on disposal of a subsidiary							887
Profit from operating activities							86,754
Finance costs	(13,107)	(7,076)	–	(299)	(2,462)	–	(22,944)
Share of net profits and losses of associates	–	3,725	–	(334)	–	–	3,391
Profit before tax							67,201
Tax							(21,177)
Profit for the year							46,024
Assets and liabilities							
Segment assets	972,342	536,029	4,164	–	107,278	(46,189)	1,573,624
Interests in associates	–	62,187	–	30,291	–	–	92,478
Total assets	972,342	598,216	4,164	30,291	107,278	(46,189)	1,666,102
Segment liabilities	(802,998)	(492,712)	(2,368)	–	(90,209)	46,189	(1,342,098)
Total liabilities	(802,998)	(492,712)	(2,368)	–	(90,209)	46,189	(1,342,098)
Other segment information:							
Capital expenditure	153,264	10,935	136	2,123	13,239	–	179,697
Depreciation	40,641	5,480	118	1,072	3,738	–	51,049
Amortisation – intangible assets	617	–	–	–	–	–	617

Year ended 31 December 2004	Continuing operations Retailing	Wholesaling	Others*	Discontinued operations Pharmaceuticals	Automobile	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue							
Sales to external customers	2,009,270	1,555,895	3,700	–	97,893	–	3,666,758
Intersegment sales	97,725	255,649	8,026	–	–	(361,400)	–
Interest income	6,762	2,105	8	–	112	–	8,987
Other income	139,809	5,350	666	–	2	–	145,827
	2,253,566	1,818,999	12,400	–	98,007	(361,400)	3,821,572
Results							
Segment results	97,738	48,719	272	–	268	–	146,997
Gain on disposal of an associate							1,248
Loss on disposal of subsidiary							(1,410)
Profit from operating activities							146,835
Finance costs	(9,027)	(11,961)	–	–	(130)	–	(21,118)
Share of net profits and losses of associates	–	2,177	–	508	–	–	2,685
Profit before tax							128,402
Tax							(44,233)
Profit for the year							84,169
Assets and liabilities							
Segment assets	1,067,356	769,103	3,802	–	–	(57,865)	1,782,396
Interests in associates	–	887	–	–	–	–	887
Total assets	1,067,356	769,990	3,802	–	–	(57,865)	1,783,283
Segment liabilities	(816,734)	(642,850)	(1,974)	–	–	57,865	(1,403,693)
Total liabilities	(816,734)	(642,850)	(1,974)	–	–	57,865	(1,403,693)
Other segment information							
Capital expenditure	124,655	22,640	129	–	5,695	–	153,119
Depreciation	40,075	3,691	106	–	1,744	–	45,616
Amortisation – lease prepayments for land use rights	125	–	–	–	–	–	125
Amortisation – intangible assets	1,063	–	–	–	–	–	1,063
Impairment loss of investments	–	1,188	–	–	–	–	1,188

Year ended 31 December 2005	Continuing operations			Discontinued operations			
	Retailing	Wholesaling	Others*	Pharmaceuticals	Automobile	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue							
Sales to external customers	2,060,573	2,057,361	3,814	–	–	–	4,121,748
Intersegment sales	106,107	298,323	8,029	–	–	(412,459)	–
Interest income	7,463	911	4	–	–	–	8,378
Other income	124,098	10,557	635	–	–	–	135,290
	2,298,241	2,367,152	12,482	–	–	(412,459)	4,265,416
Results							
Segment results	73,893	90,389	327	–	–	–	164,609
Profit from operating activities							164,609
Finance costs	(7,121)	(15,225)	(34)	–	–	3,307	(19,073)
Share of net profits and losses of associates	–	(32)	–	–	–	–	(32)
Profit before tax							145,504
Tax							(47,158)
Profit for the year							98,346
Assets and liabilities							
Segment assets	1,365,788	975,996	3,607	–	–	(204,126)	2,141,265
Interests in associates	–	918	–	–	–	–	918
Total assets	1,365,788	976,914	3,607	–	–	(204,126)	2,142,183
Segment liabilities	(1,125,687)	(786,259)	(1,659)	–	–	204,126	(1,709,479)
Total liabilities	(1,125,687)	(786,259)	(1,659)	–	–	204,126	(1,709,479)
Other segment information							
Capital expenditure	221,752	22,630	8	–	–	–	244,390
Depreciation	44,174	9,201	115	–	–	–	53,490
Amortisation – lease prepayments for land use rights	752	–	–	–	–	–	752
Amortisation – intangible assets	312	–	–	–	–	–	312

Six month ended 30 June 2005 (Unaudited)	Continuing operations			Discontinued operations			
	Retailing	Wholesaling	Others*	Pharmaceuticals	Automobile	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue							
Sales to external customers	1,052,799	998,077	2,923	–	–	–	2,053,799
Intersegment sales	52,502	147,274	3,049	–	–	(202,825)	–
Interest income	5,943	797	–	–	–	–	6,740
Other income	70,446	5,878	311	–	–	–	76,635
	1,181,690	1,152,026	6,283	–	–	(202,825)	2,137,174
Results							
Segment results	43,238	45,944	156	–	–	–	89,338
Profit from operating activities							89,338
Finance costs	(3,464)	(8,995)	(15)	–	–	1,927	(10,547)
Share of net profits and losses of associates	–	(60)	–	–	–	–	(60)
Profit before tax							78,731
Tax							(26,794)
Profit for the period							51,937
Other segment information:							
Depreciation	22,276	4,653	57	–	–	–	26,986
Amortisation – lease prepayments for land use rights	376	–	–	–	–	–	376
Amortisation – intangible assets	143	–	–	–	–	–	143

Six month ended 30 June 2006	Continuing operations Retailing RMB'000	Continuing operations Wholesaling RMB'000	Continuing operations Others* RMB'000	Discontinued operations Pharmaceuticals RMB'000	Discontinued operations Automobile RMB'000	Eliminations RMB'000	Consolidated RMB'000
Revenue							
Sales to external customers	1,121,636	1,037,148	2,321	–	–	–	2,161,105
Intersegment sales	54,205	159,431	3,990	–	–	(217,626)	–
Interest income	1,861	5,337	2	–	–	–	7,200
Other income	69,519	16,650	197	–	–	–	86,366
	1,247,221	1,218,566	6,510	–	–	(217,626)	2,254,671
Results							
Segment results	47,519	53,401	175	–	–	–	101,095
Profit from operating activities							101,095
Finance costs	(2,327)	(9,506)	–	–	–	3,146	(8,687)
Share of net profits and losses of associates	–	(10)	–	–	–	–	(10)
Profit before tax							92,398
Tax							(33,277)
Profit for the period							59,121
Assets and liabilities							
Segment assets	1,357,419	777,259	4,410	–	–	(75,184)	2,063,904
Interests in associates	–	645	–	–	–	–	645
Total assets	1,357,419	777,904	4,410	–	–	(75,184)	2,064,549
Segment liabilities	(1,108,716)	(609,055)	(2,594)	–	–	75,184	(1,645,181)
Total liabilities	(1,108,716)	(609,055)	(2,594)	–	–	75,184	(1,645,181)
Other segment information:							
Capital expenditure	120,166	5,960	64	–	–	–	126,190
Depreciation	22,794	5,549	53	–	–	–	28,396
Amortisation – lease prepayments for land use rights	376	–	–	–	–	–	376
Amortisation – intangible assets	160	–	–	–	–	–	160

* *Represents primarily the production of plastic packing materials and the production, installation and maintenance of commercial equipments, which is not material enough to be reported separately.*

9. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

(i) Transactions with the Group's holding companies, subsidiaries and associate companies

Apart from those disclosed under Section 3, note (l) and note (n), the Group had the following material transactions with the following related parties during the Relevant Periods and the six months ended 30 June 2005. The terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. The transactions were made on terms agreed between the parties.

Continuing transactions:

Name of Related parties	Relationship with the Company	Nature of transaction	Year ended 31 December 2003	2004	2005	Six months ended 30 June 2005	2006
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Chaoyang Auxillary	Holding company of the Company	Expenses on property leasing	5,016	9,916	9,056	4,958	4,033

In the opinion of the directors, the above transactions and relevant pricing policy were conducted in the ordinary course of business. The transactions will be continued after the listing of shares of the Company on the Stock Exchange.

Pursuant to three property lease agreements and supplementary agreements signed between the Company and Chaoyang Auxillary, between Chaopi Trading and Chaoyang Auxillary dated 30 April 2004 and between Xinyang Tongli and Chaoyang Auxillary dated 1 July 2004, and the supplementary agreements, with the commencement and expiry dates on 1 January 2004 and 31 December 2023, respectively, the Company, Chaopi Trading and Xinyang Tongli rent properties from Chaoyang Auxillary for operation purpose at a basic annual rental expense, inclusive of related business taxes and property taxes of approximately RMB7,340,000, RMB1,099,000 and RMB16,000, respectively, with a term of increase of rental expense including related business taxes by 5% or 20% after each aforesaid fixed rental period. Pursuant to a supplementary agreement dated 24 March 2006 signed between the Company and Chaoyang Auxillary, the Company ceased the rental of one of the leased properties from Chaoyang Auxillary with effective from 1 January 2006. The aggregate annual rental to be paid to Chaoyang Auxillary by the Company since 1 January 2006 was reduced from RMB7,340,000 to RMB6,952,000. In addition to the above, the Company and Chaoyang Auxillary entered into a lease agreement dated 4 April 2006, pursuant to which the Company leases one more property from Chaoyang Auxillary for ten years commencing from 1 July 2006. The annual rental is RMB183,000 and RMB219,000 for the first four years and the remaining six years, respectively.

Pursuant to a deed of indemnity dated 1 March 2006 and a supplementary agreement dated 10 August 2006, Chaoyang Auxillary has undertaken to indemnity the Company against the following:

1. any costs, expenses, losses and claims that the Company and Chaopi Trading may suffer as a result of relocation or eviction from certain premises rented from outside parties in the event of that any of the corresponding tenancy agreements is determined to be void due to a lack of building ownership certificates or proper property title deeds by the lessors;

2. any costs and penalties that the Group may suffer due to the non-compliance with the relevant PRC Laws in respect of borrowings from the employees, the fact that the relevant loan agreements were not enforceable, and that the Group may be subject to a maximum penalty of 5% of the amount of the total borrowings; and

3. any costs and penalties that the Group may suffer due to any breach of the applicable PRC laws and regulations on the use of the Jingkelong cards and the membership reward cards which were issued by the Company as part of the Group's marketing strategy for its retail operations.

Discontinued transactions:

Name of Related parties	Relationship with the Company	Nature of transactions	Year ended 31 December 2003	2004	2005	Six months ended 30 June 2005	2006
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Chaoyang Auxillary	Holding company of the Company	Sale of property, plant and equipment	12,398	–	–	–	–
		Acquisition of a subsidiary	–	3,459	–	–	–
		Disposal of subsidiary	–	9,038	–	–	–
		Disposal of an associated company	–	14,984	–	–	–
		Disposal of long term investments	–	400	–	–	–
		Transfer out of property, plant and equipment	–	52,620	–	–	–
		Purchases of property, plant and equipment	–	–	7,243	–	–
		Interest expenses	2,973	1,458	257	128	74
		Interest income	–	51	307	307	–
		Compensation income *(note)*	–	–	13,880	13,880	5,426
Chaopi Huaqing	Associate (before becoming a subsidiary of the Company in June 2004)	Purchases of merchandise	42,957	25,597	–	–	–
		Transfer of equity interest	–	1,000	–	–	–
		Interest income	910	566	–	–	–

Name of Related parties	Relationship with the Company	Nature of transactions	Year ended 31 December 2003 RMB'000	2004 RMB'000	2005 RMB'000	Six months ended 30 June 2005 RMB'000 (Unaudited)	2006 RMB'000
Chaopi Flavourings	Associate (before becoming a subsidiary of the Company in June 2004)	Purchases of merchandise	64,698	32,659	–	–	–
		Transfer of equity interest	–	628	–	–	–
		Interest income	1,606	1,012	–	–	–
Tengyuan	Related party (after being fully disposed of by the Company in June 2004)	Automobile repair and maintenance expenses	–	500	250	250	–

The directors are of the opinion that the above transactions and relevant pricing policy were conducted in the ordinary course of business and such transactions will not be continued after the listing of the shares of the Company on the Stock Exchange.

Note:

For the year ended 31 December 2005, the gross compensation income received from Chaoyang Auxillary for the Company's loss of business and the related property, plant and equipment, primarily leasehold improvements and machinery and equipment of a demolished retail outlet and a warehouse originally rented from Chaoyang Auxillary. The net compensation of RMB11.13 million, representing the gross compensation of RMB13.88 million received from Chaoyang Auxillary in excess of the carrying amounts of the related property, plant and equipment upon the demolition of RMB2.75 million, was recorded in the other income account.

During the six months ended 30 June 2006, the net compensation of RMB5.06 million, representing the gross compensation of RMB5.43 million received from Chaoyang Auxillary in excess of the carrying amounts of the related property, plant and equipment upon the demolition of a retail outlet of RMB0.37 million, was recorded in the other income account.

(ii) Transactions with other state-owned enterprises in Mainland China

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-owned Enterprises"). During the Relevant Periods and the six months ended 30 June 2005, the Group had transactions with State-owned Enterprises including, but not limited to, sales and purchases of merchandise. It is impracticable to identify the transactions with the other State-owned Enterprises due to the nature of business of the Group, however, the directors consider that transactions with other State-owned Enterprises are activities conducted in the ordinary course of the Group's business at terms that are consistently applied to all customers, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and other State-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

10. FIRST TIME ADOPTION OF HKFRSs

Reconciliation of equity at 1 January 2003 (date of transition to the HKFRSs):

	RMB'000
Equity attributable to shareholders of the Company reported in the PRC GAAP Consolidated Financial Statements	248,376
Equity attributable to shareholders of the Company under the HKFRSs	248,376

Reconciliation of equity at 31 December 2005 (end of the latest period presented in the most recent annual financial statements under the PRC GAAP):

	RMB'000
Equity attributable to shareholders of the Company reported in the PRC GAAP Consolidated Financial Statements	330,931
Positive goodwill amortisation	(119)
Capitalisation of interest expenses	21,300
Gain on exchange of fixed assets	26,419
Recognition of deferred tax liabilities	(15,747)
Recognition of government grants	(4,000)
Equity attributable to shareholders of the Company under the HKFRSs	358,784

Reconciliation of profit for the year ended 31 December 2005:

	RMB'000
Profit attributable to shareholders of the Company reported in the PRC GAAP Consolidated Financial Statements	66,314
Positive goodwill amortisation	15
Recognition of excess over the cost of a business combination into income statement	1,712
Capitalisation of interest expenses	11,600
Depreciation arisen from gain on exchange of property, plant and equipment	(1,067)
Recognition of deferred tax liabilities	(3,476)
Profit attributable to shareholders of the Company under the HKFRSs	75,098

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Save as disclosed in Section 2 note (f), no emoluments have been paid or are payable to the directors or supervisors of the Company in respect of the Relevant Periods referred to in this report by the Company or any of its subsidiaries. Under the arrangements currently in force, the amount of directors' and supervisors' fees and other emoluments payable to the directors and supervisors of the Company for the year ending 31 December 2006 is estimated to be approximately RMB3,200,000, excluding discretionary bonuses payable under directors' and supervisors' service contracts, a summary of the terms of which is set out in the paragraph headed "Further Information about Our Directors and Supervisors" in Appendix V to the Prospectus.

12. SUBSEQUENT EVENTS

Saved as disclosed in note (i) to Section 9, the Group and the Company did not have any significant subsequent events taking place subsequent to 30 June 2006.

13. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 30 June 2006.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

For illustrative purpose only, the pro forma financial information prepared in accordance with Rule 7.31(1) and paragraph 21 of Appendix 1A of the GEM Listing Rules is set out herein to provide the investors with further information to assess the financial performance of the Group after taking into account the adjusted consolidated net tangible assets attributable to the shareholders of the Company to illustrate the financial position of the Group after completion of the Share Offer and to illustrate the performance of the Group had the Share Offer been completed on 1 January 2006.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma adjusted net intangible assets has been prepared, on the basis of the notes set out below, to illustrate how the Share Offer may have affected the Group's net tangible assets had it occurred as at 30 June 2006.

The unaudited pro forma adjusted net tangible assets has been prepared for illustrative purpose only and, because of its nature, may not give a true picture of the financial position and results of the Group.

	Audited consolidated net tangible assets attributable to the equity holders of the Company as at 30 June 2006	**Estimated net proceeds from the Share Offer**	**Unaudited pro forma adjusted net tangible assets**	**Unaudited pro forma adjusted net tangible assets per Share**	**Unaudited pro forma adjusted net tangible assets per Share**
	RMB'000	*RMB'000*	*RMB'000*	*(RMB)*	*(HK$)*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on an Offer Price of HK$3.90 per H Share	347,193 (equivalent to about HK$340,385)	435,856 (equivalent to about HK$427,310)	783,049	2.14	2.10
Based on an Offer Price of HK$4.50 per H Share	347,193 (equivalent to about HK$340,385)	506,726 (equivalent to about HK$496,790)	853,919	2.33	2.28

Notes:

(1) The audited consolidated net tangible assets attributable to the equity holders of the Company represents the audited consolidated net assets attributable to the equity holders of the Company of approximately RMB349.7 million less intangible assets of approximately RMB2.5 million as at 30 June 2006. The financial information as at 30 June 2006 is extracted from the consolidated balance sheet of the Group set out in "Appendix 1 – Accountants' Report" to this prospectus.

(2) The estimated net proceeds from the Share Offer reflect the estimated proceeds from the Share Offer, net of related expenses and excluding 12,000,000 Sale H Shares, to be received by the Company. This has been shown on the basis of both the upper and lower limits of the range of Offer Price, being HK$3.90 and HK$4.50 per Share.

(3) The number of Shares is based on a total of 366,620,000 Shares issued and outstanding during the entire year, adjusted as if the Share Offer had occurred at 1 January 2006, excluding any Shares that might be issued under the Over-allotment Option.

(4) The translation of Hong Kong dollars into Renminbi was at HK$1.00 to RMB1.02.

B. COMFORT LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report from Ernst & Young, the reporting accountants to the Company, in respect of the unaudited pro forma financial information.

Ernst & Young
安永會計師事務所

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

12 September 2006

The board of directors
Beijing Jingkelong Company Limited

Dear Sirs,

We report on the unaudited pro forma financial information of Beijing Jingkelong Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") which has been prepared by the directors for illustrative purpose only, to provide information about how the public offer and placing of the Company's H shares might have affected the financial information presented, for inclusion as section (A) of Appendix II to the prospectus of the Company dated 12 September 2006 (the "Prospectus"). The basis of preparation of the pro forma financial information is set out on pages 297 and 298 to the Prospectus.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 7.31 (7) of the GEM Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31 (1) of the GEM Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2006 or at any future date.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a letter, a summary of valuation and valuation certificates, prepared for the purpose of incorporation in the prospectus dated 12 September 2006 issued by the Company, received from Vigers Appraisal & Consulting Limited, an independent property valuer, in connection with its valuation on the property interests as at 30 June 2006.

Vigers Appraisal & Consulting Limited
International Property Consultants

10/F The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

12 September 2006

The Directors
Beijing Jingkelong Company Limited
No. 45 Xinyuan Street,
Chaoyang District,
Beijing, The PRC

Dear Sirs,

In accordance with your instructions for us to value the property interests of Beijing Jingkelong Company Limited (the "Company") and its subsidiaries (together referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of such property interests for the purpose of incorporation in this prospectus as at 30 June 2006 ("the Date of Valuation").

Our valuation is our opinion of the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

For property interests in Group I which are owned and occupied by the Group in the PRC, we have valued them on a market basis assuming sale with benefit of vacant possession by reference to comparable market transactions and with reference to depreciated replacement cost approach. Depreciated replacement cost approach means a combination of assessing the market value of the lands portions of the properties and replacement cost of the buildings and structures erected on the land respectively. Hence, the sum of the two results represents the market value of the property as a whole. In the valuation of the land portions, reference has been made to the standard land prices in Beijing and Hebei Province and the sales comparable in the locality. As the nature of the buildings and structures cannot be valued on the basis of market basis, they have therefore been valued on the basis of their depreciated replacement costs. Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimisation". Our opinion of value for each individual property does not necessarily represent the amount that might be realised in the market from the disposal of that particular property. However, the depreciated replacement cost approach generally furnished the most reliable indication of value for property in the absence of a known market based on comparable sales. This approach is subject to adequate potential profitability of the business.

For property interests in Group II which are held under construction for future occupation use in the PRC, we have valued each of the property interest on the basis that the property will be developed and completed in accordance with the Group's latest development proposals provided to us. We have assumed that approvals for the proposals will be granted without onerous conditions. In arriving at our opinion of value, we have valued using the Direct Comparison Approach by making reference to comparable transactions in the locality and have also taken into account the construction costs that will be expended to complete the development to reflect the quality of the completed development. The "Capital value when completed" represents our opinion of the aggregate selling prices of property assuming that it would have been completed as at the date of valuation.

For property interests in Group III which are rented by the Group in the PRC, we have assigned no commercial value to them mainly due to the prohibition against assignment, the lack of substantial profit rents or the short term nature of such interests.

In undertaking our valuation of the property interests, we have relied on the legal opinion provided by the Group's PRC legal adviser, Zhonglun W&D Law Firm (the "PRC Legal Opinion"). Based on the PRC Legal Opinion, details of the current status of titles, grant of major approvals, licenses and documents of the property interests are set out in the valuation certificates.

In the course of our valuation, we have not caused title searches to be made for the property interests at the relevant government bureau. However, we have been provided with extracts from title documents relating to the property interests. We have not, however, searched the original documents to verify ownership or to verify the existence of any lease amendments which do not appear on the copies handed to us. All documents and leases have been used for reference only. All dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by you and therefore are only approximations.

In the course of our valuation, we have assumed that all consents, approvals and licences from relevant PRC government authorities for development of the property interests will be granted without any onerous conditions or undue delay.

We have relied to a considerable extent on information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas. We have also been advised by the Group that no material factors had been concealed or omitted in the information provided to us and we have not independently verified the information so provided.

Our valuation has been made on the assumption that the owner sells the property interests on the market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the values of the property interests. Furthermore, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interests and no forced sale situation in any manner is assumed in our valuation.

In valuing the property interests, we have assumed free and uninterrupted rights to use, occupy or assign the properties for the whole of the unexpired term as granted.

We have inspected the exterior of the properties and, where possible, the interior of the premises. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or any structural defects, though in the course of our inspections we did not note any serious defects. No tests were carried out on any of the services.

We have not carried out investigations on site to determine the suitability of ground conditions and services etc. for any future development, nor have we undertaken any ecological or environmental surveys. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during construction period.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the property interests, we have complied with all the requirements set out in Chapter Eight to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited. In addition, our valuations are prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors (HKIS).

Unless otherwise stated, all monetary amounts stated are in Hong Kong Dollar. The exchange rate used in valuing the property interests in the PRC on 30 June 2006 was HK$1=RMB1.02. There has been no significant fluctuation in the exchange rates for Renminbi against Hong Kong Dollars between the date of valuation and this letter.

We enclosed herewith our summary of valuation and valuation certificates.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited
Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS MHKIS MSc (e-com)
Executive Director

Note: Raymond K. K. Ho, Chartered Surveyor, MRICS, MHKIS, MSc (e-com) has 20 years experience in undertaking valuation of properties in Hong Kong and has over 12 years' experience in the valuation of properties in the PRC.

SUMMARY OF VALUATION

	Property	Market Value as at 30 June 2006	Interest attributable to the Group	Capital Value attributable to the Group as at 30 June 2006

Group I – Property interests owned and occupied by the Group in the PRC

	Property	Market Value as at 30 June 2006	Interest attributable to the Group	Capital Value attributable to the Group as at 30 June 2006
1	Jing Ke Long Hypermarket – Jing Ke Long (Langfang) located at the Fifth Avenue Supermarket, Xinshiji Pedestrian Area, Langfang City, Hebei Province, the PRC	RMB50,800,000 (equivalent to HK$49,800,000)	100%	RMB50,800,000 (equivalent to HK$49,800,000)
2	Jing Ke Long Hypermarket – Tian Shui Yuan branch located at Block 16 Tian Shui Yuan Bei Li, Chaoyang District, Beijing, the PRC	RMB94,600,000 (equivalent to HK$92,700,000)	100%	RMB94,600,000 (equivalent to HK$92,700,000)
3	Jing Ke Long Supermarket – Jinsong branch located at No. 58 Dong San Huan South Road, Chaoyang District, Beijing, the PRC	RMB51,500,000 (equivalent to HK$50,500,000)	100%	RMB51,500,000 (equivalent to HK$50,500,000)
4	Jing Ke Long – Main Office Complex located at No. 45 Xinyuan Street, Chaoyang District, Beijing, the PRC	RMB49,600,000 (equivalent to HK$48,600,000)	100%	RMB49,600,000 (equivalent to HK$48,600,000)
5	Jing Ke Long – Storage Facilities located at No. 1108 Ping Fang Village, Chaoyang District, Beijing, the PRC	RMB10,200,000 (equivalent to HK$10,000,000)	100%	RMB10,200,000 (equivalent to HK$10,000,000)
6	Jing Ke Long – Maintenance Facilities located at No. Jia 1 Liu Fang Nan Li, Chaoyang District, Beijing, the PRC	RMB6,600,000 (equivalent to HK$6,500,000)	100%	RMB6,600,000 (equivalent to HK$6,500,000)
7	Level 1, Block 22, Jing Ao Jia Yuan Dongba Zhong Road, Chaoyang District, Beijing, the PRC	RMB2,300,000 (equivalent to HK$2,300,000)	100%	RMB2,300,000 (equivalent to HK$2,300,000)
	Sub-total:	**RMB265,600,000 (equivalent to HK$260,400,000)**		**RMB265,600,000 (equivalent to HK$260,400,000)**

	Property	Market Value as at 30 June 2006	Interest attributable to the Group	Capital Value attributable to the Group as at 30 June 2006
Group II – Property interests held under development by the Group in the PRC				
8	Jing Ke Long Jiuxianqiao branch located at Jiuxianqiao, Chaoyang, District, Beijing, the PRC	RMB270,800,000 (equivalent to HK$265,500,000)	100%	RMB270,800,000 (equivalent to HK$265,500,000)
9	Jing Ke Long Hypermarket – Changping branch located at Xiguan Huandao East, Changping District, Beijing, the PRC	RMB39,950,000 (equivalent to HK$39,200,000)	100%	RMB39,950,000 (equivalent to HK$39,200,000)
	Sub-total:	**RMB310,750,000 (equivalent to HK$304,700,000)**		**RMB310,750,000 (equivalent to HK$304,700,000)**
Group III – Property interests rented and occupied by the Group in the PRC				
Hypermarket				
10	A parcel of land together with various buildings erected thereon located at the eastern side of Erbozi Jingchang Highway, Changping District, Beijing, the PRC	No commercial value	100%	Nil
11	The whole of Block No. 211 and ancillary buildings, Nanhu Zhongyuan, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
Supermarket				
12	Jing Ke Long Balizhuang Non-staple Food Shopping Arcade, Chaoyang Road Jingtong Food Shop, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
13	Jing Ke Long Dashanzi Shopping Arcade, the west portion of Block No. 8, Dashanzi North Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil

	Property	Market Value as at 30 June 2006	Interest attributable to the Group	Capital Value attributable to the Group as at 30 June 2006
14	Jing Ke Long Fatou Shopping Arcade, Nos. 11 and 17 FatouWest Lane and No. 4 FatouWest Lane Zone 3, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
15	Jing Ke Long Guanzhuang Shopping Arcade, No. 49 Guanzhuang East Street, No. 49 Guanzhuang East Lane East, Guanzhuang East Lane and No. 49 Guanzhuang East Street East, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
16	Jing Ke Long Huaan Shopping Arcade, Block 12, Anhua West Lane 1st Zone, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
17	Jing Ke Long Huawei Non-staple Food Shopping Arcade, No. 40 Huawei West Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
18	Jing Ke Long Capital Airport Shopping Arcade, No. 1 Capital Airport South Road and Capital Airport South Road, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
19	Jing Ke Long Chaoyang Jingyuan Shopping Arcade, No. 24 Sanyuanli Street, Zuojiazhuang, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
20	Jing Ke Long Chaoyang Jingyuan Shopping Arcade Godown, No. 5 Sanyuanli street, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
21	Jing Ke Long Sanlitun Shopping Arcade, No. 27 North Sanlitun Road South and no. 11 Gongti Road North, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
22	Jing Ke Long Songyu Lane Shopping Arcade, No. 28 Songyu Lane and No. 15 Wusheng West Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil

Property		Market Value as at 30 June 2006	Interest attributable to the Group	Capital Value attributable to the Group as at 30 June 2006
23	Jing Ke Long Tuanjie Lake Shopping Arcade, the courtyard of No. 8 Tuanjie Lake Road, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
24	Jing Ke Long Tuanjie Lake Shopping Arcade, No. 8 Tuanjie Lake Road, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
25	Jing Ke Long Tuanjie Lake Shopping Arcade, No. 7 Tuanjie Lake Road, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
26	Jing Ke Long Xibahe Non-staple Food Shopping Arcade, Blocks 83 and 85, Xibahe East Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
27	Jing Ke Long Zaoying Road Shopping Arcade, No. 10 Zaoying South Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
28	Jing Ke Long Zhenzhi Road Non-staple Food Shopping Arcade, Block No. Jia 2 Hujialou Street North, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
29	Jing Ke Long Zhenzhi Road Non-staple Food Shopping Arcade Godown, Block No. 3 Shuiduizi Road, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
30	Jing Ke Long Guandongdian Non-staple Food Shopping Arcade, No. Jia 29 Guandongdian, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
31	Jing Ke Long Kangjing Lane Shopping Arcade, No. 19 and 20 Kangjing Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
32	Jing Ke Long Shuanglong Shopping Arcade, Block No. 204 Shuanglong South Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil

	Property	Market Value as at 30 June 2006	Interest attributable to the Group	Capital Value attributable to the Group as at 30 June 2006
33	Jing Ke Long Ganluyuan Non-staple Food Shopping Arcade, Block No. 18 Ganluyuan South Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
34	Jing Ke Long Dongba Shop Various buildings together with facilities located on No. 1 Hongsong Garden, Dongba Village, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
35	Jing Ke Long Miyun Shop, Levels one to three and ancillary facilities, No. 21 Xinnan Road, Miyun Town, Miyun County, Beijing, the PRC	No commercial value	100%	Nil
36	Jing Ke Long (Lang Fang) Yanjiao Shop, Levels one to two and ancillary facilities on the junction between the South-east of Yingbin Road and Jingha Road North Yanjiao Development Zone, Sanhe City, Hebei Province, the PRC	No commercial value	80%	Nil
37	Jing Ke Long Jinsong Shop, No. 401 Jinsong 4th Zone, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
38	Jing Ke Long Baiziyuan Shop, Level 1, the basement and ancillary facilities of the club house B, on No. 16 Baiziwan Road, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
39	Jing Ke Long Louzizhuang Shop, the eastern side on the junction between Donggao Road and Louzizhuang Central Road, Jinzhan Village, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
40	Jing Ke Long Tianzhu Shop, Units 105, 106 and 107, Level 1, Tianyun Court, Tianzhu Garden, Shunyi District, Beijing, the PRC	No commercial value	100%	Nil
41	Jing Ke Long Tian Cun Shop, Portion of Level 1 and the basement level 1, No. 1 Yuefujiayuan Commercial Building, No. Yiyi Yongding Road, Haidian District Beijing, the PRC	No commercial value	100%	Nil

Property		Market Value as at 30 June 2006	Interest attributable to the Group	Capital Value attributable to the Group as at 30 June 2006
42	Jing Ke Long Xidan Shop, Basement Level 1, No. 109 Xidan Main Street North, Xicheng District, Beijing, the PRC	No commercial value	100%	Nil
43	Jing Ke Long Heping Lane Shop, Level 1 and basement level 1, South portion of Block No. 8, Zone 6 of Heping Lane, Dongcheng District, Beijing, the PRC	No commercial value	100%	Nil
44	Jing Ke Long Yuqiao Shop Levels 1-2 and portion of Level 3, Commercial Building, No. 15 Yuqiao Zhong Road, Tongzhou District, Beijing, the PRC	No commercial value	100%	Nil
45	Jing Ke Long Jiukeshu Shop Levels 1 and 2, Commercial Building, No. 29 Jiukeshu Road East, Tongzhou District, Beijing, the PRC	No commercial value	100%	Nil
46	Jing Ke Long Yuqiao Road West Shop Level 1, No. 66 Yuqiao Road West, Tongzhou District, Beijing, the PRC	No commercial value	100%	Nil
47	Jing Ke Long Beiguan Shop Level 1 and basement level 1 of the Commercial Building together with ancillary facilities, Zone A, Wanfujiayuan, Tongzhou District, Beijing, the PRC	No commercial value	100%	Nil
48	Jing Ke Long Yudaihe Shop Levels 1 to 2, Commercial Building No. Jia 4, No. 48 Yudaihe Main Street and No. 7 Yudaihe Main Street, Tongzhou District, Beijing, the PRC	No commercial value	100%	Nil
49	Jing Ke Long Xinhua Main Street Shop No. 256 Xinhua Main Street, Tongzhou District, Beijing, the PRC	No commercial value	100%	Nil
50	Jing Ke Long Qiaozhuang Shop Block 34, Yunqiaojiayuan Zone, Tongzhou District, Beijing, the PRC	No commercial value	100%	Nil

	Property	Market Value as at 30 June 2006	Interest attributable to the Group	Capital Value attributable to the Group as at 30 June 2006
51	Jing Ke Long Longwang Village Shop The Commercial Building in front of Geng Zhuang Residential Block, on the north of Jingha Highway, Tongzhou District, Beijing, the PRC	No commercial value	100%	Nil
Convenience Store				
52	Convenience Store No. 1, Block No. 13 Gongrentiyuchang Road East, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
53	Convenience Store No. 2, No. 1 Zuojiazhuang Sanjiaodi, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
54	Convenience Store No. 3, Block No. 4 Hongmiao North Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
55	Convenience Store No. 4, No. 8 Fangcaodi Street West, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
56	Convenience Store No. 4 Godown, The East of No. 8 Fangcaodi Street West, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
57	Convenience Store No. 6, The west portion of No. 9 Guandongdian Street North, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
58	Convenience Store No. 7, the west portion of Block No. 5 Gongrentiyuchang Road South, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
59	Convenience Store No. 8, Tiyuchang Road East, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil

	Property	Market Value as at 30 June 2006	Interest attributable to the Group	Capital Value attributable to the Group as at 30 June 2006
60	Jing Ke Long Shengminglvzhou Shop, Tiyuchang Road East, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
61	Convenience Store No. 9, Non-staple Food Shop in Sanlitun North, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
62	Convenience Store No. 10, the west portion of Block No. 22 Dongzhimenwai Main Street, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
63	Convenience Store No. 11, No. 21 Xingfuer Village, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
64	Convenience Store No. 12, Block No. 3 Shuiduizi Road East and a single-storey Block, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
65	Convenience Store No. 13, Block No. Jia 306 Balizhuang North Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
66	Convenience Store No. 14, No. 7 Guanghui Lane, Jianwai Main Street, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
67	Convenience Store No. 15, Portion of Block No. 9 Huajiadi South Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
68	Convenience Store No. 16, Zone 3, Gaojiayuan, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
69	Convenience Store No. 17, No. 14, Zone 2, Gaojiayuan, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
70	Convenience Store No. 18, Block No. 16 Xinjiedayuan, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil

Property		Market Value as at 30 June 2006	Interest attributable to the Group	Capital Value attributable to the Group as at 30 June 2006
71	Convenience Store No. 19, No. 817 Jinsong 8th Zone, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
72	Convenience Store No. 20, No. 9 Fatou North Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
73	Convenience Store No. 21, No. 518 to 521 Jinsong 5th Zone, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
74	Convenience Store No. 22, No. 111 Jinsong 1st Zone, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
75	Convenience Store No. 23, No. 203 Jinsong 2nd Zone, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
76	Convenience Store No. 24, Block No. 8 Chuiyangliu West Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
77	Convenience Store No. 25, Block No. 19, Zone 2, Anzhen West Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
78	Convenience Store No. 26, Block No. 16, Zone 1, Anzhen West Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
79	Convenience Store No. 27, No.304 Huizhong Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
80	Convenience Store No. 28, Block No. 1 Yinghua Yuan Street East, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil

Property		Market Value as at 30 June 2006	Interest attributable to the Group	Capital Value attributable to the Group as at 30 June 2006
81	Convenience Store No. 29, No. 18 Sijiefang, Jiuxianqiao, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
82	Convenience Store No. 30, The east portion of Block No. 16 Shiyijiefang, Jiuxianqiao, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
83	Convenience Store No. 31, The north-east portion of No. 3 Fangyuan Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
84	Convenience Store No. 32, Block No. 34 Zaoying North Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
85	Convenience Store No. 33, Block No. 12 Dongjunzhuang, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
86	Convenience Store No. 34, Block No. 1 Jintaibei Street, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
87	Convenience Store No. 35, No. 22 and the South of No. 22 Nongguang Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
88	Level 1, Block F, Phase I, Yi De Jia Yuan, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
89	Convenience Store No. 37, A commercial building located on the west of Yunjingli Road East, Tongzhou District, Beijing, the PRC	No commercial value	100%	Nil
Other leased properties of the Company				
90	Jing Ke Long Training Centre, Block No. 4 Hongmiao North Lane, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
91	Jing Ke Long Live and Fresh Produce Logistics Centre, Yaojia Garden West Kou, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil

Property		Market Value as at 30 June 2006	Interest attributable to the Group	Capital Value attributable to the Group as at 30 June 2006
92	Jing Ke Long Dry Product Logistics Centre, Shuangqiao Zhong Road, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
93	Block No. 301 Jinsong 3rd Zone, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
94	No. 19 Jianwaierdaojie, Chaoyang District, Beijing, the PRC	No commercial value	100%	Nil
Leased properties of Beijing Chaopi Trading Company Limited				
95	Yaojiayuan Road, Chaoyang District, Beijing, the PRC	No commercial value	76.42%	Nil
96	The South portion of No. Jia 1 Tianshuiyuan, Chaoyang District, Beijing, the PRC	No commercial value	76.42%	Nil
97	Dongbahongsong Garden, Chaoyang District, Beijing, the PRC	No commercial value	76.42%	Nil
98	No. 25 Jintai Lane, Chaoyang District, Beijing, the PRC	No commercial value	76.42%	Nil
99	No. 204 Shuanglong South Lane, Chaoyang District, Beijing, the PRC	No commercial value	76.42%	Nil
100	Laojuntang Village and No. 8 Laojuntang Village, Shibali Shop, Chaoyang District, Beijing, the PRC	No commercial value	76.42%	Nil
101	The west portion of Liuanzhuang Village, Beichen District, Tianjin, the PRC	No commercial value	76.42%	Nil

Leased properties of Beijing Xinyang Tongli Commercial Facilities Company Limited

Property		Market Value as at 30 June 2006	Interest attributable to the Group	Capital Value attributable to the Group as at 30 June 2006
102	Tuofangying, Chaoyang District, Beijing, the PRC	No commercial value	52.03%	Nil
	Sub-total:	**Nil**		**Nil**
	Grant-total:	**RMB576,350,000**		**RMB576,350,000**
		(equivalent to HK$565,100,000)		**(equivalent to HK$565,100,000)**

VALUATION CERTIFICATE

Group I – Property interests held and occupied by the Group in the PRC

Property	**Description and Tenure**	**Particulars of Occupancy**	**Market Value as at 30 June 2006**
1 Jing Ke Long Hypermarket – Jing Ke Long (Langfang) located at the Fifth Avenue Supermarket, Xinshiji Pedestrian Area, Langfang City, Hebei Province, The PRC	Jing Ke Long Hypermarket – Jing Ke Long (Langfang) (referred hereinafter as the "Property") comprises the whole 3-storey (portion 4-storey) building erected over a parcel of land with a total site area of approximately 6,207.76 sq.m. situated at the western side in middle section of Fifth Avenue amid Xinshiji Pedestrian Area in Langfang City. The building is of reinforced concrete construction completed in 2000 for commercial uses. The total gross floor area is approximately 12,550.69 sq.m. The land use rights to the Property have been granted for a term expiring on 9 November 2038 for commercial and services uses.	The property is currently occupied by the Group for commercial uses as hypermarket.	RMB50,800,000 (equivalent to HK$49,800,000) **Interest attributable to the Group** 100% **Capital Value attributable to the Group as at 30 June 2006** RMB50,800,000 (equivalent to HK$49,800,000)

Notes:

1. Pursuant to a State-owned Land Use Right Certificate (Document No.: Lang Guo Yong (2005) No. 00820) issued by the People's Government of Langfang City on 4 March 2005, the Property with lot number 01-01-07-0033-4, which has a total site area of approximately 6,207.76 sq.m. with the term of land use rights expiring on 9 November 2038 for commercial and services uses, is vested in 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited, referred hereinafter as "the Company").

2. Pursuant to a Building Ownership Certificate (Document No.: Lang Fang Shi Fang Quan Zheng Zi No. 03551) dated 4 March 2005 issued by Langfang City Building Ownership and Census Registration Management Bureau, the ownership of the building having a total gross floor area of approximately 12,550.69 sq.m. is vested in the Company for commercial use.

3. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the Property are as follows:–

(a)	State-owned Land Use Right Certificate	Yes
(b)	Building Ownership Certificate	Yes

4. We have been provided with a PRC legal opinion on the title to the Property interest issued by Zhonglun W&D Law Firm, the PRC legal adviser, which contains, inter alias, the following information:

   (a) The Company has obtained the Building Ownership Certificate and the State-owned Land Use Rights Certificate for the building and the land for which the building is erected thereon.

   (b) During the remaining term of the land use rights, the Company has the rights to use, lease, mortgage and transfer the land use rights and building ownership of the Property.

   (c) The Property is subject to a mortgage in favour of China Construction Bank Corporation (Beijing Chaoyang Branch) dated 5 June 2006 as securities to a mortgage loan of RMB45,000,000 for a term expiring on 4 June 2007. The mortgage has been duly registered in the Land Management Bureau of Langfang City and Property ownership and Title Supervisory and Management Bureau of Langfang City.

5. The Company is a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company.

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 30 June 2006
2 Jing Ke Long Hypermarket Tian Shui Yuan branch located at Block 16 Tian Shui Yuan Bei Li, Chaoyang District, Beijing, The PRC	Jing Ke Long Hypermarket – Tian Shui Yuan branch (referred hereinafter as the "Property") comprises a 4-storey commercial building (portion 1-storey) plus a basement level underneath erected over a parcel of land with a total site area of approximately 4,916.92 sq.m. situated at the area named Block 16 Tian Shui Yuan Bei Li amid Chaoyang District in Beijing. The building is of reinforced concrete construction completed in 1996 for commercial uses. The total gross floor area of the Property is approximately 17,361.80 sq.m. The land use rights of the Property have been granted for a term of 40 years expiring on 18 August 2044 for commercial uses.	The Property is currently occupied and operated by the Group for commercial uses as hypermarket.	RMB94,600,000 (equivalent to HK$92,700,000) **Interest attributable to the Group** 100% **Capital Value attributable to the Group as at 30 June 2006** RMB94,600,000 (equivalent to HK$92,700,000)

Notes:

1. Pursuant to a State-owned Land Use Right Certificate (Document No.: Jing Chao Guo Yong (2004 Chu) No. 0614) issued by Beijing State-owned Land Resources Bureau on 16 November 2004, the Property, which has a total site area of approximately 4,916.92 sq.m. with a term of land use rights expiring on 18 August 2044 for commercial uses, is vested in 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited, referred hereinafter as "the Company").

2. Pursuant to a Contract for Grant of State-owned Land Use Rights (Document No.: (2004) 0617) entered into between 北京京客隆超市連鎖集團有限公司(Beijing Jingkelong Supermarket Chain Group Company Limited, referred hereinafter as "Jingkelong Supermarket") and Beijing State-owned Land Resources Bureau on 19 August 2004, the Property, which has a total site area of approximately 4,916.92 sq.m. has been granted to Jingkelong Supermarket for a term of 40 years expiring on 18 August 2044 for commercial uses at a total consideration of RMB17,496,875.

3. Pursuant to a Building Ownership Certificate (Document No.: Jing Fang Quan Zheng Chao Gu 05 Zi No. 00177) dated 24 March 2005 issue by Beijing Chaoyang District State-owned Land Resources and Building Administration Bureau, the ownership to the building having a total gross floor area of approximately 17,361.80 sq.m. is vested in the Company for commercial use.

4. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the Property are as follows:–

(a)	State-owned Land Use Rights Certificate	Yes
(b)	Building Ownership Certificate	Yes
(c)	Contract for Grant of State Owned Land Use Rights	Yes

5. We have been provided with a PRC legal opinion on the title to the Property interest issued by Zhonglun W&D Law Firm, the PRC legal adviser, which contains, inter alias, the following information:

   (a) The Company has obtained the Building Ownership Certificate and the State-owned Land Use Rights Certificate for the building and the land for which the building is erected thereon.

   (b) During the remaining term of the land use rights, the Company has the rights to use, lease, mortgage and transfer the land use rights and building ownership of the Property.

   (c) The Property is subject to a mortgage in favour of Bank of Communications (Beijing Dongdan Branch) dated 26 October 2005 as securities to a mortgage loan with maximum loan amount of RMB170,000,000 for a term expiring on 13 September 2010.

6. The Company is a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company.

7. Jingkelong Supermarket is a State-owned holding enterprise incorporated in the PRC whose establishment in the PRC was approved by Beijing Administration for Industry and Commerce on 20 May 2002 and the predecessor of the Company. Prior to 6 December 2002, the name of Jingkelong Supermarket was Beijing Jingkelong Supermarket Chain Company Limited.

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 30 June 2006
3 Jing Ke Long Supermarket – Jinsong branch located at No. 58 Dong San Huan South Road, Chaoyang District, Beijing, The PRC	Jing Ke Long Supermarket – Jinsong branch (referred hereinafter as the "Property") comprises portion of Level 1, portion of Basement Level one of Block two No. 58 Dong San Huan South Road in Chaoyang District in Chaoyang District in Beijing. The building is of reinforced concrete construction completed in 2004 for commercial uses. The total gross floor area of the Property is approximately 6,429.90 sq.m. Detail breakdown of the floor area is listed as follows: **Use** — **GFA (sq.m.)** *Block 2* Level 1 — 805.97 Basement Level 1 — 5,623.93 Total: — 6,429.90 The land use rights of the Property have been granted for a term of 40 years expiring on 8 October 2042 for commercial uses.	The Property is currently occupied and operated by the Group for commercial uses as supermarket.	RMB51,500,000 (equivalent to HK$50,500,000) **Interest attributable to the Group** 100% **Capital Value attributable to the Group as at 30 June 2006** RMB51,500,000 (equivalent to HK$50,500,000)

Notes:

1. Pursuant to a transfer agreement (Document No.: 00182) entered into between 北京昆泰嘉業房地產開發有限公司 (Beijing Kuntai Jiaye Real Estate Development Company Limited, referred hereinafter as "Beijing Kuntai") and 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited, referred hereinafter as "the Company") dated 1 April 2005, Beijing Kuntai agreed to transfer the ownership of the Property with a total gross floor area of approximately 6,429.90 sq.m. to the Company.

2. Pursuant to a Building Ownership Certificate (Document No.: Jing Fang Quan Zheng Chao Gu 05 Zi No. 00182) the ownership to the building having a total gross floor area of approximately 6,429.90 sq.m. is vested in the Company for commercial use.

3. Pursuant to a State-owned Land Use Right Certificate (Document No.: Jing Chao Guo Yong (2005 chu) No. 0427) dated 19 July 2005, the ownership to the Property having apportioned site area of approximately 899.11 sq.m. with the term of land use rights expiring on 8 October 2042.

4. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the Property are as follows:–

(a)	Building Ownership Certificate	Yes
(b)	Transfer Agreement	Yes
(c)	State-owned Land Use Right Certificate	Yes

5. We have been provided with a PRC legal opinion on the title to the Property interest issued by Zhonglun W&D Law Firm, the PRC legal adviser, which contains, inter alias, the following information:

   (a) The Company has obtained the Building Ownership Certificate and the State-owned Land Use Rights Certificate for the building and the land for which the building is erected thereon.

   (b) During the remaining term of the land use rights, the Company has the rights to use, lease, mortgage and transfer the land use rights and building ownership of the Property.

   (c) Units 102 and B102 of Block 2 together with the land portion of the Property are subject to a mortgage in favour of China Construction Bank Corporation (Beijing Chaoyang Branch) dated 5 June 2006 as securities to two mortgage loans of RMB45,000,000 and RMB32,000,000 respectively for terms all expiring on 4 June 2007. The mortgage has been duly registered in the Construction Committee of Chaoyang District, Beijing and the State-owned Land Resources Bureau of Beijing.

6. The Company is a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company.

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 30 June 2006
4 Jing Ke Long – Main Office Complex located at No. 45 Xinyuan Street, Chaoyang District, Beijing, The PRC	Jing Ke Long Main Office Complex (referred hereinafter as the "Property") comprises three one to four-storey office/ancillary buildings erected over a parcel of land with a total site area of approximately 2,243.99 sq.m. situated at No. 45 Xinyuan Street amid Chaoyang District in Beijing. These buildings mainly include two main office towers and two ancillary buildings of reinforced concrete/ brick & concrete construction completed during the period 1980 to 1997 for office uses. The total gross floor area is approximately 6,933.82 sq.m. Details of the breakdown according to their uses are listed as follows: **Use** — **GFA (sq.m.)** Main Office Buildings — 6,803.52 Ancillary — 130.30 Total: — 6,933.82 The land use rights of the Property have been granted for a term of 40 years expiring on 17 August 2044 for commercial uses.	Portion of the Property is subject to tenancy and at present occupied by the tenant for commercial use and the remaining portion of the Property is occupied by the Group for office use.	RMB49,600,000 (equivalent to HK$48,600,000) **Interest attributable to the Group** 100% **Capital Value attributable to the Group as at 30 June 2006** RMB49,600,000 (equivalent to HK$48,600,000)

Notes:

1. Pursuant to a State-owned Land Use Right Certificate (Document No.: Jing Chao Guo Yong (2004 Chu) No. 0613) issued by the Beijing State-owned Land Resources Bureau on 20 November 2004, the Property, which has a total site area of approximately 2,243.99 sq.m. with a term of land use rights expiring on 17 August 2044 for commercial uses, is vested in 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited, referred hereinafter as "the Company").

2. Pursuant to a Contract for Grant of State-owned Land Use Rights (Document No.: (2004) 0616) entered into between 北京京客隆超市連鎖集團有限公司 (Beijing Jingkelong Supermarket Chain Group Company Limited, referred hereinafter as "Jingkelong Supermarket") and Beijing State-owned Land Resources Bureau dated 18 August 2004, the Property, which has a total site area of approximately 2,243.99 sq.m. has been granted to Jingkelong Supermarket for a term of 40 years expiring on 17 August 2044 for commercial uses at a total consideration of RMB10,747,421.

3. Pursuant to a Building Ownership Certificate (Document No.: Jing Fang Quan Zheng Chao Gu 05 Zi No. 00175), the ownership to the buildings of the Property having a total gross floor area of approximately 6,933.82 sq.m. is vested in the Company for commercial use.

4. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the Property are as follows:–

(a)	State-owned Land Use Right Certificate	Yes
(b)	Building Ownership Certificate	Yes
(c)	Contract for Grant of State Owned Land Use Rights	Yes

5. According to a Tenancy Agreement entered into between Beijing Chaoyang Auxillary Food Company (Party A) and 沈陽市和平區星期九餐飲娛樂中心 (Shenyang Heping District Xing Qi Jiu Beverage and Entertainment Centre) (Party B) dated 7 September 1999, portion of the Property having a gross floor area of approximately 3,087 sq.m. is leased to Party B (an independent third party) for a term of ten years commencing from 1 September 1999.

   According to a Statement issued by Party A, Party B and 北京勝華麗餐飲娛樂有限責任公司 (Beijing Sheng Hua Li Beverage and Entertainment Company Limited) (Party C) dated 27 August 2001, the tenant has been changed from Party B to Party C.

   Pursuant to a Supplementary Agreement entered into between Party A and Party C dated 27 December 2002, the lessor of the Property has been changed from Party A to the Company under the same terms stated in the Tenancy Agreement.

6. We have been provided with a PRC legal opinion on the title to the Property interest issued by Zhonglun W&D Law Firm, the PRC legal adviser, which contains, inter alias, the following information:

   (a) The Company has obtained the Building Ownership Certificate and the State-owned Land Use Rights Certificate for the building and the land for which the building is erected thereon.

   (b) During the remaining term of the land use rights, the Company has the rights to use, lease, mortgage and transfer the land use rights and building ownership of the Property.

   (c) The Company leased the property to Beijing Sheng Hua Li Beverage and Entertainment Company Limited is legally effective.

   (d) The Property is subject to a mortgage in favour of the Bank of Communication (Beijing Dongdan Branch) dated 26 October 2005 as securities to a mortgage loan of at an amount RMB170,000,000 for a term expiring on 13 September 2010.

7. The Company is a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company.

8. Jingkelong Supermarket is a State-owned holding enterprise incorporated in the PRC whose establishment in the PRC was approved by Beijing Administration for Industry and Commerce on 20 May 2002 and the predecessor of the Company. Prior to 6 December 2002, the name of Jingkelong Supermarket was Beijing Jingkelong Supermarket Chain Company Limited.

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 30 June 2006
5 Jing Ke Long – Storage Facilities located at No. 1108 Ping Fang Village, Chaoyang District, Beijing, The PRC	Jing Ke Long – Storage Facilities (referred hereinafter as the "Property") comprises six one to 2-storey warehouse/ancillary buildings erected over a parcel of land with a total site area of approximately 13,331.81 sq.m. situated at No. 1108 Ping Fang Village amid Chaoyang District in Beijing. These buildings are mainly of brick and concrete construction completed during the period 1960 to 1985 as warehouse for storage uses. The total gross floor area of the Property is approximately 6,188.22 sq.m. Details of the breakdown according to their uses are listed as follows: **Use** — **GFA (sq.m.)** Ancillary Office — 301.32 Warehouse 1 — 3,533.43 Warehouse 2 — 83.40 Warehouse 3 — 156.61 Warehouse 4 — 2021.68 Warehouse 5 — 91.78 Total: — 6,188.22 The land use rights of the Property have been granted for a term of 50 years expiring on 29 June 2054 for industrial uses.	The Property is currently occupied by the Group for warehouse/storage uses.	RMB10,200,000 (equivalent to HK$10,000,000) **Interest attributable to the Group** 100% **Capital Value attributable to the Group as at 30 June 2006** RMB10,200,000 (equivalent to HK$10,000,000)

Notes:

1. Pursuant to a State-owned Land Use Right Certificate (Document No. Jing Chao Guo Yong (2004 Chu) No. 0543) issued by Beijing State-owned Land Resources Bureau on 13 October 2004, the Property, which has a total site area of approximately 13,331.81 sq.m. with a term of land tenure expiring on 29 June 2054 for industrial use, is vested in 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited, referred hereinafter as "the Company").

2. Pursuant to a Contract for Grant of State-owned Land Use Rights (Document No.: (2004)0578) entered into between 北京京客隆超市連鎖集團有限公司 (Beijing Jingkelong Supermarket Chain Group Company Limited, referred hereinafter as "Jingkelong Supermarket") and Beijing State-owned Land Resources and Building Administration Bureau dated 30 June 2004, the Property, which has a total site area of approximately 13,331.81 sq.m. has been granted to Jingkelong Supermarket for a term of 50 years expiring on 29 June 2054 for industrial use at a total consideration of RMB1,466,499.

3. Pursuant to a Building Ownership Certificate (Document No.: Jing Fang Quan Zheng Chao Gu 05 Zi No. 00176), the ownership to the buildings of the Property having a total gross floor area of approximately 6,188.22 sq.m. is vested in the Company for industrial use.

4. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the Property are as follows:–

(a)	State-owned Land Use Rights Certificate	Yes
(b)	Building Ownership Certificate	Yes
(c)	Contract for Grant of State Owned Land Use Rights	Yes

5. We have been provided with a PRC legal opinion on the title to the Property interest issued by Zhonglun W&D Law Firm, the PRC legal adviser, which contains, inter alias, the following information:

   (a) The Company has obtained the Building Ownership Certificate and the State-owned Land Use Rights Certificate for the building and the land for which the building is erected thereon.

   (b) During the remaining term of the land use rights, the Company has the rights to use, lease, mortgage and transfer the land use rights and building ownership of the Property.

   (c) The land and the building portions of the Property is free from any mortgage and legal charges.

6. The Company is a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company.

7. Jingkelong Supermarket is a State-owned holding enterprise incorporated in the PRC whose establishment in the PRC was approved by Beijing Administration for Industry and Commerce on 20 May 2002 and the predecessor of the Company. Prior to 6 December 2002, the name of Jingkelong Supermarket was Beijing Jingkelong Supermarket Chain Company Limited.

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 30 June 2006
6 Jing Ke Long – Maintance Facilities located at No. Jia 1 Liu Fang Nan Li Chaoyang District, Beijing, The PRC	Jing Ke Long – Maintance Facilities (referred hereinafter as the "Property") comprises a 2-storey composite building erected over a parcel of land with a total site area of approximately 1,171.60 sq.m. situated at No. Jia 1 Liu Fang Nan Li amid Chaoyang District in Beijing. These buildings are mainly of brick and concrete construction completed in 1987 for composite use. The total gross floor area of the Property is approximately 1,219.30 sq.m. The land use rights of the Property have been granted for a term of 40 years expiring on 29 June 2044 for commercial uses.	The Property is currently occupied and operated by the Group for composite uses and maintance workshop.	RMB6,600,000 (equivalent to HK$6,500,000) **Interest attributable to the Group** 100% **Capital Value attributable to the Group as at 30 June 2006** RMB6,600,000 (equivalent to HK$6,500,000)

Notes:

1. Pursuant to a State-owned Land Use Right Certificate (Document No.: Jing Chao Guo Yong (2004 Chu) No. 0542) issued by Beijing State-owned Land Resources Bureau on 13 October 2004, the Property, which has a total site area of approximately 1,171.60 sq.m. with a term of land use rights expiring on 29 June 2044 for commercial use, is vested in 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited, referred hereinafter as "the Company").

2. Pursuant to a Contract for Grant of State-owned Land Use Rights (Document No.: (2004) 0573) entered into between 北京京客隆超市連鎖集團有限公司 (Beijing Jingkelong Supermarket Chain Group Company Limited, referred hereinafter as "Jingkelong Supermarket") and Beijing State-owned Land Resources and Building Administration Bureau dated 30 June 2004, the Property, which has a total site area of approximately 1,219.30 sq.m. has been granted to Jingkelong Supermarket for a term of 40 years expiring on 29 June 2044 for commercial use at a total consideration of RMB1,585,090.

3. Pursuant to a Building Ownership Certificate (Document No. Jing Fang Quan Zheng Chao Gu 05 Zi No. 00174), the ownership to the building of the Property having a total gross floor area of approximately 1,219.30 sq.m. is vested in the Company for commercial use.

4. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the Property are as follows:–

(a)	State-owned Land Use Rights Certificate	Yes
(b)	Building Ownership Certificate	Yes
(c)	Contract for Grant of State Owned Land Use Rights	Yes

5. We have been provided with a PRC legal opinion on the title to the Property interest issued by Zhonglun W&D Law Firm, the PRC legal adviser, which contains, inter alias, the following information:

   (a) The Company has obtained the Building Ownership Certificate and the State-owned Land Use Rights Certificate for the building and the land for which the building is erected thereon.

   (b) During the remaining term of the land use rights, the Company has the rights to use, lease, mortgage and transfer the land use rights and building ownership of the Property.

   (c) Units 1-2 and 1-5 together with the land portion of the Property are subject to a mortgage in favour of China Construction Bank Corporation (Beijing Chaoyang Branch) dated 5 June 2006 as securities to a mortgage loan of RMB45,000,000 for a term expiring on 4 June 2007. The mortgage has been duly registered in the Construction Committee of Chaoyang District, Beijing and the State-owned Land Resources Bureau of Beijing.

6. The Company is a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company.

7. Jingkelong Supermarket is a State-owned holding enterprise incorporated in the PRC whose establishment in the PRC was approved by Beijing Administration for Industry and Commerce on 20 May 2002 and the predecessor of the Company. Prior to 6 December 2002, the name of Jingkelong Supermarket was Beijing Jingkelong Supermarket Chain Company Limited.

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 30 June 2006
7 Level 1, Block 22, Jing Ao Jia Yuan, Dongba Zhong Road, Chaoyang District, Beijing, the PRC	The property comprises the whole on level 1 of a single-storey building completed in 2005. The property has a total gross floor area of approximately 260.98 sq.m. According to a State-owned Land Use Right Certificate, the land use right of the property has been granted for a term of 70 years for residential use, 50 years for carparking use and 40 years for ancillary use since 8 September 2003.	The property at present is occupied by the Group as convenience store.	RMB2,300,000 (equivalent to HK$2,300,000 **Interest attributable to the Group** 100% **Capital Value attributable to the Group as at 30 June 2006** RMB2,300,000 (equivalent to HK$2,300,000

Notes:

1. According to a Sale and Purchase Agreement (Document No.: 701183) entered into between 北京奧林匹克置業投資有限公司 (Beijing Olympic Property Investment Company Limited, referred hereinafter as the "Landlord") and Beijing Jingkelong Company Limited (referred hereinafter as "the Company") dated 23 November 2005, the Landlord agreed to sell the building ownership of the property having a total gross floor area of approximately 260.98 sq.m. to the Company at a consideration of RMB2,271,408.

2. According to a State-owned Land Use Right Certificate issued by the Beijing State-owned Land Resources and Housing Management Bureau dated 6th November 2003 (Document No.: Jing Di Chu (He) Zi (03) No. 777), the land use rights to Phase I of Jing Ao. Jia Yuan with a site area of approximately 72,453.31 sq.m. has been granted to the Landlord for a term of 70 years for residential use, 50 years for carparking use and 40 years for ancillary use since 8 September 2003.

3. According to a Building Ownership Certificate (Document No. Jing Fang Quan Zheng Chao Gu 06 Zi No. 00215), the building ownership of the property having a gross floor area of approximately 260.98 sq.m. is vested in the Company.

4. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals licences and documents of the Property are as follows:

(a)	Sale and Purchase Agreement	Yes
(b)	State-owned Land Use Right Certificate (For Phase I of Jing Ao Jia Yuan)	Yes
(c)	Building Ownership Certificate	Yes

5. We have been provided with a PRC legal opinion on the title to the Property interest issued by Zhonglun W&D Law Firm, the PRC legal adviser, which contains, inter alias, the following information:

   (a) The building ownership to the Property is wholly vested in the Company.

   (b) During the remaining term of the land use rights, the Company has the rights to use, lease, mortgage and transfer the building.

   (c) The Company has the rights to use, lease, mortgage and transfer the building ownership of the Property.

6. The Company is a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company.

Group II – Property Interests held under development by the Group in the PRC

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 30 June 2006
8 Jing Ke Long Jiuxianqiao branch located at Jiuxianqiao Chaoyang District, Beijing, The PRC	Jing Ke Long Jiuxianqiao branch (referred hereinafter as the "Property") comprises a parcel of land with a total site area of approximately 23,910.18 sq.m. situated at the area named Jiuxianqiao amid Chaoyang District in Beijing. The Property will be developed into a comprehensive commercial complex with the provision of car parking facilities. The total gross floor area of the Property scheduled to be built is approximately 59,339.47 sq.m.. According to the information given by the Group, the Property is scheduled to complete in September 2006. The land use rights of the Property have been granted for a term of 40 and 50 years expiring on 15 July 2044 and 15 July 2054 for commercial and car parking uses respectively.	The construction work of the Property is currently in progress.	RMB270,800,000 (equivalent to HK$265,500,000) **Interest attributable to the Group** 100% **Capital Value attributable to the Group as at 30 June 2006** RMB270,800,000 (equivalent to HK$265,500,000)

Notes:

1. Pursuant to a State-owned Land Use Right Certificate (Document No. Jing Chao Guo Yong (2004 Chu) No. 0544) issued by Beijing State-owned Land Resources Bureau on 13 October 2004, the Property, which has a total site area of approximately 23,910.18 sq.m. with a term of land use rights expiring on 15 July 2044 and 15 July 2054 for commercial use and car parking use respectively, is vested in 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited, referred hereinafter as "the Company").

2. Pursuant to a Contract for Grant of State-owned Land Use Rights (Document No.: Jing Di Chu He Zi (2004) 0751) entered into between 北京京客隆超市連鎖集團有限公司 (Beijing Jingkelong Supermarket Chain Group Company Limited, referred hereinafter as "Jingkelong Supermarket") and Beijing State-owned Land Resources Bureau dated 16 July 2004, the Property, which has a total site area of approximately 23,910.18 sq.m. has been granted to Jingkelong Supermarket for a term of 40 and 50 years expiring on 15 July 2044 and 15 July 2054 for commercial and car parking uses respectively at a total consideration of RMB40,026,430.

3. According to a Construction Land Planning Permit (Document No.: 2004 Gui Di Zi No. 0211) dated 28 December 2004, the permission towards the planning of the development of the Property with a site area of approximately 23,910.18 sq.m. is granted to Jingkelong Supermarket under the project name "Jingkelong Jiu Xian Qiao Shopping Arcade".

4. Pursuant to a Construction Work Planning Permit (Document No.: 2004 Gui Jian Zi No. 0567) issued by Beijing Municipal Commission of Urban Planning on 30 December 2004 in favor of Jingkelong Supermarket, the development scale of the Property is permitted to comprise a single block of commercial building with a total gross floor area of approximately 59,339.47 sq.m..

5. Pursuant to a Construction Commencement Permit (Document No.: 00 Jian (2005) 0301) issued by Beijing Construction Commission on 6 February 2005 in favor of Jingkelong Supermarket, which granted the permission for Jingkelong Supermarket is permitted to commence the construction work of the above mentioned building.

6. As advised by the Group, the total development costs (including construction costs) expended as at the date of valuation was approximately RMB273,700,000 and the outstanding development cost estimated to complete the development is approximately RMB131,200,000.

7. The "Capital value when completed" of the proposed development is approximately RMB406,000,000 (equivalent to HK$398,000,000).

8. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the Property are as follows:–

(a)	State-owned Land Use Rights Certificate	Yes
(b)	Contract for Grant of State Owned Land Use Rights	Yes
(c)	Construction Land Planning Permit	Yes
(d)	Construction Work Planning Permits	Yes
(e)	Construction Commencement Permit	Yes

9. We have been provided with a PRC legal opinion on the title to the Property interest issued by Zhonglun W&D Law Firm, the PRC legal adviser, which contains, inter alias, the following information:

   (a) The Company has obtained the State-owned Land Use Rights Certificate for the land portion of the Property.

   (b) During the remaining term of the land use rights, the Company has the rights to use, lease, mortgage and transfer the land use rights of the Property.

   (c) The land use right of the Property is subject to a mortgage in favour of Bank of Beijing (Jiulongshan Branch) dated 6 March 2006 as securities to a mortgage loan of RMB100,000,000 for a term expiring on 15 March 2007. The mortgage has been duly registered in State-owned Resources Bureau of Beijing.

10. The Company is a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company.

11. Jingkelong Supermarket is a State-owned holding enterprise incorporated in the PRC whose establishment in the PRC was approved by Beijing Administration for Industry and Commerce on 20 May 2002 and the predecessor of the Company. Prior to 6 December 2002, the name of Jingkelong Supermarket was Beijing Jingkelong Supermarket Chain Company Limited.

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 30 June 2006
9 Jing Ke Long Hypermarket – Changping branch located at Xiguan Huandao East, Changping District, Beijing, The PRC	Jing Ke Long Hypermarket – Changping branch (referred hereinafter as the "Property") comprises a parcel of land with a total site area of approximately 19,730.65 sq.m. situated at the area named Xiguan Huandao East amid Changping District in Beijing. The Property will be developed into a comprehensive 4-storey plus one basement level commercial complex with the provision of car parking facilities. The total gross floor area of the Property scheduled to be built is approximately 44,626 sq.m.. According to the information given by the Group, the Property is scheduled to complete in May 2008. The land use rights of the Property have been granted for a term of 40 years expiring on 23 July 2043 for commercial uses.	The Property is currently a vacant land.	RMB39,950,000 (equivalent to HK$39,200,000) **Interest attributable to the Group** 100% **Capital Value attributable to the Group as at 30 June 2006** RMB39,950,000 (equivalent to HK$39,200,000)

Notes:

1. Pursuant to a State-owned Land Use Right Certificate (Document No. Jing Chang Guo Yong (2005 Chu Bian) No. 036) issued Beijing Changping District Land and Housing Management Bureau on 15 March 2005, the Property, which has a total site area of approximately 19,730.65 sq.m. with a term of land use rights expiring on 23 July 2043 for commercial use, is vested in 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited, referred hereinafter as "the Company").

2. Pursuant to a Contract for Grant of State-owned Land Use Rights (Document No.: Jing Chang Di Chu (He) Zi (2003) No. 073) entered into between 北京京客隆超市連鎖集團有限公司 (Beijing Jingkelong Supermarket Chain Group Company Limited, referred hereinafter as "Jingkelong Supermarket") and Beijing Changping District State-owned Land Resources and Building Administration Bureau on 24 July 2003, the Property, which has a total site area of approximately 19,730.65 sq.m. has been granted to Jingkelong Supermarket for a term of 40 years expiring on 23 July 2043 for commercial uses at a total consideration of RMB15,342,710.

3. According to two Construction Land Planning Permits (Document No. 2003 Chang Gui Di Zi 0053 and 2003 Gui (Chang) Di Zi 0082), the permission toward the planning of the development of the Property with a site area of approximately 19,730.65 sq.m. is granted to Jingkelong Supermarket for commercial and car parking uses.

4. Pursuant to a Construction Work Planning Permit (Document No. 2003-Gui Chang Jian Zi-0142) issued by Beijing Town Planning Bureau on 21 August 2003 in favor of Jingkelong Supermarket, the development scale of the Property is permitted to comprise a single block of supermarket building with a total gross floor area of approximately 44,626 sq.m..

5. As advised by the Group the total development costs (including construction costs) expended as at the date of valuation was approximately RMB37,000,000 and the outstanding development cost estimated to complete the development is approximately RMB259,500,000.

6. The "Capital value when completed" of the proposed development is approximately RMB299,000,000 (equivalent to HK$293,100,000).

7. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the Property are as follows:–

(a)	State-owned Land Use Rights Certificate	Yes
(b)	Contract for Grant of State Owned Land Use Rights	Yes
(c)	Construction Land Planning Permits	Yes
(d)	Construction Work Planning Permits	Yes

8. We have been provided with a PRC legal opinion on the title to the Property interest issued by Zhonglun W&D Law Firm, the PRC legal adviser, which contains, inter alias, the following information:

   (a) The Company has obtained the State-owned Land Use Rights Certificate for the land portion of the Property.

   (b) During the remaining term of the land use rights, the Company has the rights to use, lease, mortgage and transfer the land use rights of the Property.

   (c) The land portion of the Property is free from any mortgage and legal charges.

9. The Company is a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company.

10. Jingkelong Supermarket is a State-owned holding enterprise incorporated in the PRC whose establishment in the PRC was approved by Beijing Administration for Industry and Commerce on 20 May 2002 and the predecessor of the Company. Prior to 6 December 2002, the name of Jingkelong Supermarket was Beijing Jingkelong Supermarket Chain Company Limited.

Group III – Property interests rented and occupied by the Group in the PRC

Hypermarket

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
10 A parcel of land together with various buildings erected thereon located at the eastern side of Erbozi Jingchang Highway, Changping District, Beijing, the PRC	The property comprises two factory buildings and 81 residential blocks together with a parcel of land, the buildings were single storey and completed in or about 1985. The property has a total gross floor area of approximately 10,313 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 20 years commencing from 1 July 2000 to 30 June 2020 at an annual rental of RMB3,500,000 from the 1st year to the 4th year exclusive of management fee and other charges. The annual rental will be RMB3,475,000 from the 5th year to the 8th year, RMB4,044,600 from the 9th year to the 12th year, RMB4,408,614 from the 13th year to the 16th year and RMB4,849,475.4 from the 17th year to the 20th year. The property is currently occupied by the Company as hypermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
11 The whole of Block No. 211 and ancillary buildings, Nanhu Zhongyuan, Chaoyang District, Beijing, the PRC	The property comprises the whole block of a 5-storey building which was completed in 2000. The property has a total gross floor area of approximately 14,494.6 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB1,760,000 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as hypermarket.	No commercial value

Supermarket

Property	**Description of the property**	**Particulars of occupancy**	**Market Value as at 30 June 2006**
12 Jing Ke Long Balizhuang Non-staple Food Shopping Arcade, Chaoyang Road Jingtong Food Shop, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 2-storey commercial building which was completed in 1981. The property has a total lettable area of approximately 2,522.4 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB311,850.63 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as supermarket.	No commercial value

Property	**Description of the property**	**Particulars of occupancy**	**Market Value as at 30 June 2006**
13 Jing Ke Long Dashanzi Shopping Arcade, the west portion of Block No. 8, Dashanzi North Lane, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 3-storey commercial building which was completed in or about 1979. The property has a total lettable area of approximately 3,294.31 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB43,964.535 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
14 Jing Ke Long Fatou Shopping Arcade, Nos. 11 and 17 Fatou West Lane and No. 4 Fatou West Lane Zone 3, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 3-storey commercial building and a single-storey building which were completed from 1961 to 1990. The property has a total lettable area of approximately 2,680.6 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB401,327.78 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
15 Jing Ke Long Guanzhuang Shopping Arcade, No. 49 Guanzhuang East Street, No. 49 Guanzhuang East Lane East, Guanzhuang East Lane and No. 49 Guanzhuang East Street East, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 2-storey commercial building which was completed in 1988. The property has a total lettable area of approximately 4,986.3 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB474,727.78 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
16 Jing Ke Long Huaan Shopping Arcade, Block 12, Anhua West Lane 1st Zone, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 3-storey commercial building which was completed from 1990 to 1994. The property has a total lettable area of approximately 3,917.88 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB300,173.14 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
17 Jing Ke Long Huawei Non-staple Food Shopping Arcade, No. 40 Huawei West Lane, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 2-storey commercial building which was completed in 1993. The property has a total lettable area of approximately 1,771.4 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB135,977.5 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
18 Jing Ke Long Capital Airport Shopping Arcade, No. 1 Capital Airport South Road and Capital Airport South Road, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 3-storey commercial building and a single-storey building which were completed from 1975 to 1991. The property has a total lettable area of approximately 4,803.5 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB375,678.31 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
19 Jing Ke Long Chaoyang Jingyuan Shopping Arcade, No. 24 Sanyuanli Street, Zuojiazhuang, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 2-storey commercial building and a single-storey building which were completed in 1983. The property has a total lettable area of approximately 3,353.8 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB278,972.26 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
20 Jing Ke Long Chaoyang Jingyuan Shopping Arcade Godown, No. 5 Sanyuanli Street, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 5-storey building which was completed in 1995. The property has a total gross floor area of approximately 484.2 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB76,342.08 exclusive of management fee and other charges. The property is currently occupied by the Company as the godown for the supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
21 Jing Ke Long Sanlitun Shopping Arcade, No. 27 North Sanlitun Road South and No. 11 Gongti Road North, Chaoyang District, Beijing, the PRC	The property comprises the whole of a single-storey building which was completed in 1973. The property has a total lettable area of approximately 3,691.81 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB827,183.68 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
22 Jing Ke Long Songyu Lane Shopping Arcade, No. 28 Songyu Lane and No. 15 Wusheng West Lane, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 3-storey commercial building which was completed in 1992. The property has a total gross floor area of approximately 3,831.03 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB225,715.28 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
23 Jing Ke Long Tuanjie Lake Shopping Arcade, the courtyard of No. 8 Tuanjie Lake Road, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 5-storey commercial building which was completed in or about 1980. The property has a lettable floor area of approximately 310.6 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB21,577.22 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
24 Jing Ke Long Tuanjie Lake Shopping Arcade No. 8 Tuanjie Lake Road, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 5-storey building which was completed in or about 1980. The property has a total gross floor area of approximately 2,177.6 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB505,433.28 exclusive of management fee and other charges. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
25 Jing Ke Long Tuanjie Lake Shopping Arcade No. 7 Tuanjie Lake Road, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 4-storey building which was completed from 1980 to 1992. The property has a total gross floor area of approximately 4,659.2 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB1,238,097.6 exclusive of management fee and other charges. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
26 Jing Ke Long Xibahe Non-staple Food Shopping Arcade, Blocks 83 and 85, Xibahe East Lane, Chaoyang District, Beijing, the PRC	The property comprises the whole of a single-storey commercial building which was completed in 1985. The property has a total lettable area of approximately 1,782.98 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB157,284.02 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
27 Jing Ke Long Zaoying Road Shopping Arcade, No. 10 Zaoying South Lane, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 2-storey commercial building which was completed in or about 1986. The property has a total lettable area of approximately 2,685.8 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB83,683.535 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
28 Jing Ke Long Zhenzhi Road Non-staple Food Shopping Arcade, Block No. Jia 2 Hujialou Street North, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 2-storey commercial building which was completed in or about 1990. The property has a total lettable area of approximately 1,824.2 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB360,163.57 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
29 Jing Ke Long Zhenzhi Road Non-staple Food Shopping Arcade Godown, Block No. 3 Shuiduizi Road, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 5-storey building which was completed in or about 1950. The property has a total gross floor area of approximately 472.1 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB37,503.84 exclusive of management fee and other charges. The property is currently occupied by the Company as the godown for supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
30 Jing Ke Long Guandongdian Non-staple Food Shopping Arcade, No. Jia 29 Guandongdian, Chaoyang District, Beijing, the PRC	The property comprises the whole of a single-storey building which was completed from 1974 to 1991. The property has a total lettable area of approximately 4,878.7 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB110,270.37 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
31 Jing Ke Long Kangjing Lane Shopping Arcade, Nos. 19 and 20 Kangjing Lane, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 6-storey commercial building and a single-storey building which were completed in 1994. The property has a total lettable area of approximately 1,264 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB292,521.46 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
32 Jing Ke Long Shuanglong Shopping Arcade, Block No. 204 Shuanglong South Lane, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 4-storey commercial building which was completed in 1996. The property has a total lettable area of approximately 7,868.09 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB774,163.61 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
33 Jing Ke Long Ganluyuan Non-staple Food Shopping Arcade, Block No. 18 Ganluyuan South Lane, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 3-storey commercial building which was completed in or about 1988. The property has a total lettable area of approximately 645.1 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB37,432.455 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
34 Jing Ke Long Dongba Shop Various buildings together with facilities located on No. 1 Hongsong Garden, Dongba Village, Chaoyang District, Beijing, the PRC	The property comprises a parcel of land together with various single and 2-storey buildings, the buildings were completed from 1986 to 1988. The property has a total gross floor area of approximately 1,921.18 sq.m. and the facilities has a site area of approximately 1,412.46 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 10 years commencing from 1 June 2002 to 31 May 2012 at an annual rental of RMB522,000 for the period from 1 June 2002 to 31 May 2004 and the rental will be increased by 4% annually since 1 June 2004. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
35 Jing Ke Long Miyun Shop, Levels one to three and ancillary facilities, No. 21 Xinnan Road, Miyun Town, Miyun County, Beijing, the PRC	The property comprises three levels of a 3-storey building which was completed in or about 2001. The property has a total gross floor area of approximately 5,942.52 sq.m. and the facilities has a site area of approximately 3,010 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 20 years commencing from 1 October 2003 to 30 September 2023 at an annual rental of RMB1,000,000 for the period from 1 October 2003 to 30 September 2005, RMB1,200,000 for the period from 1 October 2005 to 30 September 2007, RMB1,300,000 for the period from 1 October 2007 to 30 September 2009, RMB1,500,000 for the period from 1 October 2009 to 30 September 2013, RMB1,800,000 for the period from 1 October 2013 to 30 September 2018 and RMB2,000,000 for the period from 1 October 2018 to 30 September 2023. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
36 Jing Ke Long (Lang Fang) Yanjiao Shop, Levels one to two and ancillary facilities on the junction between the South-east of Yingbin Road and Jingha Road North, Yanjiao Development Zone, Sanhe City, Hebei Province, the PRC	The property comprises the whole on Level one and two and ancillary facilities of a 9-storey building which was completed in or about 2003. The property has a total gross floor area of approximately 3,466 sq.m.	The property is leased to Jingkelong Langfang (the "Lessee") from an independent third party (the "Lessor") for a term of 20 years commencing from 16 May 2003 to 15 May 2023 at a total rental of RMB32,662,000. The property is currently occupied by JingKelong Langfang as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
37 Jing Ke Long Jinsong Shop, No. 401 Jinsong 4th Zone, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 3-storey building which was completed in 1982. The property has a total gross floor area of approximately 5,019.7 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at a total rental of RMB1,255,326.72. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
38 Jing Ke Long Baiziyuan Shop, Level 1, the basement and ancillary facilities of the club house B, on No. 16 Baiziwan Road, Chaoyang District, Beijing, the PRC	The property comprises the whole on Level 1, basement level 1 and ancillary facilities of a 3-storey building which was completed in 2004. The property has a total gross floor area of approximately 2,667 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 20 years commencing from 1 February 2005 to 31 January 2025 at an annual rental of RMB973,455 for the period from 1 February 2005 to 31 January 2008 and the rental will be increased by 2% annually since 1 February 2008. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
39 Jing Ke Long Louzizhuang Shop, the eastern side on the junction between Donggao Road and Louzizhuang Central Road, Jinzhan Village, Chaoyang District, Beijing, the PRC	The property comprises the whole of a commercial building together with a warehouse, two offices, temporary structures and carparking spaces in front of the commercial building. The property was completed in 2005. The building portion has a total gross floor area of approximately 2,358 sq.m., and the carparking spaces have a total site area of approximately 1,165 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 20 years commencing from the date the rent free period completed whilst a 1.5-month rent free period was offered by the Lessor since the property is properly handover to the Lessee. The annual rental payable is RMB500,000 from the 1st to 3rd year, the rental will be increased by RMB50,000 every three years. The property at present is occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
40 Jing Ke Long Tianzhu Shop, Units 105, 106 and 107, Level 1, Tianyun Court, Tianzhu Garden, Shunyi District, Beijing, the PRC	The property comprises 3 units on Level 1 of a 15-storey (inclusive of basement) composite building completed in 2001. The property has a total gross floor area of approximately 1,500 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 12 years commencing on 24 November 2005 at an annual rental of RMB820,000 from the 1st to 3rd year and the rental will be increased by 5% every 3 years. The property at present is occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
41 Jing Ke Long Tian Cun Shop, Portion of Level 1 and the basement level 1, No. 1 Yuefujiayuan Commercial Building, No. Yiyi Yongding Road, Haidian District, Beijing, the PRC	The property comprises portion on Level 1 and the basement level 1 of a 6-storey building (exclusive of 2-storey basement) completed in or about 2005. The property has a total gross floor area of approximately 4,169.37 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party for a term of 12 years commencing from 22 January 2006 at a daily rent of RMB4.2 per sq.m. and the rental will be increased by RMB0.2 every 3 years. The property at present is occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
42 Jing Ke Long Xidan Shop, Basement Level 1, No. 109 Xidan Main Street North, Xicheng District, Beijing, the PRC	The property comprises the whole on basement level 1 of a 11-storey building (exclusive of 3-storey basement) completed in or about 2005. The property has a total gross floor area of approximately 2,778 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party for a term of eight years and eleven months from 28 January 2006 to 31 December 2014 at an annual rent of RMB2,740,000 for the first three years and the rental will be increased by 5% every three years. The property at present is occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
43 Jing Ke Long Heping Lane Shop, Level 1 and basement level 1, South portion of Block No. 8, Zone 6 of Heping Lane, Dongcheng District, Beijing, the PRC	The property comprises the whole on Level 1 and basement Level 1 of a 3-storey building (exclusive of a single-storey basement) completed in or about 1999. The property has a total gross floor area of approximately 2,382 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party for a term of 11 years commencing from 1 March 2006 to 31 December 2016 at an annual rent of RMB1,200,000 for the 1st and 2nd years, RMB1,300,000 for the 3rd and 4th years and the rental will be increased by 3% every two years. The property at present is occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
44 Jing Ke Long Yuqiao Shop, Levels 1-2 and portion of Level 3, Commercial Building, No. 15 Yuqiao Zhong Road, Tongzhou District, Beijing, the PRC	The property comprises the whole on levels 1 to 2 and portion of level 3 of a 3-storey building completed in or about 1988. The property has a total gross floor area of approximately 4,100 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 15 years commencing from 10 June 2006 to 9 June 2021 at a total rent of RMB30,229,300. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
45 Jing Ke Long Jiukeshu Shop, Levels 1 and 2, Commercial Building, No. 29 Jiukeshu Road East, Tongzhou District, Beijing, the PRC	The property comprises the whole on Levels 1 and 2 of a 6-storey building completed in or about 2000. The property has a total leased area of approximately 2,253.94 sq,m.	The property is leased to the Company (the "Lessee") from an independent third party for a term of 15 years commencing from 15 June 2006 to 14 June 2021 at an annual rent of RMB1.35 per sq.m. and the rental will be increased by RMB0.15 per sq.m. every five years. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
46 Jing Ke Long Yuqiao Road West Shop, Level 1, No. 66 Yuqiao Road West, Tongzhou District, Beijing, the PRC	The property comprises the whole on Level 1 of a 6-storey building completed in or about 2001. The property has a total gross floor area of approximately 638.09 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party for a term of 9 years and 7 months commencing from 15 June 2006 to 14 January 2016 at an annual rent of RMB295,468. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
47 Jing Ke Long Beiguan Shop, Level 1 and basement level 1 of the Commercial Building together with ancillary facilities, Zone A, Wanfujiayuan, Tongzhou District, Beijing, the PRC	The property comprises Level 1 and basement level 1 of a 3-storey building (exclusive of a single-storey basement) completed in or about 2001. The property has a total gross floor area of approximately 1,700 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party for a term expiring on 31 December 2017 at an annual rent of RMB375,000 until 31 December 2007, RMB412,500 for the period from 1 January 2008 to 31 December 2012 and RMB453,750 for the period from 1 January 2013 to 31 December 2017. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
48 Jing Ke Long Yudaihe Shop, Levels 1 to 2, Commercial Building No. Jia 4, No. 48 Yudaihe Main Street and No. 7 Yudaihe Main Street, Tongzhou District, Beijing, the PRC	The property comprises levels 1 and 2 of a 7-storey building completed in or about 1995. The property has a total gross floor area of approximately 1,259.02 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party for a term of 15 years commencing from the first day after the rent free period at an annual rent of RMB412,035 for the first five years and the rental will be increased by RMB0.15 per sq.m. per day every five years. The rental of the last five years will be RMB663,866. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
49 Jing Ke Long Xinhua Main Street Shop, No. 256 Xinhua Main Street, Tongzhou District, Beijing, the PRC	The property comprises the whole of a single-storey building completed in or about 1991. The property has a total gross floor area of approximately 2,211.29 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party for a term of 5 years commencing from 9 June 2006 to 8 June 2011 at an annual rent of RMB1,000,000 for the first year, RMB1,050,000 for the second year, RMB1,150,000 for the third year, RMB1,250,000 for the forth year and RMB1,350,000 for the fifth year. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
50 Jing Ke Long Qiaozhuang Shop, Block 34, Yunqiaojiayuan Zone, Tongzhou District, Beijing, the PRC	The property comprises Level 1 of a 6-storey building (exclusive of a single-storey basement) completed in or about 2002. The property has a total gross floor area of approximately 2,293 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party for a term expiring on 31 December 2013 at an annual rent of RMB694,664. The property is currently occupied by the Company as supermarket.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
51 Jing Ke Long Longwang Village Shop, The Commercial Building in front of Geng Zhuang Residential Block, on the north of Jingha Highway, Tongzhou District, Beijing, the PRC	The property comprises the whole of a 4-storey building completed in or about 2003. The property has a total gross floor area of approximately 6,428 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party for a term on the day after the rent free period to 31 May 2024 at an annual rent of RMB1,000,000 for the period from 16 June 2006 to 31 May 2009 and RMB1,400,000 for the period from 1 June 2009 to 31 May 2024. The property is currently occupied by the Company as supermarket.	No commercial value

Convenience Store

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
52 Convenience Store No. 1, Block No. 13 Gongrentiyuchang Road East, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 14-storey commercial building which was completed in or about 1973. The property has a total gross floor area of approximately 1,828.7 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB4,120.75 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
53 Convenience Store No. 2, No. 1 Zuojiazhuang Sanjiaodi, Chaoyang District, Beijing, the PRC	The property comprises the whole of a single-storey commercial building which was completed in or about 1981. The property has a total gross floor area of approximately 194 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 18.5 years commencing from 1 July 2005 to 31 December 2023 at an annual rental of RMB1,140.84 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years since 2009. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
54 Convenience Store No. 3, Block No. 4 Hongmiao North Lane, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 4-storey commercial building which was completed in or about 1988. The property has a total gross floor area of approximately 890 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB40,254.225 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
55 Convenience Store No. 4 No. 8 Fangcaodi Street West, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 5-storey building which was completed in 1970. The property has a total gross floor area of approximately 538.3 sq.m.	The property is leased to the Company (the "Lessee") from an independent party (the "Lessor") for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB85,524.96 exclusive of management fee and other charges. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
56 Convenience Store No. 4 Godown, the East of No. 8 Fangcaodi Street West, Chaoyang District, Beijing, the PRC	The property comprises the whole of a single-storey commercial building which was completed from 1955 to 1979. The property has a total gross floor area of approximately 425 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023. According to the information provided by the Group, no rental is required to pay for the property during the remaining lease term. The property is currently occupied by the Company as the godown for convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
57 Convenience Store No. 6, The west portion of No. 9 Guandongdian Street North, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 3-storey building which was completed in 1978. The property has a total gross floor area of approximately 528.7 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB84,000 exclusive of management fee and other charges. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
58 Convenience Store No. 7, the west portion of Block No. 5 Gongrentiyuchang Road South, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 5-storey commercial building which was completed from 1975 to 1990. The property has a total gross floor area of approximately 353.3 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB337.73 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
59 Convenience Store No. 8, Tiyuchang Road East, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 2-storey commercial building which was completed in 1989. The property has a total gross floor area of approximately 388.75 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB14,663.05 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
60 Jing Ke Long Shengminglvzhou Shop, Tiyuchang Road East, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 2-storey commercial building which was completed in 1989. The property has a total gross floor area of approximately 230 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB4,520.225 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as retail shop of medicine and medical instrument.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
61 Convenience Store No. 9, Non-staple Food Shop in Sanlitun North, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 4-storey commercial building and a single-storey building which were completed from 1970 to 1980. The property has a total gross floor area of approximately 2,129.1 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB9,307.51 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
62 Convenience Store No. 10, the west portion of Block No. 22 Dongzhimenwai Main Street, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 2-storey commercial building and a single-storey building which were completed from 1988 to 1992. The property has a total gross floor area of approximately 1,490.5 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB1,719.15 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
63 Convenience Store No. 11, No. 21 Xingfuer Village, Chaoyang District, Beijing, the PRC	The property comprises the whole of a single-storey commercial building which was completed from 1988 to 1992. The property has a total gross floor area of approximately 461.7 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB9,808.7 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
64 Convenience Store No. 12, No. 3 Shuiduizi Road East and a single-storey block, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 6-storey building and a single-storey building which were completed in or about 1981. The property has a total gross floor area of approximately 784.1 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB159,947.04 exclusive of management fee and other charges. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
65 Convenience Store No. 13, Block No. Jia 306 Balizhuang North Lane, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 2-storey commercial building which was completed in or about 1990. The property has a total gross floor area of approximately 890.47 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB21,938.41 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
66 Convenience Store No. 14, No. 7 Guanghui Lane, Jianwai Main Street, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 3-storey commercial building which was completed in 1979. The property has a total gross floor area of approximately 288.84 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB6,581.2 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
67 Convenience Store No. 15, Portion of Block No. 9 Huajiadi South Lane, Chaoyang District, Beijing, the PRC	The property comprises portion of a 2-storey commercial building which was completed in 1992. The property has a total gross floor area of approximately 562.4 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of five years commencing from 15 June 2004 to 14 June 2009 at an annual rental of RMB250,000 exclusive of management fee and other charges. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
68 Convenience Store No. 16, Zone 3, Gaojiayuan, Chaoyang District, Beijing, the PRC	The property comprises the whole of a single-storey commercial building which was completed in or about 1986. The property has a total gross floor area of approximately 782.4 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB7,704.65 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
69 Convenience Store No. 17, No. 14, Zone 2, Gaojiayuan, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 4-storey commercial building which was completed in or about 1988. The property has a total gross floor area of approximately 796 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB16,503.31 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
70 Convenience Store No. 18, Block No. 16 Xinjiedayuan, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 2-storey commercial building which was completed in or about 1990. The property has a total gross floor area of approximately 1,016.6 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023. According to the information provided by the Group, no rental is required to pay for the property during the remaining lease term. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
71 Convenience Store No. 19, No. 817 Jinsong 8th Zone, Chaoyang District, Beijing, the PRC	The property comprises the whole of a single-storey building which was completed in or about 1981. The property has a total gross floor area of approximately 769.7 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB158,396.16 exclusive of management fee and other charges. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
72 Convenience Store No. 20, No. 9 Fatou North Lane, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 5-storey commercial building which was completed in or about 1987. The property has a total gross floor area of approximately 1,510.40 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB43,784.78 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
73 Convenience Store No. 21, No. 518 to 521 Jinsong 5th Zone, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 2-storey building which was completed in or about 1980. The property has a total gross floor area of approximately 654.9 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB104,050.56 exclusive of management fee and other charges. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
74 Convenience Store No. 22, No. 111 Jinsong 1st Zone, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 12-storey building which was completed in or about 1980. The property has a total gross floor area of approximately 1,235.8 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB295,241.28 exclusive of management fee and other charges. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
75 Convenience Store No. 23, No. 203 Jinsong 2nd Zone, Chaoyang District, Beijing, the PRC	The property comprises the whole of a single-storey building which was completed in or about 1981. The property has a total gross floor area of approximately 269.5 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB42,818.4 exclusive of management fee and other charges. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
76 Convenience Store No. 24, Block No. 8 Chuiyangliu West Lane, Chaoyang District, Beijing, the PRC	The property comprises the whole of a four storey building which was completed from 1959 to 1978. The property has a total gross floor area of approximately 413.24 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB2,258.44 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
77 Convenience Store No. 25, Block No. 19, Zone 2, Anzhen West Lane, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 2-storey commercial building which was completed in or about 1988. The property has a total gross floor area of approximately 1,289.96 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB18,946.08 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
78 Convenience Store No. 26, Block No. 16, Zone 1, Anzhen West Lane, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 6-storey commercial building which was completed in 1985. The property has a total gross floor area of approximately 942.32 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB22,348.96 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
79 Convenience Store No. 27, No.304 Huizhong Lane, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 6-storey commercial building which was completed in or about 1991. The property has a total gross floor area of approximately 2,134.1 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB69,067.64 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
80 Convenience Store No. 28, Block No. 1 Yinghua Yuan Street East, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 2-storey commercial building which was completed in 1987. The property has a total gross floor area of approximately 862.62 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB24,173.62 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
81 Convenience Store No. 29, No. 18 Sijiefang, Jiuxianqiao, Chaoyang District, Beijing, the PRC	The property comprises the whole of a single-storey commercial building which was completed in 1980. The property has a total gross floor area of approximately 819.62 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB3,635.29 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
82 Convenience Store No. 30, the east portion of Block No. 16 Shiyijiefang, Jiuxianqiao, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 2-storey commercial building which was completed in 1982. The property has a total gross floor area of approximately 496.1 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB6,353.48 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
83 Convenience Store No. 31, the north-east portion of No. 3 Fangyuan Lane, Chaoyang District, Beijing, the PRC	The property comprises the whole of a single-storey commercial building which was completed in or about 1983. The property has a total gross floor area of approximately 296.5 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB3,138.87 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
84 Convenience Store No. 32, Block No. 34 Zaoying North Lane, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 4-storey commercial building which was completed in 1994. The property has a total gross floor area of approximately 1,599.3 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB54,196.96 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
85 Convenience Store No. 33, Block No. 12 Dongjunzhuang, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 6-storey commercial building which was completed in 1984. The property has a total gross floor area of approximately 481.77 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB684.82 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
86 Convenience Store No. 34, Block No. 1 Jintaibei Street, Chaoyang District, Beijing, the PRC	The property comprises level one of a 16-storey commercial building which was completed in or about 1989. The property has a total gross floor area of approximately 262.72 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB6,906.8 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
87 Convenience Store No. 35, No. 22 and the South of No. 22 Nongguang Lane, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 5-storey commercial building which was completed in or about 1976. The property has a total gross floor area of approximately 347.52 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB945.42 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
88 Level 1, Block F, Phase I, Yi De Jia Yuan, Chaoyang District, Beijing, the PRC	The property comprises the whole on Level 1 of a 12-storey building completed in or about 2005. The property has a total gross floor area of approximately 400 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 10 years commencing from 1 July 2006 to 30 June 2016 at an annual rent of RMB182,500 for the period from 1 July 2006 to 30 June 2010 and RMB219,000 for the period from 1 July 2010 to 30 June 2016. Furthermore, a rent-free period from 1 April 2006 to 30 June 2006 is provided by the lessor. The property is currently occupied by the Company as convenience store.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
89 Convenience Store No. 37, A commercial building located on the west of Yunjingli Road East, Tongzhou District, Beijing, the PRC	The property comprises the whole of a single-storey building completed in 2000. The property has a total gross floor area of approximately 205 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of ten year commencing from 30 June 2006 to 29 June 2016 at an annual rent of RMB90,000. The property at present is occupied by the Company as convenience store.	No commercial value

Other leased properties of the Company

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
90 Jing Ke Long Training Centre, Block No. 4 Hongmiao North Lane, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 4-storey commercial building which was completed in or about 1988. The property has a total gross floor area of approximately 1,100 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB54,824.23 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as training centre.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
91 Jing Ke Long Live and Fresh Produce Logistics Centre, Yaojia Garden West Kou, Chaoyang District, Beijing, the PRC	The property comprises the whole of a single-storey commercial building which was completed from 1984 to 1994. The property has a total lettable area of approximately 12,293.26 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB1,285,637.17 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as live and fresh produce logistics centre.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
92 Jing Ke Long Shuangqiao dry product Logistics Centre, Shuangqiao Zhong Road, Chaoyang District, Beijing, the PRC	The property comprises the whole of various single and 2-storey buildings and ancillary facilities which were completed in or about 1986. The property has a total gross floor area of approximately 13,325 sq.m. and has a site area of approximately 33,333.5 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 20 years commencing from 1 May 2000 to 30 April 2020 at an annual rental of RMB1,300,000 from the 1st year to 5th year exclusive of management fee and other charges. The annual rental will be RMB1,365,000 from the 6th year to the 10th year, RMB1,430,000 from the 11th year to the 15th year and RMB1,495,000 from the 16th year to the 20th year. The property is currently occupied by the Company as dry product logistics centre.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
93 Block No. 301 Jinsong 3rd Zone, Chaoyang District, Beijing, the PRC	The property comprises the whole of a single-storey building which was completed in or about 1983. The property has a total gross floor area of approximately 362.8 sq.m.	The property is leased to the Company (the "Lessee") from an independent third party (the "Lessor") for a term of 20 years commencing from 1 January 2005 to 31 December 2024 at an annual rental of RMB98,859.84 exclusive of management fee and other charges. The property is currently occupied for retail use.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
94 No. 19 Jianwaierdaojie, Chaoyang District, Beijing, the PRC	The property comprises the whole of a single-storey commercial building which was completed in or about 1989. The property has a total lettable area of approximately 639.8 sq.m.	The property is leased to the Company (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB4,656.23 exclusive of management fee and other charges. The annual rental will be increased by 5% every five years. The property is currently occupied by the Company as hostel.	No commercial value

Leased properties of Beijing Chaopi Trading Company Limited

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
95 Yaojiayuan Road, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 2-storey commercial building which was completed from 1980 to 1991. The property has a total gross floor area of approximately 8,552.07 sq.m.	The property is leased to Chaopi Trading (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB153,359.94 exclusive of management fee and other charges and the annual rental will be increased by 5% every five years. The property is currently occupied by Chaopi Trading as godown.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
96 The South portion of No. Jia 1 Tianshuiyuan, Chaoyang District, Beijing, the PRC	The property comprises the whole of a single-storey commercial building which was completed in 1978. The property has a total gross floor area of approximately 2,628.44 sq.m.	The property is leased to Chaopi Trading (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB36,824.86 exclusive of management fee and other charges the annual rental will be increased by 5% every five years. The property is currently occupied by Chaopi Trading as godown.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
97 Dongbahongsong Garden, Chaoyang District, Beijing, the PRC	The property comprises Portion of a 6-storey building which was completed from 1982 to 1986. The property has a total gross floor area of approximately 559 sq.m.	The property is leased to Chaopi Trading (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB21,230.82 exclusive of management fee and other charges the annual rental will be increased by 5% every five years. The property is currently occupied by Chaopi Trading as office.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
98 No. 25 Jintai Lane, Chaoyang District, Beijing, the PRC	The property comprises a unit of a 15-storey commercial building which was completed in 1991. The property has a total gross floor area of approximately 32 sq.m.	The property is leased to Chaopi Trading (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB3,038.4 exclusive of management fee and other charges the annual rental will be increased by 5% every five years. The property is currently occupied by Chaopi Trading as office.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
99 No. 204 Shuanglong South Lane, Chaoyang District, Beijing, the PRC	The property comprises the whole of a 4-storey commercial building which was completed in or about 1996. The property has a total gross floor area of approximately 9,051.6 sq.m.	The property is leased to Chaopi Trading (the "Lessee") from a connected party (the "Lessor") for a term of 20 years commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB884,172.11 exclusive of management fee and other charges the annual rental will be increased by 5% every five years. The property is currently occupied by Chaopi Trading as office.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
100 Laojuntang Village and No. 8 Laojuntang Village, Shibali Shop, Chaoyang District, Beijing, the PRC	The property comprises the whole of nine warehouses, 1 single-storey office building, 1 two-storey office building and ancillary facilities, the buildings were completed from 2001 to 2005. The property has a total gross floor area of approximately 68,796 sq.m.	The property is leased to Chaopi Trading (the "Lessee") from independent third parties (the "Lessors"), particulars of the tenancies are summarised in Note 4. The property is currently occupied by Chaopi Trading as distribution centre.	No commercial value

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
101 The west portion of Liuanzhuang Village, Beichen District, Tianjin, the PRC	The property comprises the whole of 2-storey building which was completed in or about 1998. The property has a total gross floor area of approximately 5,098 sq.m.	The property is leased to Chaopi Trading (the "Lessee") from an independent third party (the "Lessor") for a term of five years commencing from 1 November 2003 to 31 October 2008 at an annual rental of RMB446,584.8 and the annual rental will be increased by 4% every two years. The property is currently occupied by Chaopi Trading as distribution centre.	No commercial value

Leased properties of Beijing Xinyang Tongli Commercial Facilities Company Limited

Property	Description of the property	Particulars of occupancy	Market Value as at 30 June 2006
102 Tuofangying, Chaoyang District, Beijing, the PRC	The property comprises the whole of a single storey building which was completed in or about 1985. The property has a total gross floor area of approximately 1,361.8 sq.m.	The property is leased to Xinyang Tongli (the "Lessee") from a connected party (the "Lessor") for a term of 20 year commencing from 1 January 2004 to 31 December 2023 at an annual rental of RMB16,257 and the annual rental will be increased by 5% every five years. The property is currently occupied by Xinyang Tongli as office, factory and godown.	No commercial value

Notes for properties No. 10 to 102:

1. The lessors of the properties No. 10-11, 20, 24-25, 29, 34-51, 55, 57, 64, 67, 71, 73-75, 89, 92-93 and 100-101 are independent third parties, which are not connected with and are independent of, any of the directors, or any of their respective associates of the Group.

2. The PRC legal opinion states that:

   (a) Except for properties no. 39, 41-43, 45-47, 51, 53, 88-89 and 100, all properties rented by the Group have obtained the relevant Building Ownership Certificates (For property No. 48, please refer to Note 2(i));

   (b) Except for properties no. 39, 41-43, 45-51, 53, 88-89 and 100, all properties rented by the Group have been duly registered in the relevant government organisation;

   (c) Except for properties no. 39, 42-43, 45, 53 and 100, all properties rented by the Group are free from any mortgages, order and encumbrances which may cause adversely effect to the titles of the properties;

   (d) The tenancy agreements of properties no. 10-38, 40, 44, 49-50, 52, 54-87, 90-99, 101 and 102 are valid and effective legally;

   (e) The tenancy agreements of properties nos. 39, 41, 45, 46, 47, 51, 88 and 89 are valid and effective legally if the lessors are the current registered owners of the properties and are entitled to lease the properties to the Company. If the lessors cannot obtain the relevant titleship certificates, the Company would not be entitled to enjoy her right on the properties under the tenancy agreements against the independent third parties and the tenancies may be terminated;

   (f) According to a statement issued by State-owned Asset Supervision and Administration of Xicheng District People's Government Beijing (the "landlord"), the current registered owner of the property no. 42 is the landlord and has authorised Beijing Xixiyouyi Shopping City Company Limited (the "lessor") to lease the property.

   Pursuant to another statement issued by the lessor, Beijing 109 Department Store Company Limited (the "sub-lessor") is entitled to sub-lease the property no. 42 to the Company.

   However, the tenancy agreement of property no. 42 is valid and effective legally if the landlord is the current registered owner of the property and the sub-lessor is entitled to sub-lease the property to the Company. If the landlord cannot obtain the relevant titleship certificate, the Company would not be entitled to enjoy her right on the property under the tenancy agreement against the independent third parties and the tenancy may be terminated;

   (g) According to a statement issued by Slum Renewal Office of the Central Government (the "landlord"), the current registered owner of the property no. 43 is the landlord and has authorised Beijing Guotian Property Management Development Company Limited (the "lessor") to lease the property.

   Pursuant to another statement issued by the lessor, Beijing Kaiyuan Heping Commercial City Company Limited (the "sub-lessor") is entitled to sub-lease the property no. 43 to the Company.

   However, the tenancy agreement of property no. 43 is valid and effective legally if the landlord is the current registered owner of the property and the sub-lessor is entitled to sub-lease the property to the Company. If the landlord cannot obtain the relevant titleship certificate, the Company would not be entitled to enjoy her right on the property under the tenancy agreement against the independent third parties and the tenancy may be terminated;

(h) The tenancy agreements of properties no. 53 and 100 are valid and effective legally if the lessors are the current registered owners of the properties or the tenancy agreements have been recognised by the current registered owners of the properties.

(i) The property No. 48 comprises two portions, No. 48 Yudaihe Main Street (Portion A) and No. 7 Yudaihe Main Street (Portion B). According to a Building Ownership Certificate (Document No.: Jing Fang Quan Zheng Tong Si Zi No. 0401761), the current registered owner of the Portion A is Wang Qi. Pursuant to a statement issued by Wang Qi dated 11 May 2006, Wang Qi has agreed Beijing Fulande Chain Supermarket to sub-lease the property No. 48 to the Company for a term of 15 years. Wang Qi is entitled to lease the Portion A of the property No. 48 to the Company.

However, Portion B of the property No. 48 has not obtained Building Ownership Certificate. Thus, the tenancy of the Portion B is valid if the Beijing Fulande Chain Supermarket is the current registered owner of the Portion B and entitled to lease Portion B to the Company. If Beijing Fulande Chain Supermarket cannot obtain the relevant title certificate, the Company would not be entitled to enjoy her right on Portion B of property No. 48 under the terms of the tenancy agreement against independent third parties and hence, the tenancy may be terminated.

3. According to the information provided by the Group, the rental of Properties Nos. 56 and 70 are exempted during the remaining lease term due to the annual rentals were calculated in accordance with the annual depreciated amount of the property. The depreciated amounts have come to zero, thus, the annual rentals of these two properties have been exempted during the remaining lease term.

4. Property No. 100 is leased to Chaopi Trading under three tenancy agreements, the particulars of these tenancies are summarised as follows:

Unit	Gross Floor Area (sq.m.)	Lease Term	Rental
Laojuntang Village, Shibali Shop, Chaoyang District, Beijing, the PRC	30,472	1 May 2004 to 30 April 2009	RMB0.45 per sq.m. daily
Laojuntang Village, Shibali Shop, Chaoyang District, Beijing, the PRC	28,512	15 September 2004 to 15 September 2014	RMB0.45 per sq.m. daily
No. 8 Laojuntang Village, Shibali Shop, Chaoyang District, Beijing, the PRC	9,812	1 May 2004 to 30 April 2009	RMB1,150,000 annually
Total	68,796		

5. Beijing Jingkelong Company Limited ("the Company") is a joint stock limited company incorporated in the PRC with limited liability on the Effective Date, formerly known as Jingkelong Shang Sha and then as Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from the Effective Date. Where the context refers to any time prior to the Effective Date, the Company shall mean Jingkelong Supermarket and its businesses which contributed to, and became of, the Company.

6. Beijing Chaopi Trading Company Limited ("Chaopi Trading") is a limited liability company incorporated in the PRC on 31 May 2002 and an approximately 76.42% subsidiary of the Company.

7. Beijing Xinyang Tongli Commercial Facilities Company Limited ("Xinyang Tongli") is a limited liability company incorporated in the PRC on 31 May 2002 and an approximately 52.03% subsidiary of the Company.

8. Beijing Jingkelong (Langfang) Company Limited is a limited liability company incorporated in the PRC on 26 April 2000 and a 80% subsidiary of the Company.

This Appendix sets out summaries of (1) certain aspects of the PRC legal and judicial system, arbitration system and company and securities regulations; (2) certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company law, certain requirements of the GEM Listing Rules; and (3) principal provisions of the Articles of Association which include additional provisions required by the Stock Exchange for inclusion in the articles of association of PRC issuers. As it is in form of a summary, it does not contain all information that may be important for all potential investors.

1. PRC LAWS AND REGULATIONS

(a) Legal system

The PRC legal system is based on the PRC constitution and is made up of written laws, regulations, directives and local laws and regulations. Decided court cases do not constitute binding precedents, although they are used for the purposes of judicial reference and guidance. The National People's Congress of the PRC (the ''NPC'') and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing State organs, civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC. The State Council is the highest organ of State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue regulations within the jurisdiction of their respective departments. All administrative rules and regulations, promulgated by the State Council and its ministries and commissions must not conflict with the PRC Constitution and the national laws enacted by the NPC. In the event that any conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules and regulations. The People's Congress of provinces, autonomous regions, municipalities and larger cities and their respective standing committees may enact local, autonomous and specific statutes and the People's Governments may promulgate administrative rules applicable to their own administrative areas. These local rules and regulations cannot be in conflict with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council. Rules, regulations or directives may be enacted or issued at the provincial or municipal level or by the State Council or its ministries and commissions for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level. The power to interpret laws is vested by the PRC Constitution in the Standing Committee of the NPC. According to 全國人民代表大會常務委員會關於加強法律解釋工作的決議 (the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws) passed on 10 June 1981, the Supreme People's Court has the power to give general interpretation on application of laws in judicial proceedings in addition to its power to issue specific interpretation for specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the statutes and administrative regulations which they have promulgated. At the regional level, the power to give interpretations of the regional laws is vested in the regional legislative and administration organs which promulgate such laws and regulations.

(b) Judicial system

The people's courts are the judicial organs of the PRC. Under 中華人民共和國憲法 (the PRC Constitution Law) and 中華人民共和國法院組織法 (the Law of Organisation of the People's Courts of the PRC), the people's courts are made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further divided into civil, criminal, economic and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and other special divisions (such as the intellectual property division) in accordance with needs.

The judicial work of people's courts at lower levels is subject to supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and the lower level. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts at all levels. The people's courts adopt a two-tier final appeal system. A party may, before the taking effect of a judgement or order, appeal against the judgement or order of the first instance of a people's court to the people's court at the next higher level. Judgements or orders of the second instance of the same level and at the next higher level are final and binding. Judgements or orders of the first instance of the Supreme People's Court are also final and binding. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgement which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgement which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The PRC civil procedures are governed by 中華人民共和國民事訴訟法 (the Civil Procedure Law of the PRC) (the "Civil Procedure Law") adopted on 9 April 1991 which prescribes the provisions for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action, the judicial procedures, and the procedures for enforcement of a civil judgement or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement amongst the parties to a contract provided that the people's court having the jurisdiction is located at the plaintiff's or the defendant's place of domicile, the place of execution or implementation of the contract or the object of the action but it must not violate the regulations in respect of hierarchy and jurisdiction of the courts as stated in the Civil Procedure Law. A foreign national or foreign enterprise is given the same litigation rights and obligations as a citizen or legal person of the PRC. Should a court of a foreign country limit the litigation rights of PRC citizens and enterprises, the PRC courts shall apply the same limitations to the citizens and enterprises of that foreign country. If any party to a civil action refuses to comply with a judgement or order made by a people's court or an award made by an arbitration organ in the PRC, the aggrieved party may apply to the people's court to enforce the judgement, order or award. Specific time limits are imposed on the right to apply for such enforcement. If at least one of the parties to the dispute or arbitration is an individual, the time limit is one year. If both parties to the dispute or arbitration are legal persons or other entities, the time limit is six months. If a person fails to satisfy a judgement which the court has granted approval to enforce within the stipulated time, the court will, upon application of either party, mandatorily enforce the judgement.

A party seeking to enforce a judgement or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgement or order. If the PRC has entered into an international treaty with the relevant foreign country or which is acceded to by the PRC which provides for such recognition or enforcement, a foreign judgement or ruling may also be recognised and enforced according to PRC enforcement procedures by the people's court in accordance with the judicial procedures of the PRC unless the people's court considers that the recognition or enforcement of a judgement or ruling will violate the basic legal principles of the PRC or its sovereignty or national security, or for reasons of social and public interest.

(c) Arbitration and enforcement of arbitral awards

中華人民共和國仲裁法 (the Arbitration Law of the People's Republic of China) (the "Arbitration Law") was passed by the Standing Committee of the NPC on 31 August 1994 and came into effect on 1 September 1995. It is applicable to, among other matters, economic disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the people's court will refuse to handle the case if one party institutes legal proceedings in a people's court.

The GEM Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, in the case of the GEM Listing Rules, also in a contract between the company and each director or supervisor, to the effect that whenever any dispute or claim arises from any rights or obligations provided in the articles of association, the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of a company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and the directors, supervisors, manager or other officers of the company; or (iii) a holder of overseas listed foreign shares and a holder of domestic shares, such parties shall submit that dispute or claim for arbitration before either the China International Economic and Trade Arbitration Commission (''CIETAC'') or the Hong Kong International Arbitration Centre (''HKIAC'') for arbitration.

If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC. CIETAC is a foreign affairs arbitration organ in the PRC located in Beijing with branch offices in Shenzhen and Shanghai.

Under the Arbitration Law and PRC Civil Procedure Law, an arbitral award is final and binding on the parties as from the date of award. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural or membership irregularity specified by laws or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (''New York Convention'') adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (1) the PRC will only recognise and enforce foreign arbitral awards on the principle of reciprocity; and (2) the PRC will only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations. However, following the resumption of sovereignty over Hong Kong by the PRC on 1 July 1997, the New York Convention no longer applies to the enforcement of Hong Kong arbitral awards in the PRC. A Memorandum of Understanding on the arrangement for reciprocal enforcement of arbitral awards between Hong Kong and China was signed on 21 June 1999. The new arrangement is made in accordance with the spirit of the New York Convention. To meet present day's needs, it will allow awards made by over 100 China arbitral authorities with relevant experience to be enforced in Hong Kong. Under the agreed arrangement, Hong Kong arbitral awards will also be enforceable in China. This new arrangement has been approved by the Hong Kong Legislative Council and the Supreme People's Court of the PRC and became effective on 1 February 2000.

(d) Taxation

(a) Taxes applicable to joint stock limited companies

(i) Corporate income tax

From 1 January 1994, income taxes applicable to joint stock limited companies are governed by 中華人民共和國企業所得稅暫行條例 (the Interim Regulations of the Enterprise Income Tax of the PRC) (the ''Tax Regulations'') promulgated by the State Council. The Tax Regulations provide that State-owned enterprises, collective enterprises, private enterprises, joint ventures and joint stock limited enterprises engaged in production or operation and other income producing enterprises are liable to pay income tax at the rate of 33% on their taxable incomes except that where, in relation to particular categories of enterprises, existing laws, administration rules and regulations provide for tax privilege and tax reduction policy.

(ii) Value-added tax

Pursuant to 中華人民共和國增值稅暫行條例 (the Interim Regulations of the PRC on Value-added tax) effective from 1 January 1994 and the Implementing Rules of the Interim Regulations of the PRC on Value-added tax effective from 1 January 1994, value-added tax is imposed on goods sold in or imported into the PRC or on processing, repair and replacement services provided within the PRC.

(iii) Business tax

Pursuant to 中華人民共和國營業稅暫行條例及其實施細則 (Provisional Regulations of the PRC on Business Tax and Detailed Rules for the Implementation of the Interim Regulations of the PRC on Business Tax), which became effective on 1 January 1994, business tax is imposed on provision of specific services, transfer of intangible assets or sale of immovable property within the territory of the PRC.

(b) Taxation of shareholders

(i) Tax on dividends

Pursuant to the prevailing 中華人民共和國個人所得稅法 (Individual Income Tax Law of the PRC), which was amended on 31 October 1993 and amended on 30 August 1999, and further amended on 27 October 2005, dividends paid by PRC companies to individuals are normally subject to a withholding tax of 20%. On 21 July 1993, the State Tax Bureau by 關於外商投資企業、外國企

業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知 (the Notice Relating to Taxes Applicable to Foreign Enterprises and Foreign Nationals in Relation to Dividends and Gains obtained from Holding and Transferring of Shares) (the ''Tax Notice'') confirmed that dividends received by foreign investors from PRC listed domestic special shares (''B shares''), and overseas listed shares such as H shares were exempt from withholding tax, which would otherwise have been applicable. Since 1 January 2000, on the basis of 國務院關於外國企業來源於我國境內的利息等所得減徵所得稅問題的通知 (the State Council Notice Regarding Income Tax reduction to Interest and Other Income that Foreign Enterprise Derive from the PRC), the rate applicable to interest, rental, licence fees and other income by foreign enterprises without agents or establishment in the PRC has been reduced to 10% from 20%. However, if the reduction as aforedescribed does not apply or is not renewed, a foreign enterprise shareholder may be subject to a 20% withholding tax on capital gains, unless reduced by the applicable double taxation treaty.

關於修改《中華人民共和國個人所得稅法》的決定 (the latest Amendments to the Income Tax Law Applicable to Individuals of the PRC) (the ''Amendments'') were promulgated and took effect on 27 October 2005. The Amendments stipulate that all previously promulgated tax laws and regulations which contradict the Amendments shall become invalidated. Under the Amendments, any foreign national who is not a resident in the PRC will be subject to a withholding tax at a rate of 20% on dividends received from H shares. On 26 July 1994, the State Tax Bureau issued a letter titled 國家稅務總局關於外籍個人持有中國境內上市公司股份所得的股息有關稅務問題的函件 (the State Tax Bureau Letter on Relevant Tax Problems Regarding Foreign Individuals' Dividends Obtained from Holding Shares of Listed Companies Within China) (''the Letter'') the State Tax Bureau reiterated the temporary tax exemption stated in the Tax Notice on dividends received from a PRC company listed overseas. To date, the relevant tax authority has not been collecting any withholding tax on dividend payments with respect to foreign shares.

Accordingly, under current PRC laws and regulations, withholding tax is not payable in respect of dividends or other distributions on H shares held by any foreign enterprise or foreign national. If, however, the Tax Notice is withdrawn, a 20% withholdings tax may be applicable on such dividends or distributions, subject to any tax reductions pursuant to any applicable avoidance of double taxation treaty.

(ii) Tax on transfer of shares

Although 中華人民共和國個人所得稅法實施條例 (the Implementing Rules of Individual Income Tax Law of the PRC) (the ''Implementing Rules''), issued on 28 January 1994, stipulate that gains realised on the sale of equity securities by an individual and amended on 19 December 2005 having taken effect from 1 January 2006 would be subject to income tax at the rate of 20%, the Tax Notice exempt holders of H shares from income tax on gains arising from the transfer of H shares. On 1 February 1994, the Ministry of Finance and the State Tax Bureau jointly issued 關於股票轉讓所得暫不徵收個人所得稅的通知 (the Notice on the Temporary Non-Levy of Individual Income Tax on Gains from Share Transfers), which exempt individuals from the payment of individual income tax on gains from the transfer of shares for the years 1994 and 1995. On 30 March 1998, the Ministry of Finance and the State Tax Bureau jointly issued 關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知 (the Notice on Continuing the Temporary Non-levy of Individual Income Tax On Gains from Share Transfers), which exempt individuals from the payment of individual income tax on gains from the transfer of shares since 1997. If, however, the Tax Notice is withdrawn, a 20% income tax may be applicable on gains from transfer of H shares, subject to any tax reductions pursuant to any applicable avoidance of double taxation treaty.

(iii) Tax treaties

In the event that withholding tax is payable as referred to in (i) or (ii) above, foreign enterprises without an establishment or office in the PRC and non-PRC individual investors residing in countries which have entered into double taxation treaties with the PRC may be entitled to a reduction of withholding tax imposed on the payment of dividends to such investors. The PRC is currently a party to the avoidance of double taxation treaties with a number of countries which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

(iv) Stamp duty

By virtue of 中華人民共和國印花稅暫行條例 (the Interim Regulations of the PRC Concerning Stamp Duty) which became effect on 1 January 1992, PRC stamp duty is imposed on the transfer of PRC listed domestic shares. However, transfer of H shares outside the PRC are exempt from payment of PRC stamp duty.

(v) Estate or inheritance tax

The PRC does not currently have estate or inheritance tax.

(e) Foreign exchange control

Major reforms have been introduced to the foreign exchange control system of the PRC since 1993.

On 28 December 1993, the PBOC, with the authorisation of the State Council, issued 中華人民共和國關於進一步改革外滙管理體制的公告 (the Notice on Further Reform of the Foreign Exchange Control System) which came into effect on 1 January 1994. Other new regulations and implementation measures include 結滙、售滙及付滙管理規定 (the Regulations on the Foreign Exchange Settlement, Sale and Payments) which were promulgated on 20 June 1996 and took effect on 1 July 1996 and which contain detailed provisions regulating the holding, sale and purchase of foreign exchange by enterprises, individuals, foreign organisations and visitors in the PRC. Under these new regulations, the previous dual exchange rate system for Renminbi was abolished and a unified floating and managed exchange rate system based largely on supply and demand was introduced. The PBOC publishes the Renminbi exchange rate against the U.S. dollar daily. Such rate is to be set by reference to the Renminbi/U.S. dollar trading price on the previous day on the inter-bank foreign exchange market. Further reforms were implemented by the PBOC by a notice issued on 21 July 2005 that with effect from the date of the notice, a more flexible managed float exchange rate system against a basket of currencies is introduced and the Renminbi exchange rate is no longer solely pegged to US dollars.

The foreign exchange earnings of all PRC enterprises, other than those either derived by foreign investment enterprises or specifically exempted under the relevant regulations, are to be sold to designated banks. Foreign exchange earnings obtained from borrowings from foreign institutions or issues of shares or bonds denominated in foreign currency need not be sold to designated banks, but may need to be kept in foreign exchange bank accounts of designated banks. At present, control of purchase of foreign exchange is relaxed. Enterprises within the PRC which require foreign exchange for their ordinary trading and non-trading activities, import activities and repayment of foreign debts may purchase foreign exchange from designated banks if the application is supported by relevant documents. Furthermore, foreign investment enterprises may distribute profit to their foreign investors with funds in their foreign exchange bank accounts kept with designated banks. Should such foreign exchange be insufficient, foreign investment enterprises may apply to the relevant governmental department for permission to purchase foreign exchange from designated banks. When conducting foreign exchange transactions, the designated banks may, based on the exchange rate published by the POBC and subject to certain limits, freely determine the applicable exchange rate.

The China Foreign Exchange Trading Centre (''CFETC'') was formally established and came into operation on 1 January 1994. CFETC has set up a computerised network with sub-centres in several major cities, thereby forming an interbank market in which designated PRC banks can conduct foreign exchange transactions and settle their foreign exchange liabilities.

關於境外上市企業外滙管理有關問題的通知 (The Notice Concerning Some Issues Relating to Exchange Control of Overseas Listed Enterprises) was jointly issued by CSRC and SAFE on 13 January 1994. The Notice provides that:

– upon the approval of SAFE, an overseas listed enterprise may open a foreign currency account at a bank within the PRC to retain foreign currency proceeds received from overseas share offers;

– within 10 days after receiving the foreign currency proceeds of the share offer, the enterprise should transfer such proceeds into the PRC and deposit into any authorised foreign currency account with a bank account;

– upon approval of SAFE, the enterprise may remit abroad the foreign exchange from its foreign currency bank account to foreign investors outside the PRC for the purpose of payment of dividends or other profit distributions; and

– if 25% or more of the share capital of the enterprise is held by foreign investors, such enterprise may apply to MOC for Sino-foreign joint venture enterprises status, and upon approval of MOC, the foreign exchange matters of such enterprises shall be handled in accordance with foreign exchange regulations governing foreign investment enterprises.

On 5 August 2002, SAFE and CSRC jointly announced 關於進一步完善境外上市外滙管理有關問題的通知 (the Notice Concerning Issues Relating to Further Enhancement of Foreign Exchange Management on Overseas Listing) (the ''Notice'') which became effective on 1 September 2002). The notice stipulates that:

– Entities holding domestic equity interests of overseas listed foreign share company and overseas listed PRC holding companies shall, upon receiving CSRC approval in respect of foreign share issue and listing, submit relevant materials to SAFE for registration of foreign exchange of overseas listed shares.

– Foreign currency funds raised by share issue of overseas listed foreign share company shall be repatriated to the PRC and are not allowed to remain offshore without SAFE approval. Foreign currency funds so repatriated can be retained by opening a number of accounts with SAFE approval, or settled.

– Foreign currency funds obtained by entities holding domestic equity interests of overseas listed foreign share company and overseas listed PRC holding companies through reduction in holding of shares in or disposal of assets (or equity) of the listed company shall, within 30 days of receipt, be repatriated to the PRC and settled with SAFE approval.

– Prior to foreign currency funds raised by share issue as mentioned above being repatriated to the PRC, overseas specific foreign currency accounts may be opened for temporary deposits of the said funds subject to SAFE approval for a maximum period of three months from the date of accounts opening.

– Any overseas listed foreign share company intending to repurchase its own circulated overseas listed shares shall, upon receiving CSRC approval, submit to SAFE for changes in foreign exchange registration of overseas listed shares and related approval for opening offshore account and remittances of funds.

On 9 September 2003, pursuant to the Notice on 5 August 2002, SAFE announced 關於完善境外上市外滙管理有關問題的通知 (Notice on Relevant Issues in Perfecting Foreign Exchange Control of Overseas Listing) which confirmed the related issues in the Notice dated 5 August 2002. On 1 February 2005, SAFE announced 關於境外上市外滙管理有關問題的通知 (Notice on Relevant Issues of Foreign Exchange Control of Overseas Listing) which amended and supplemented the aforesaid notices.

– The time limit for the repatriation of funds by entities holding domestic equity interests in overseas listed foreign share companies and overseas listed companies controlled by PRC entity has been extended to ''within six months of receipt of funds raised'' and the time limit for overseas specific foreign currency accounts has been extended to ''within two years of accounts opening''.

(f) Company law

On 29 December 1993, the Standing Committee of the Eighth NPC adopted the Company Law, which came into effect on 1 July 1994 and was amended on 28 August 2004. On 27 October 2005, the Eighteenth Standing Committee Meeting of the Tenth NPC further amended the Company Law. The revised Company Law came into effect on 1 January 2006.

On 4 July 1994, the Special Regulations were passed at the Second Standing Committee Meeting of the State Council, and they were promulgated and implemented on 4 August 1994. The Special Regulations are formulated according to the Company Law in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions were issued jointly by the Securities Commission and the State Restructuring Commission on 27 August 1994, prescribing provisions which must be incorporated in the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association. References to a ''company'' are to a joint stock limited company established under the Company Law with overseas listed foreign invested shares.

Set out below is a summary of the major provisions of the Company Law as amended on 27 October 2005, the Special Regulations and the Mandatory Provisions.

General

A ''joint stock limited company'' is a corporate legal person incorporated under the Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the Shares held by them, and the liability of the company is limited to the full amount of all the assets owned by it.

A company must conduct its business in accordance with the laws and commercial ethics. A company may invest in other enterprises. However, it shall not become the contribution party which accepts joint and several liabilities of the obligations of the invested enterprise.

Incorporation

A company may be incorporated by promotion or public subscription.

A company may be incorporated by a minimum of 2 promoters within maximum of 200 promoters, but at least half of the promoters must reside within the PRC. According to the Special Regulations, State-owned enterprises or enterprises with the majority of their assets owned by the PRC Government can be restructured in accordance with the relevant regulations to become joint stock limited companies which may issue shares to overseas investors. These companies, if incorporated by public subscription, may have less than 2 subscribers and can issue new shares once incorporated.

Companies incorporated by promotion are companies the entire registered capital of which is subscribed for by the promoters. Where companies are incorporated by public subscription, not less than 35% of their total shares must be subscribed for by the promoters and the remainder of their shares shall be offered.

For the company incorporated by promotion, its registered capital shall be the total capital subscribed by all promoters where the first paid up amount shall be no less than 20% of its registered capital, the outstanding amount shall be paid up within 2 years upon establishment of the company while that of investment company shall be paid up within 5 years upon establishment of the company, however, the company shall raise no more share subscription before the paid up. For the company incorporated by public subscription, the registered capital of a company is the amount of its total paid up capital as registered with the relevant administration bureau for industry and commerce. The minimum registered capital of a company is RMB5 million.

The promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and shall give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting may be convened only with the presence of subscribers holding shares representing more than 50% of the voting rights in the company. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with at least half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company. A company is formally established and has the status of a legal person after the approval of registration has been given by the relevant administration bureau for industry and commerce and a business license has been issued.

A company's promoter shall individually and collectively be liable for (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription moneys to the subscribers together with interest at bank rates for a deposit for the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company. According to the Provisional Regulations Concerning the Issue and Trading of Shares promulgated by the State Council on 22 April 1993 (which is only applicable to issue and trading of shares in the PRC and their related activities), if a company is established by means of subscription, the promoters of such company are required to assume joint responsibility for the accuracy of the contents of the prospectus and to ensure that the prospectus does not contain any misleading statement or omit any material information.

Share capital

The promoter may make capital contribution in currencies, or in kind or by way of injection of assets, industrial property rights, non-patented technology or land use rights based on their appraised value. The amount of currency contribution shall not less than 30% of the registered capital of the company.

If a capital contribution is made other than in cash, a valuation and verification of the property contributed must be carried out and converted into shares.

A company may issue registered or bearer share certificates. However, shares issued to promoters and legal persons shall be in the form of registered share certificates, and may not be registered under a different name or in the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued under the name(s) of such promoter(s) or legal person(s) to foreign investors and listed overseas be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed in Hong Kong are classified as H shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic shares. In accordance with PRC regulations and rules, qualified foreign institutional investors approved by the CSRC may hold listed domestic shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Special measures shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The share offering price may be equal to or greater than the par value, but may not be less than the par value.

The transfer by a shareholder of its shares must be carried out through a lawfully established stock exchange or through other means of transfer as permitted by the State Council. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by a law or by administrative regulations. Bearer share certificates are transferred by delivery of the certificates to the transferee.

Shares held by a promoter of a company may not be transferred within 1 year after the company's establishment. Shares which were issued prior to the public offer of shares of the company may not be transferred within 1 year from the listing of the shares of the company on a stock exchange. Directors, supervisors and the manager of the company shall not, each year, transfer more than 25% of the shares they hold in the company during their term of office and such shares of the company shall not be transferred within 1 year from the date of the company's listing. There is no restriction under the Company Law as to the percentage of shareholding a single shareholder may hold in a company.

Transfers of shares may not be entered in the register of shareholders within 20 days before the date of a shareholders' meeting or with 5 days before the record date set for the purpose of distribution of dividends.

Increase in capital

Under the Company Law, an increase in capital in a company by means of a public issue of new shares must be approved by shareholders in general meeting and meet the following conditions stipulated under the Securities Law:

(i) the company has a sound and good organisation;

(ii) the company has sustainable profitability and stable financial condition;

(iii) there has been no false reporting in the company's financial and accounting documents during the last 3 years and no other material breach of law;

Public offers require the approval of the securities administration department of the State Council.

After payment in full for the new shares issued, the company must change its registration with the relevant administration for industry and commerce and issue a public notice accordingly.

Reduction of share capital

Subject to the minimum registered capital requirements, a company may reduce its registered capital in accordance with the following procedures prescribed by the Company Law:

(i) the company shall prepare a balance sheet and a list of assets;

(ii) the reduction of registered capital must be approved by shareholders in general meeting;

(iii) the company shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;

(iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and

(v) the company must apply to the relevant administration bureau for industry and commence for registration of the reduction in registered capital.

Repurchase of shares

A company may not purchase its own shares other than for one of the following purposes:

(i) to reduce its registered share capital;

(ii) to merge with another company that holds its shares;

(iii) to grant shares to its employees as incentives; and

(iv) to purchase its own shares from its shareholders who vote against the resolution on regarding the merger and demerger with other company in a general meeting.

The Mandatory Provisions provide that upon obtaining approvals in accordance with the articles of association of the company and from the relevant supervisory authorities, the company may repurchase its issued shares for the foregoing purposes by way of a general offer to the shareholders of the company or purchase on the stock exchange or an off-market agreement.

Under the Company Law, within a stipulated period following the purchase of the company's own shares, a company must in accordance with applicable law and administrative regulations cancel or transfer the repurchased portion of its shares, change its registration and issue a public notice.

Transfer of shares

Shares may be transferred in accordance with the relevant laws and regulations.

A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with law or by other way as required by the State Council. Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by applicable laws and regulations.

Shares held by a promoter may not be transferred within 1 year after the company's establishment. Shares which were issued prior to the public offer of shares of the company may not be transferred within 1 year from the listing of the shares of the company on a stock exchange. Directors, supervisors and the manager of the company shall not, each year, transfer more than 25% of the shares they hold in the company during their term of office and such shares of the company shall not be transferred within 1 year from the date of the company's listing. There is no restriction under the Company Law as to the percentage shareholding of a single shareholder of a company.

Shareholders

Shareholders have such rights and obligations as set forth in the articles of association of the company. The articles of association of a company are binding on each shareholder.

Under the Company Law, the rights of a shareholder include:

(i) to attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held;

(ii) to transfer his shares at a legally established stock exchange or through other means of transfer as permitted by the State Council in accordance with the Company Law and the articles of association of the company;

(iii) to inspect the company's articles of association, minutes of shareholders' general meetings and financial and accounting reports and to make proposals or enquiries in respect of the company's operations;

(iv) if a resolution adopted by a shareholders' general meeting or the board of directors violates any law or administrative regulation or infringes the lawful rights and interests of shareholders, to institute an action in People's Court demanding that the illegal infringing action be stopped;

(v) to receive dividends in respect of the number of shares held;

(vi) to receive surplus assets of the company upon its termination in proportion to his or her shareholding; and

(vii) any other shareholders' rights specified in the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription moneys in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription moneys agreed to be paid in respect of the shares taken up by him and any other shareholders' obligation specified in the company's articles of association.

General meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the Company Law.

The shareholders' general meeting exercises the following powers:

(i) to decide on the company's operational policies and investment plans;

(ii) to elect or remove the directors and supervisors who are not representatives of the company's employees, and decide on matters relating to the remuneration of directors and supervisors;

(iii) to examine and approve reports of the board of directors;

(iv) to examine and approve reports of the supervisory committee;

(v) to examine and approve the company's proposed annual financial budget and final accounts;

(vi) to examine and approve the company's proposals for profit distribution plans and recovery of losses;

(vii) to decide on any increase or reduction of the company's registered capital;

(viii) to decide on the issue of bonds by the company;

(ix) to decide on issues such as merger, division, change to the form of the company dissolution and liquidation of the company and other matters;

(x) to amend the company's articles of association; and

(xi) other terms of reference provided in the Articles of Association.

Shareholders' general meetings are required to be held once every year. An extraordinary shareholders' general meeting is required to be held within 2 months after the occurrence of any of the following circumstances:

(i) the number of directors is less than the number provided for in the Company Law or less than two-thirds of the number specified in the company's articles of association;

(ii) the aggregate losses of the company which are not made up reach one-third of the company's total share capital;

(iii) when shareholders individually and collectively holding 10% or more of the company's issued and outstanding shares carrying voting rights request the convening of an extraordinary general meeting;

(iv) whenever the board of directors deems necessary; or

(v) the supervisory committee so requests.

(vi) other circumstances as required by the articles of associations.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors.

Notice of the meeting shall be given to all shareholders 20 days before the meeting under the Company Law and 45 days under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. Under the Special Regulations and the Mandatory Provisions, shareholders wishing to attend are required to give to the company written confirmation of their attendance 20 days prior to the meeting. Under the Company Law, shareholders, individually or collectively, holding 3% or more of the company's shares are entitled to propose new resolutions and give to the board of directors written notice 10 days prior to the meeting, and the new resolutions, which if within the powers of shareholder's general meeting, are required to be added to the agenda of that meeting. Under the Special Regulations, at an annual general meeting of a company, shareholders holding 5% or more of the voting rights in the company are entitled to propose to the company in writing new resolutions to be considered at that meeting, which if within the power of a shareholder's general meeting, are required to be added to the agenda of that meeting.

Shareholders present at a shareholders' general meeting have 1 vote for each share they hold. No voting right is attached to the shares held by the company.

Resolutions of the shareholders' general meeting must be adopted by more than half of the voting rights held by shareholders present in person (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division, dissolution of a company, increase or reduction in registered capital, change to the form of the company or amendments to the articles of association, which must be adopted by more than two-thirds of the voting rights held by shareholders present in person (including those represented by proxies) at the meeting.

According to the Mandatory Provisions, the increase or reduction of share capital, the issue of bonds or debentures, and any other matters in respect of which the shareholders by ordinary resolution so decide, must be approved through special resolutions by more than two-thirds of the voting rights held by shareholders present in general meeting.

Shareholders may appoint representatives to attend shareholders' general meetings, the representatives shall submit a written appointment document to the company and exercise the voting right in the scope of authority.

There is no specific provision in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within 5 days of the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holder of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

Directors

A company shall have a board of directors, which shall consist of 5 to 19 members. Under the Company Law, each term of office of a director shall not exceed 3 years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors 10 days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the Company Law, the board of directors exercises the following powers:

(i) to convene the shareholders' general meetings and report on its work to the shareholders' general meetings;

(ii) to implement the resolutions passed by the shareholders in general meetings;

(iii) to decide on the company's business plans and investment proposals;

(iv) to formulate the company's proposed annual financial budget and final accounts;

(v) to formulate the company's profit distribution proposals and for recovery of losses;

(vi) to formulate proposals for the increase or reduction of the company's registered capital and the issuance of the corporate bonds;

(vii) to prepare plans for the merger, division, change to the form of the company or dissolution of the company;

(viii) to decide on the company's internal management structure;

(ix) to decide to appoint or dismiss the company's general manager and based on the general manager's recommendation, to decide to appoint or dismiss the deputy general managers and financial officers of the company and to decide on their remuneration;

(x) to formulate the company's basic management system; and

(xi) other terms of reference provided in the Articles of Association.

In addition, the Mandatory Provisions provide that the board is also responsible for formulating the proposals for amendment to the articles of association of a company.

Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors.

If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the law, administrative regulations or the company's articles of association or resolution of shareholders' general meetings as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved from that liability.

Under the Company Law, the following persons may not serve as a director of a company:

(i) persons without civil capacity or with restricted civil capacity;

(ii) persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than 5 years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than 5 years have elapsed since the date of the completion of implementation of this deprivation;

(iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated and who are personally liable for the bankruptcy of such company or enterprise, where less than 3 years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

(iv) persons who were legal representatives of a company or enterprise which had its business license revoked or had been ordered with closure due to violation of the law and who are personally liable, where less than 3 years have elapsed since the date of the revocation of the business license; or

(v) persons who have a relatively large amount of debts due and outstanding.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions which have been incorporated in the Articles of Association, a summary of which is set out in this Appendix.

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises, amongst others, the following powers:

(i) to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;

(ii) to check on the implementation of the resolutions of the board of directors; and

(iii) to sign the company's share certificates and bonds.

The Special Regulations provide that a company's directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in this Appendix) contain further elaborations of such duties.

Supervisors

A company shall have a supervisory committee composed of not less than 3 members. Each term of office of a supervisor is 3 years and he or she may serve consecutive terms if re-elected.

The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff and workers and the percentage of the number of representatives of the company's staff and workers shall not be less than one third. Directors, managers and financial officers may not act concurrently as supervisors.

The supervisory committee exercises the following powers:

(i) to review the company's financial position;

(ii) to supervise the directors and senior management personnel in their performance of their duties and to propose for removal of those directors or senior management personnel who have violated laws, regulations or the articles of association or shareholders' resolution;

(iii) when the acts of a directors and senior management personnel are in a harm to the company's interests, to require correction of these acts;

(iv) to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' meeting, in the event that the board of directors fails to perform the duties of convening and presiding shareholders' meeting;

(v) to propose resolution in a general meeting;

(vi) to initiate proceedings against directors and officers;

(vii) other powers specified in the company's articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to supervisors of a company.

The Special Regulations provide that a company's directors and supervisors shall have fiduciary duties. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit.

Managers and officers

A company shall have a manager who shall be decided to be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

(i) supervise the production, business and administration of the company and arrange for the implementation of resolutions of the board of directors;

(ii) arrange for the implementation of the company's annual business and investment plans;

(iii) formulate plans for the establishment of the company's internal management structure;

(iv) formulate the basic administration system of the company;

(v) formulate the company's internal rules;

(vi) recommend the appointment and dismissal of deputy managers and any financial controller and decide to appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);

(vii) attend board meetings as a non-voting delegate; and

(viii) other powers conferred by the board of directors or the company's articles of association.

The Company Law provide that the senior management of a company includes the manager, deputy managers, the financial controller, secretary of the board of directors of a listing company and other executives as specified in the articles of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and officers of the company.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, senior management personnels of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association (a summary of which is set out in this Appendix).

Duties of directors, supervisors, managers and officers

Directors, supervisors, managers and officers of a company are required under the Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company. Directors, supervisors, managers and officers of a company are also under a duty of confidentiality to the company and are prohibited from divulging the secret information of the company save as permitted by the relevant laws and regulations or by the shareholders.

The controlling shareholders, actual controller, directors, supervisors, senior management personnels who cause harm to the company by mal using their related duty shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that directors, supervisors, managers and officers of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

Finance and accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the responsible financial department of the State Council and at the end of each financial year prepare a financial report which shall be audited and verified as provided by law.

A company shall deposit its financial statements at the company for the inspection by the shareholders at least 20 days before the convening of an annual general meeting of shareholders. A company issuing shares publicly must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory common reserve fund (except where the fund has reached 50% of the company's registered capital).

When the company's statutory common reserve fund is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses before allocations are set aside for the statutory common reserve fund.

After the company has made good its losses and made allocations to its statutory common reserve fund, the remaining profits are distributed in proportion to the number of shares held by the shareholders, except that such distribution is not required to be made in proportion in accordance with the Articles of Association.

The common reserve of a company comprises the statutory common reserve, discretionary common reserve and the capital common reserve.

The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital common reserve.

The common reserve of a company shall be applied for the following purposes:

(i) to make up the company's losses;

(ii) to expand the business operations of the company; and

(iii) to increase the company's capital provided that if the statutory common reserve is converted into registered capital, the balance of the statutory common reserve before such conversion shall not be less than 25% of the registered capital of the company.

Appointment and retirement of international auditors

The Special Regulations require a company to employ an independent PRC qualified firm of accountants to audit the company's annual report and review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next following annual general meeting.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders in general meeting and shall be registered with the CSRC.

Distribution of profits

The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendment of articles of association

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in accordance with the Mandatory Provisions will only be effective after approval by the companies approval department authorized by the State Council and the CSRC. In relation to matters involving the company's registration, its registration with the companies registration authority must also be changed.

Termination and liquidation

A company may apply for the declaration of insolvency by reason of its inability to pay debts as they fall due. After the People's Court has made a declaration of the company's insolvency, the shareholders, the relevant authorities and the relevant professionals shall form a liquidation committee to conduct the liquidation of the company.

Under the Company Law, a company shall be dissolved in any of the following events:

(i) the term of its operations set down in the company's articles of association has expired or events of dissolution specified in the company's articles of association have occurred;

(ii) the shareholders in general meeting have resolved to dissolve the company;

(iii) the company is dissolved by reason of its merger or demerger;

(iv) the business licence is invalidated; or the company is closed by a closure order or is deregistered;

(v) in the event that the company encounters substantial difficulties in operation and management and its continuous subsistence shall cause significant damage to the interest of shareholders, if such condition cannot be resolved through other means, shareholders who hold more than 10% of the total voting rights may present a petition to the People's Court for the dissolution of the company.

Where the company is dissolved in the circumstances described in (i), (ii), (iv) or (v) above, a liquidation committee must be established within 15 days from the date of occurrence of the dissolution causes. Members of the liquidation committee shall be composed of directors or persons approved by the shareholders in a general meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the People's Court for its establishment by designated persons to conduct liquidation.

The liquidation committee shall notify the company's creditors within 10 days after its establishment, and issue public notices in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification.

The liquidation committee shall exercise the following powers during the liquidation period:

(i) to liquidate the company's assets and to prepare a balance sheet and a list of the assets;

(ii) to notify creditors or issue public notices;

(iii) to deal with and settle any outstanding businesses of the company;

(iv) to pay any tax overdue and tax arising during the liquidation;

(v) to settle the company's financial claims and liabilities;

(vi) to handle the surplus assets of the company after its debts have been paid off; and

(vii) to represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and social insurance expenses and statutory compensation, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them.

A company shall exist but not engage in business operations irrelevant to the liquidation during the liquidation period.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the People's Court for a declaration for bankruptcy. Following the declaration of bankruptcy by the People's Court, the liquidation committee shall hand over all affairs of the liquidation to the People's Court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the People's Court for verification. Thereafter, the report shall be submitted to the companies registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with the relevant laws. A member of the liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

Overseas listing

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue overseas listed foreign invested shares and domestic invested shares which has been approved by the Securities Commission may be implemented by the board of directors of the company by way of separate issues, within 15 months after approval is obtained from the CSRC.

Loss of share certificates

A shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a People's Court in the event that share certificates in registered form are either stolen, lost or destroyed, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issuance of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in this Appendix).

Suspension and termination of listing

The trading of shares of a company on a stock exchange may be suspended if so decided by the stock exchange under one of the following circumstances:

(i) the registered capital or share holding distribution no longer comply with the necessary requirements for a listed company;

(ii) the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report, which may result into possibility of misleading the investors new security law 55;

(iii) the company has committed a major breach of the law;

(iv) the company has incurred losses for each of the preceding 3 years; or

(v) other circumstances as required by the listing rules of stock exchange. new security law 55

A listed company may have its listing determined by the stock exchange if any of the following events shall occur:

(i) the total share capital and the distribution of share ownership have been altered to make the company no longer satisfy the requirements necessary for listing and it cannot meet the requirements for listing within the period required by the stock exchange;

(ii) the company has failed to make public its financial situation in compliance with the legal provisions or has falsified its financial accounting statements and refused to rectify;

(iii) the company has incurred losses for the past three consecutive years and failed to become profitable in the following year ; or

(iv) the company dissolve or is declared be bankrupted;

(v) any other events prescribed in the listing rules of the stock exchange.

Merger and demerger

The merger or demerger of a company is to be decided by the shareholders in general meetings.

Companies may merge through merger by absorption or through the merger of new shares. In the case of merger by absorption, the company which is absorbed shall be dissolved. In the case of merger by forming a new corporation, both companies will be dissolved.

A merger agreement must be signed in the case of a merging of companies and the relevant companies shall prepare their respective balance sheets and inventory of property. The companies should within 10 days of the resolution of the merger inform their respective creditors and publish a notice to the creditors in newspapers, within 30 days of the resolution to merge. Those creditors who had not received written notice may within 45 days of the notice, or within 30 days after receiving written notice, request the company to satisfy any unpaid debts or provide equivalent guarantees in cases of guarantees.

When a company demerges into 2 companies, their respective assets must be separated and separate financial accounts must be drawn up.

When a company's shareholders approve the demerger of the company, the company should notify all its creditors within 10 days of such resolution being passed and advertise the same in newspapers within 30 days. Unless otherwise agreed with a creditor, obligations in respect of the liabilities before the demerger of the company shall be jointly and severally borne by the demerged companies.

Changes in registrable particulars of the companies caused by merger or demerger must be registered in accordance with applicable laws.

(g) Securities law and regulations

At present, the PRC has promulgated a number of regulations in relation to the issue and trading of shares and disclosure of information.

In October 1992, the Securities Commission and the CSRC were established. The Securities Commission is the supervisory authority of the State that is responsible for conducting a uniform and macro administration of the securities markets. The CSRC is the regulatory arm of the Securities Commission and is responsible for regulating the securities market in accordance with laws and regulations.

In April 1998, pursuant to the reform proposal of authorities under the State Council, the Securities Commission and the CSRC were merged to form the CSRC that is the supervisory authority of the PRC securities and futures markets.

On 22 April 1993, the State Council promulgated 股票發行及交易管理暫行條例 (the Provisional Regulations Concerning the Issue and Trading of Shares) (the "Securities Provisional Regulations"). The Securities Provisional Regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, clearing and transfer of listed equity securities, disclosure of information, investigation and penalties and dispute settlement with respect to a listed company. The Securities Provisional Regulations specifically provide that the offer of shares by a PRC company directly and indirectly outside the PRC require the approval of the Securities Commission and also provide that separate measures will be promulgated in relation to the issue of and trading in special Renminbi-denominated shares. However, (i) if a PRC joint stock limited company intends to issue Renminbi denominated ordinary shares as well as special Renminbi-denominated shares, it has to comply with the Securities Provisional Regulations; and (ii) provisions of the Securities Provisional Regulations in relation to acquisitions of listed companies and disclosure of information are expressed to apply to companies listed on a stock exchange in general without being confined to companies listed on any particular stock exchange. Such provisions may, therefore, be applicable to joint stock limited companies with shares listed on a stock exchange outside the PRC including, for instance, joint stock limited companies with shares listed on the Stock Exchange.

On 12 June 1993, the CSRC promulgated 公開發行股票公司信息披露實施細則 (試行) (the Implementation Measures (Provisional) on Disclosure of Information by Companies issuing Public Offerings of Shares) pursuant to the Securities Provisional Regulations. Under these measures, the CSRC is responsible for supervising the disclosure of information by companies which have offered shares to the public in the PRC. These measures contain provisions regarding prospectuses and listing reports to be issued in connection with a public offering of shares in the PRC, publication of interim and final reports and announcement of material transactions or matters by companies which have offered shares to the public. Material transactions or matters are those the occurrence of which may have a material effect on the share price of a company. They include changes to a company's articles of association or registered capital, removal of auditors, mortgage or disposal of major operating assets or writing down the value of such assets where the amount being written down exceeds 30% of the total value of such assets, revocation by a court of any resolution passed by the shareholders or the supervisors of a company and the merger or demerger of a company. These measures also contain disclosure provisions in relation to acquisition of listed companies which supplement the requirements contained in the Securities Provisional Regulations.

On 2 September 1993, the Securities Commission promulgated 禁止證券欺詐行為暫行辦法 (the Provisional Measures Prohibiting Fraudulent Conduct Relating to Securities). The prohibitions imposed by these measures include the use of insider information in connection with the issue of or trading in securities (insider information being defined to include undisclosed material information known to any insider, which may affect the market price of securities); the use of funds or information or through an abuse of power in creating a false or disorderly market or influencing the market price of securities or inducing investors to make investment decisions without knowledge of actual circumstances; and the making of any statement in connection with the issue of and trading in securities which is false or materially misleading or in respect of which there is any material omission. Penalties imposed for contravening any of the provisions of the measures include fines, confiscation of profits and suspension of trading. In serious cases, criminal liability may be imposed.

On 4 July 1994, the State Council promulgated the Special Regulations. These provisions deal mainly with the issue, subscription, trading, declaration of dividends and other distributions of foreign capital stock listed aboard and the disclosure of information of articles of association of joint stock limited companies having foreign capital stock listed aboard.

On 25 December 1995, the State Council promulgated 國務院關於股份有限公司境內上市外資股的規定 (the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies). These regulations deal mainly with the issue, subscription, trading, declaration of dividends and other distributions of domestic listed foreign shares and the disclosure of information of joint stock limited companies having domestic listed foreign shares.

On 29 December 1998, the Standing Committee of the NPC promulgated 中華人民共和國證券法 (the Securities Law of the PRC) which came into effect on 1 July 1999. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities such as the issuance and trading of securities in the PRC securities market. The Securities Law is applicable to the issuance and trading in the PRC of shares, company bonds and other securities designated by the State Council according to law. Where the Securities Law does not apply, the provisions of the PRC Company Law and other applicable laws and administrative regulations will apply.

On 29 March 1999, the State Economic and Trade Commission and the CSRC promulgated 關於進一步促進境外上市公司規範運作和深化改革的意見 (the Opinion on the Further Promotion of the Regular Operation and In-Depth Reform of Companies Listed Overseas) (the "Opinion"), which is aimed at regulating the internal operation and management of PRC companies listed overseas. The Company will be subject to the Opinion upon listing of the H Shares on the Stock Exchange. The Opinion regulates, amongst others, the appointments and functions of external directors and independent directors in the board of directors; and the appointment and functions of external supervisors in the supervisory committee.

On 27 October 2005, the Standing Committee of NPC has approved the revision of the Securities Law of the PRC, which will come into effect on 1 January 2006.

2. HONG KONG LEGAL AND REGULATORY PROVISIONS

(A) Hong Kong company law and its comparison with the PRC law applicable to a joint stock limited company incorporated under the Company Law

Hong Kong company law is primarily set out in the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the "Companies Ordinance") and supplemented by common law.

There are material differences between Hong Kong company law and the PRC law applicable to a joint stock limited company incorporated under the Company Law, to which the Company is and will be subject, particularly in the area of investor protection. Certain material differences between the Company Law and Hong Kong company law are summarised below. This summary, however, is not intended to be an exhaustive comparison. It should also be noted that the summary relates only to joint stock limited companies incorporated under the Company Law.

Derivative action by minority shareholders

Under the Companies Ordinance, a shareholder may, with the leave of court, bring proceedings on behalf of the company, or intervene in any proceedings before the court to which the company is a party, in respect of misfeasance committed against the company, or in respect of any matter where the company fails to bring proceedings in respect of such matter by reason of misfeasance committed against the company. "Misfeasance" means fraud, negligence, default in compliance with any enactment or rule of law, or breach of duty. Hong Kong law permits minority shareholders to start a derivative action on behalf of all shareholders against directors who have been guilty of a breach of their fiduciary duties to the company, if they control a majority of votes at a general meeting thereby effectively preventing a company from using the directors in breach of their duties in its own name. The PRC Civil Procedure Law does not provide for such a procedure. The Company Law provides that any shareholder who solely or jointly holds more than 1% of the shares of a joint stock company for more than 180 days consecutively shall be entitled to request the supervisory committee in writing to sue any director or senior manager who has violated any laws, administrative regulations or the articles of association of the company during the performance of his/her duties and has caused losses to the company; and shall be entitled to request the board of directors in writing to sue any supervisor who has violated any laws, administrative regulations or the articles of association of the company during the performance of his/her duties and has caused losses to the company. Where the supervisory committee or the board of directors refuses to file a lawsuit after receiving the said shareholder's written request, or fails to file a lawsuit within 30 days from the date of the request, or under emergency circumstances where no prompt lawsuit will incur irreparable damage to the company's interests, the said shareholder shall, for the purpose of the company's interests, be entitled to file a lawsuit in his/her name directly with the People's Court. Where a third party has infringed upon the legitimate rights and interests of the company and caused losses to the company, the said shareholder may file a lawsuit with the People's Court in accordance with the aforesaid provision. The Company Law also provides that where any director or senior manager has violated any laws, administrative regulations or the articles of association of the company and has impaired the interests of the shareholders, a shareholder may file a lawsuit with the People's Court. In addition, each of the Directors and Supervisors (as required) has given a written undertaking to the Company (acting as agent for each shareholder) to observe and comply with his obligations to shareholders stipulated in the Articles of Association. This allows minority shareholders to commence direct actions against defaulting Directors and Supervisors.

Remedies of the Company

Under the Company Law, if a director, supervisor or manager in carrying out his duties violates any law or administrative regulation or the articles of association of a company, resulting in damage to the company, that director, supervisor or manager shall be responsible to the company for such damages. The Company Law also provides that controlling shareholder, de facto controller, director, supervisor or senior manager of the company who, by way of his/her associated relationship deprive interests of the company, shall be liable for the losses being suffered by the company. In addition, in compliance with the GEM Listing Rules and the Mandatory Provisions, remedies of the Company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits made by a Director, Supervisor or senior management members) have been set out in the Articles of Association.

Directors, senior management members and supervisors

The Company Law provides that without the approval of shareholders in a general meeting, directors, supervisors and managers shall not enter into any business contracts or transactions with the company, or accept any benefits. The Company Law, unlike Hong Kong company law, does not contain restrictions on directors' authority in making major dispositions (but a listed company which purchases or disposes substantial assets or provide a guarantee amount of which exceeds 30% of the total assets of the company shall be subject to the approval of a general meeting and be approved by more than two-thirds of the voting rights held by the shareholders present in the general meeting.) restrictions on companies providing certain benefits such as loans to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. Neither does the Company Law contain any requirements relating to the declaration of material interests in contracts with the company as is required under Hong Kong company law, nor restrictions on interested directors being counted towards the quorum of, and voting at, a meeting of the board of directors at which a transaction in which a director is interested is being considered. However, the Mandatory Provisions and other related regulations contain certain restrictions on major dispositions and specify the circumstances under which a director is required to disclose his interest in contracts or may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in this appendix.

Under Hong Kong company law, there is no concept of a supervisory committee for a company in addition to its board of directors, but a PRC joint stock limited company must have a supervisory committee whose main duties include ensuring compliance with laws and regulations, and the articles of association of the company, by its directors and managers.

The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he or she considers to be the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Such provisions have been incorporated in the Articles of Association.

Minority protection

In addition to the remedies set out in the section headed "Derivative action by minority shareholders" above, under Hong Kong laws, a shareholder who complains that the affairs of a company are conducted in a manner unfairly prejudicial to his interests may present a petition to the court to wind up the company or to make an appropriate order regulating the affairs of the company. In addition, at an application of a specified number of members, the financial secretary may appoint investigators who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The Company Law provides that controlling shareholder or de facto controller of the company shall not, by way of their associated relationship, deprive interests of the company. The relevant controlling shareholder or de facto controller of the company in violation of such provision shall be liable for the losses being suffered by the company. The Company, as required by the Mandatory Provisions and the GEM Listing Rules, has adopted in the Articles of Association minority protection provisions similar to (though not as comprehensive as) those available under Hong Kong law, to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders to relieve a director or supervisor of his or her duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or of the individual rights of other shareholders.

Receiving agent

Under both PRC and Hong Kong law, dividends once declared become debts payable to shareholders, but the limitation of action period is two years in the PRC as opposed to six years in Hong Kong. The Articles of Association provide for the appointment of an agent in Hong Kong which must be a trust corporation registered under the Trustee Ordinance in Hong Kong to receive all dividends payable to H Share holders and all other monies owing by a joint stock limited company in respect of such H Shares on behalf of such shareholders as required by the GEM Listing Rules.

Financial assistance for the acquisition of shares

The Company Law, unlike Hong Kong law, does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. Following the requirements of the Mandatory Provisions, the Articles of Association contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

Variation of class rights

The Company Law makes no specific provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other classes of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarised in this appendix.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (1) with the approval of a special resolution of the holders of the relevant class at a separate meeting; or (2) with the consent in writing of the holders of three fourths in nominal value of the issued shares of the class in question; or (3) by agreement of all the members of the Company; or (4) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

The Company (as required by the GEM Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. The Mandatory Provisions contain detailed provisions (which are reflected in the Articles of Association) relating to circumstances which are deemed to constitute a variation of class rights. Holders of overseas listed foreign invested shares and domestic invested shares are defined in the Articles of Association as different classes of shareholders, except (i) where a joint stock limited company issues and allots, in any 12-month period, pursuant to a shareholders' special resolution, overseas listed foreign invested shares and domestic invested shares; and the number of overseas listed foreign invested shares and domestic invested shares proposed to issue are not more than 20% of respective class of listed shares existing as at the date of the shareholders' special resolution; or (ii) the completion by a joint stock limited company of its plan for the issue of domestic invested shares and listed foreign invested shares upon its establishment within 15 months following the date of approval by the CSRC, and, accordingly, in the circumstances referred to in (i) and (ii) aforesaid, the Company's ability to issue Domestic Shares and H Shares is not subject to a separate voting procedure by holders of H Shares.

Conversion of shares

Under the Articles of Association (as required by the Mandatory Provisions), any proposal by to vary or abrogate the rights conferred on any class of shares shall be approved by a special resolution of shareholders at a general meeting and by shareholders of that class at a meeting of shareholders of that class convened in accordance with the Articles of Association, save and except for such Shares held by domestic Shareholders which have been transferred by them to overseas investors and which are being listed and publicly traded. Circumstances considered a variation or abrogation of class rights of shareholders are discussed in the paragraph headed "Variation of class rights" in this section. Upon obtaining an approval from the regulatory body on securities under the State Council, domestic Shareholders of the Company may transfer the Company's Shares held by them to overseas investors and have the Shares listed and traded publicly. Shares transferred and listed on an overseas stock exchange shall be subject to regulations of the overseas exchange, and Shares so transferred and listed and traded on an overseas stock exchange do not need approval by voting in any extraordinary general meeting of class Shareholders.

Corporate reorganisation

Corporate reorganisation involving compromises with creditors and members in respect of Hong Kong incorporated companies are dealt with under section 166 of the Companies Ordinance and require court sanction. Corporate reorganisation involving Hong Kong incorporated companies may also be effected by the transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance. For PRC companies, such reorganisations are administratively considered and sanctioned under the Company Law.

Share capital

Under the Company Law for company incorporated by promotion, its registered capital shall be the total capital being subscribed by all promoters where the first paid up amount shall not be less than 20% of its registered capital, the outstanding amount shall be paid up within 2 years upon establishment of the company but within 5 years for investment company; for joint stock company incorporated by public subscription, the registered capital of the company is the amount of its total paid up capital as registered with company registration authorities. For a Hong Kong company, the authorised share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, cause the company to issue new shares. In the case of a PRC company, any increase of the registered capital must be approved by the shareholders in general meeting and the relevant PRC Government and regulatory authorities. After completion of an approved new issue, the PRC company has to register the increase in share capital with the relevant administration for industry and commerce.

The minimum registered capital of a company which has applied for the listing of its shares on a stock exchange is RMB30 million under the Company Law. Hong Kong law does not prescribe any minimum capital requirements for a Hong Kong company.

Under the Company Law, the amount of currency contribution shall not less than 30% of a joint stock limited company's registered capital. There is no such restriction under Hong Kong law on a Hong Kong company.

Restriction on shareholding and transfer of shares

The Company's H Shares are denominated in Renminbi and subscribed for in currency other than Renminbi, and may only be subscribed and traded by investors from Hong Kong, the Macau Special Administrative Region or Taiwan or from outside the PRC (unless specific approval is obtained from the relevant PRC authorities), whereas the Company's Domestic Shares, denominated in Renminbi, can only be subscribed for in Renminbi, and may only be subscribed and traded by investors from the PRC (which, for the avoidance of doubt, as stated in this prospectus, excludes Hong Kong, the Macau Special Administrative Region or Taiwan). There is no restriction under Hong Kong law on a person's ability to deal in shares in a Hong Kong company on the basis of his residence or nationality.

Under the Company Law, unless specific approval is obtained from the relevant PRC authorities, shares in a joint stock limited company held by its promoters, directors, supervisors or other senior management officers may not be transferred within certain periods of time. For example, promoter shares of a joint stock company may not be transferred within one year after the company's establishment; and shares of a joint stock company in issue before its public offer may not be transferred within one year from the date of commencement of trading of the shares on the relevant stock exchange. There is no such restriction under Hong Kong law.

Notice of shareholders' meetings

Under the Company Law, shareholders of a joint stock limited company must be given 20 days' notice of a general meeting, and in case of an extraordinary shareholders' general meeting, such notice should be given 15 days before the meeting, or, in the case of bearer shares, such notice should be published 30 days before the meeting. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders, and shareholders wishing to attend the meeting must reply in writing 20 days before the date of the meeting. For a Hong Kong limited company, the minimum period of notice of a general meeting where convened for the purpose of considering ordinary resolutions is 14 days and where convened for the purpose of considering special resolutions is 21 days. The notice period for an annual general meeting is also 21 days.

Quorum for shareholders' meeting

Under Hong Kong law, one shareholder present in person or by proxy will constitute a quorum for a general meeting if the company has only one shareholder. If the company has more than one shareholder, two shareholders present in person or by proxy will constitute a quorum for a general meeting, unless the articles of association provide otherwise. The Company Law makes no specific provision as to when a quorum is regarded as being present but the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, that the company shall within five days notify shareholders in a public announcement and the annual general meeting may be held thereafter.

Voting

Under Hong Kong's company law, ordinary resolutions are passed by more than one-half of the votes cast by those shareholders voting in person or by proxy at a general meeting and special resolutions are passed by not less than three-quarters of such votes. Under the Company Law, the passing of any resolution requires the passing by more than half of the votes of the shareholders attending and voting, except in cases of, for example, proposed amendment to the articles of association, increase or reduction in registered capital, merger, division, dissolution of a company, or change to the form of the Company where the approval of a special resolution (being a resolution with a two-third majority) is required. A listed company which purchases or disposes substantial assets or provide a guarantee amount of which exceeds 30% of the total assets of the company shall be subject to the approval of a general meeting and be approved by more than two thirds of the voting rights held by the shareholders present in the general meeting. In addition, any proposal by to vary or abrogate the rights conferred on any class of shares shall be approved by a special resolution of shareholders at a general meeting and by shareholders of that class at a meeting of shareholders of that class convened in accordance with the Articles of Association.

Dividends

The Articles of Association empower the Company to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC law, the relevant limitation period is two years.

Financial disclosure

A joint stock limited company is required under the Company Law to make available at its office for inspection by shareholders its annual balance sheet, statement of income, statement of changes in financial situation and other relevant annexes 20 days before the annual general meeting of shareholders. In addition, according to the Company Law, a company established by the public subscription method must publish its financial statements. The annual balance sheet has to be audited by registered accountants. The Companies Ordinance requires a Hong Kong incorporated company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report (which are to be laid in its annual general meeting) not less than 21 days before its annual general meeting.

Under the Articles of Association (as required by the GEM Listing Rules and the Mandatory Provisions), in addition to preparing accounts according to PRC accounting standards, the Company must have its accounts prepared and audited in accordance with international accounting standards or Hong Kong accounting standards. The Company is further required to publish its interim and annual accounts within 60 days from the end of the first six months of a financial year and within 120 days from the end of a financial year, respectively. However, under the GEM Listing rules, the Company is required to publish its interim results for the first six months and each of its first and third quarters of a financial year within 45 days after the end of each such period, and send its annual report and accounts to its shareholders not less than 21 days and not more than three months after its financial year end.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on directors and shareholders

The Company Law gives shareholders of a company the right to inspect its articles of association, minutes of shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (after payment of reasonable charges) certain information on shareholders and on Directors, Supervisors and managers similar to that available to shareholders of Hong Kong companies under Hong Kong law.

Arbitration of disputes

In Hong Kong, disputes between shareholders and their company or its directors, managers and other senior officers may be resolved through the courts. The Articles of Association provide that disputes between a holder of H Shares and the Company and its directors, managers or other senior management officers or a holder of Domestic Shares arising from the Articles of Association, the Company Law or other relevant laws or administrative regulations which concern the affairs of the Company must be submitted to arbitration at either the Hong Kong International Arbitration Centre ("HKIAC") or the China International Economic and Trade Arbitration Commission ("CIETAC"), at the claimant's choice. Such arbitration is final and conclusive.

Mandatory deductions

Under the Company Law, after-tax profits of a company are subject to deduction of contributions to the statutory common reserve fund of a company before they can be distributed to shareholders. There are prescribed limits under the Company Law for such deductions. There are no corresponding provisions under the Companies Ordinance.

Fiduciary duties

In Hong Kong, there is the common law concept of the fiduciary duties of directors. Under the Company Law and the Special Regulations, directors, supervisors, managers and other senior managements officers owe a fiduciary duty towards their company and are not permitted to engage in any activities, which compete with or damage the interests of their company.

Closure of register of shareholders

The Companies Ordinance of Hong Kong requires that the register of shareholders of a company may not be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the Articles of Association provide, as required by the Company Law, that share transfers may not be registered within 20 days before the date of a general meeting or within five days before the record date set for the purpose of distribution of dividends.

(B) Other legal and regulatory provisions

Upon the listing of the Company on GEM, the provisions of the Securities and Futures Ordinance of Hong Kong, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on GEM will apply to the Company.

(C) Securities Arbitration Rules

The Articles of Association provide that certain claims arising under the Articles of Association or the Company Law shall be arbitrated at either CIETAC or HKIAC in accordance with their respective rules.

The Securities Arbitration Rules of HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen, the PRC for cases involving disputes concerning the affairs of companies listed on the Stock Exchange and incorporated in the PRC (other than Hong Kong, Macau and Taiwan) so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditionally upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where any party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, the Special Administrative Region of Macau and Taiwan.

(D) GEM Listing Rules

The GEM Listing Rules contain certain provisions specifically relating to the listing of equity securities of companies incorporated or otherwise established in the PRC. Set out below is a summary of the major provisions which apply to the Company.

Compliance Adviser

The Company is required to retain, for the period commencing on the date of initial listing of the Company and ending on the date on which the Company sends its financial reports in accordance with Rule 18.03 of the GEM Listing Rules for the second full financial year commencing after the date of its listing on GEM, the services of a compliance adviser (being a corporation or authorised financial institution acceptable to the Stock Exchange, licensed or registered under applicable laws to advise on corporate finance matters) to provide the Company with professional advice on, *inter alia*, continuous compliance with the GEM Listing Rules.

Accountants' reports

An accountants' report will not normally be regarded as acceptable by the Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong, which means that it must conform with either Hong Kong or international accounting standards.

Process agent

The Company must appoint and retain throughout the period its securities are listed on GEM a person authorised to accept service of process and notices on its behalf in Hong Kong and must notify the Stock Exchange of his or her appointment and any termination of his or her appointment and his or her contact particulars.

Public shareholdings

If at any time there are existing issued securities of the Company, other than the H Shares, the GEM Listing Rules require that (i) all the H Shares must be held by the public except as otherwise permitted by the Stock Exchange in its discretion; (ii) the H Shares held by the public must constitute not less than 10% of the Company's total existing issued share capital; and (iii) the aggregate amount of the H Shares and other securities held by the public must constitute not less than 25% of the Company's total existing issued share capital.

If the Company does not have existing issued securities other than the H Shares, the H Shares held by the public must constitute not less than 25% of the Company's total existing issued share capital unless the expected market value of the H Shares at the time of listing is over HK$4,000 million, in which case, the Stock Exchange would normally accept the higher of the percentage that would result in the market value of the securities to be in public hands equal to HK$1,000 million (determined as at the time of listing) and 20% of the Company's total existing issued share capital, as a prescribed percentage of the H Shares.

Independent non-executive Directors and Supervisors

The independent non-executive Directors are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The Supervisors must have the character, experience and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

Restrictions on purchase and subscription

The Company may purchase its own Shares on the Stock Exchange in accordance with the GEM Listing Rules. Shareholders' approval must first be obtained prior to carrying out a share repurchase, by way of special resolution of shareholders in general meeting and of the holders of Domestic Shares and the holders of the H Shares at separate class meetings, in accordance with the procedures prescribed by the Articles of Association. When seeking shareholders' approval to make purchases of its securities on the Stock Exchange or when reporting such purchases, the Company should provide information to its shareholders on the proposed or actual purchase of any or all of its equity securities, whether or not listed or traded on the Stock Exchange. There should also be a statement as to the consequences of any purchases which will arise under either or both of the Hong Kong Codes on Takeovers and Mergers and Share Repurchases and any similar applicable law of which the Directors are aware, if any. Any general mandate given to the Directors to repurchase the H Shares must not exceed 10% of the total amount of the existing issued H shares of the Company.

Mandatory Provisions

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the Articles of Association of a PRC company which is listed on the Stock Exchange, of the Mandatory Provisions and provisions including those relating to the change, removal and resignation of auditors, classification of shareholders and the conduct of the supervisory committee of the Company. Such provisions have been incorporated into the Articles of Association, a summary of which has been set out in this appendix.

Additional requirements

The GEM Listing Rules require the Company to comply with certain additional requirements which are summarized as follows:

(1) Pre-emptive rights

Except in the circumstances mentioned below, the Directors must obtain the approval by a special resolution of the shareholders in general meeting and the approvals by special resolutions of holders of Domestic Shares and holders of H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to:

(a) authorizing, allotting, issuing or granting:

(i) shares;

(ii) securities convertible into shares; or

(iii) options, warrants or similar rights to subscribe for any shares or such convertible securities; or

(b) a major subsidiary of the Company making any such authorization, allotment, issue or grant resulting in material dilutions to the percentage of shareholding of the Company and our shareholders in such subsidiary.

No such approval shall be required in the case of authorizing, allotting or issuing shares if, but only to the extent that, our existing shareholders have by special resolution in a general meeting given a general mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue either separately or concurrently once every 12 months, not more than 20% of the existing Domestic Shares and H Shares as at the date of the passing of the relevant special resolution or of such shares that are part of our plan at the time of the formation of the Company to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the CSRC.

(2) Supervisors

The Supervisors is required to comply with Rules 5.48 to 5.67 of the GEM Listing Rules relating to securities transactions by directors.

To enter into a service contract for three years or more with a Supervisor or proposed Supervisor, or a service contract which expressly requires the Company to give a period of notice of more than one year or pay compensation or make other payments equivalent to more than one year's emoluments in order for the Company to terminate the service contract with a Supervisor or proposed Supervisors, the Company must obtain the prior approval of our shareholders in a general meeting.

(3) Changes to Articles of Association

The Company may not at any time permit or cause any amendment to be made to our Articles of Association which would cause them to cease to comply with the Mandatory Provisions or the GEM Listing Rules relating to the Articles of Association.

(4) Documents for inspection

The Company is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by shareholders at reasonable charges, the following:

(a) a complete duplicate register of shareholders;

(b) a report showing the state of our issued share capital;

(c) our latest audited financial statements and the reports of the Directors, auditors and (if any) Supervisors;

(d) special resolutions;

(e) reports showing the number and nominal value of securities repurchased by us since the end of the last financial year, the aggregate amount paid for the repurchase of such securities and the maximum and minimum price paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);

(f) a copy of the latest annual return filed with the SAIC or other competent PRC authorities; and

(g) for shareholders only, copies of the minutes of meetings of shareholders.

(5) Appointment of receiving agents

The Company is required to appoint one or more receiving agents in Hong Kong to receive on behalf of the shareholders dividends declared and other monies owing by the Company in respect of H Shares listed on the Stock Exchange to be held, pending payments, in trust for holders of the H Shares.

(6) Statements to be made on acquisition of Shares

The Company is required to ensure that all our listing documents and share certificates include the statements stipulated below and to instruct and cause our share registrar not to register the subscription, purchase or transfer of any of our Shares in the name of any particular holder unless and until such holder delivers to the share registrar a signed form in respect of those shares bearing statements to the following effect, that the acquirer of shares:

(a) agrees with us and each of our shareholders, and we agree with each shareholder, to observe and comply with the Company Law, the Special Regulations and our Articles of Association;

(b) agrees with us, each shareholder, Director, Supervisor, manager and other officer, and we, acting for ourselves and for each Director, Supervisor, manager and other officer agree with each shareholder to refer all disputes and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association. Any reference to arbitration will be deemed to authorize the arbitration tribunal to conduct its hearing in open session and to publish its award. Such arbitration will be final and conclusive;

(c) agrees with us and each of our shareholders that our Shares are freely transferable by the holder thereof; and

(d) authorizes us to enter into a contract on his behalf with each Director and officer whereby such Directors and officers undertake to observe and comply with their obligations to our shareholders stipulated in our Articles of Association.

(7) Compliance with the Company Law, the Special Regulations and our Articles of Association

The Company is required to observe and comply with the Company Law, the Special Regulations and our Articles of Association.

Contract between the Company and every Director and officer

The Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

(a) an undertaking by the Director or officer to us to observe and comply with the PRC Company Law, the Special Regulations, our Articles of Association, the Hong Kong Takeovers Codes and an agreement that we will have the remedies provided in our Articles of Association and that neither the contract nor his office is capable of assignment;

(b) an undertaking by the Director or officer to us acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in our Articles of Association; and

(c) an arbitration clause which provides that:

(i) Whenever any disputes or claims arise from the contract, the Articles of Association or any rights or obligations conferred or imposed by the laws and administrative regulations concerning our affairs between (1) the Company and our Directors or officers or (2) a holder of H Shares and a Director or officer, such disputes or claims will be referred to arbitration;

(ii) The entire dispute or claim shall be resolved through that arbitration; all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are our shareholders, Directors, Supervisors, managers or other officers, shall submit to the arbitration.

(iii) Disputes over who is a shareholder and over the share register do not have to be resolved through arbitration.

(iv) Once the party seeking the arbitration submits a dispute or claim to the arbitration, the other party must submit to the arbitral body selected by the party seeking the arbitration. The party seeking arbitration may elect to have the dispute or claim arbitrated either by the CIETAC in accordance with its arbitration rules or by the HKIAC in accordance with its securities arbitration rules.

(v) If the party seeking the arbitration elects to arbitrate the dispute or claim at the HKIAC, either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC.

(vi) PRC laws shall govern the arbitration of disputes or claims referred to in clause (a) above, unless otherwise provided by law or administrative regulations.

(vii) The award of the arbitral body is final and shall be binding on the parties thereto.

(viii) The agreement to arbitrate is made by the Director or officer with the Company on its own behalf and on behalf of each shareholder; and

(ix) Any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct the hearing in open session and to publish its award.

Contract between our Company and every Supervisor

The Company is also required to enter into a contract in writing with every Supervisor containing at least the following provisions:

(a) an undertaking by the Supervisor to us to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association and an agreement that we will have the remedies provided in our Articles of Association and that neither the contract nor his office is capable of assignment;

(b) an undertaking by the Supervisor to us acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in our Articles of Association; and

(c) the arbitration clause in terms set out in sub-paragraph (c) of the preceding paragraph in relation to a contract between our Company and every Director or officer subject to necessary modifications.

(E) Taxation in Hong Kong

The following summary of certain taxation provisions relevant to investing in H Shares is based on current law and practice, it is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in H Shares. Accordingly, each prospective investor should consult its own tax adviser regarding the tax consequences of an investment in H Shares. The discussion is based on the laws and the relevant interpretations thereof in effect as at the date of this prospectus, all of which are subject to changes.

(i) Taxation of dividends

Under current practice of the Hong Kong Inland Revenue Department, no profits tax is payable in Hong Kong in respect of dividends paid by a company which is not subject to Hong Kong profits tax. Where a company is not chargeable to Hong Kong profits tax, any dividends paid by it to persons who carry on a business in Hong Kong are liable to profits tax to the extent that such dividends form part of the profits of such persons arising from their Hong Kong business.

(ii) Taxation of gains

No profits tax is imposed in Hong Kong in respect of capital gains from the sale of property, such as shares. Trading gains from the sale of property by persons who carry on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business are liable to profits tax, which is currently imposed at the rate of 17.5% for corporations and at a maximum rate of 16% for individuals. Gains from the sale of H Shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

(iii) Stamp duty

The sale and purchase of H Shares will be subject to stamp duty payable by both the seller and the buyer at the current rate of 0.1% of the consideration or, if higher, the fair value of the H Shares transferred (i.e. a total of 0.2% is currently payable on a typical sale and purchase transaction involving H Shares). A fixed rate of duty of HK$5 is also payable in respect of every instrument of transfer of H Shares.

(iv) Estate duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 abolishes estate duty in respect of deaths occurring on or after 11 February 2006. In addition, estate duty in respect of deaths occurring on or after 15 July 2005, but before 11 February 2006, has been reduced to a nominal duty of HK$100 in respect of estates which assessed value exceeds HK$7.5 million. No estate duty is payable where the assessed value of the dutiable estate does not exceed HK$7.5 million.

3. ARTICLES OF ASSOCIATION

This section contains summary of the principal provisions of the Articles of Association (and the relevant articles therein shall be referred to as the "Articles") adopted, with certain amendments thereto being approved, at the extraordinary general meeting of the Company held on 18 February 2005, and a related commentary. The full Chinese text of the Articles of Association is available for inspection as mentioned in the section headed "Documents delivered to the registrar of companies and available for inspection" in Appendix VI to this prospectus.

(a) Directors

(i) Power to allot and issue shares

There are no provisions in the Articles empowering the Directors to allot and issue shares.

In order to increase the share capital of the Company and issue new shares, the Board must prepare a detailed plan and draft of amendments to the Articles to permit the increase for approval by shareholders in general meeting by way of special resolution, subject to the relevant procedures and the approval of the relevant regulatory authorities of the PRC.

(ii) Power to dispose of assets of the Company or its subsidiaries

The Board shall not, without the prior approval of shareholders in general meeting, dispose of or agree to dispose of any fixed assets of the Company where the aggregate of:

(A) the amount or value of the consideration for the fixed assets proposed to be disposed, and

(B) where any fixed assets of the Company have been disposed of in the period of four months immediately preceding the proposed disposition, the amount or value of the consideration for any such disposition,

exceeds 33% of the value of the Company's fixed assets as shown in the latest balance sheet placed before the shareholders in general meeting. The validity of a disposition by the Company shall not be affected by the breach of the relevant Article. For the purpose of such Article, disposition includes an act involving the transfer of some interest in property other than by way of security.

(iii) Remuneration and payments for loss of office

The Company shall, with the prior approval of shareholders in general meeting, enter into a contract in writing with a Director or a Supervisor wherein his emoluments are stipulated, including:

(A) emoluments in respect of his service as director, supervisor or senior management officer of the Company;

(B) emoluments in respect of his service as director, supervisor or senior management officer of any subsidiary of the Company;

(C) emoluments in respect of the provision of other services in connection with the management of the affairs of the Company and any of its subsidiaries; and

(D) payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office.

Except under a contract entered into in accordance with the foregoing, no proceedings may be brought by a Director or Supervisor against the Company for anything due to him in respect of the above matters.

The contract concerning the emoluments between the Company and its Directors or Supervisors should provide that in the event of a takeover of the Company, the Directors and Supervisors shall, subject to the prior approval of the shareholders in general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. A "takeover of the Company" referred to in this paragraph means any of the following:

(A) an offer made by any person to the general body of shareholders; or

(B) an offer made by any person with a view to the offeror becoming a "controlling shareholder" within the meaning set out in the Articles.

If the relevant Director or Supervisor does not comply with the above provisions, any sum so received by him shall belong to those persons who have sold their Shares as a result of the said offer made. The expenses incurred in distributing that sum pro rata amongst the aforesaid persons shall be borne by the relevant Director or Supervisor and not paid out of the sum so distributed.

(iv) Loans to Directors, Supervisors and other senior management officers

The Company shall not directly or indirectly make a loan to or provide any guarantee in connection with the making of a loan to a director, supervisor, general manager, or other senior management officer of the Company or of the Company's holding company or a person connected with any of them. However, the following transactions are not subject to such prohibition:

(A) the provision by the Company of a loan or a guarantee in connection with the making of a loan to a subsidiary;

(B) the provision by the Company of a loan or a guarantee in connection with the making of a loan or any other funds to any of its Directors, Supervisors, general manager, and other senior management officers to meet the expenditure incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders in general meeting; or

(C) the Company may make a loan to or provide a guarantee in connection with a loan to any of its Directors, Supervisors, general manager and other senior management officers or their connected persons in the ordinary course of its business and on normal commercial terms, where the ordinary course of business of the Company includes the lending of money or the giving of guarantees.

A loan made by the Company in breach of the prohibition described above shall be forthwith repayable by the recipient of the loan regardless of the terms of the loan.

A guarantee provided by the Company in breach of the prohibition described above shall be unenforceable against the Company, unless:

(A) the guarantee was provided in connection with a loan to a person connected with a director, supervisor, general manager or other senior management officer of the Company or its holding company and at the time the loan was advanced the lender was not aware of the relevant circumstances; or

(B) the security provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

For the purpose of this paragraph:

(A) a guarantee includes an undertaking or property provided to secure the performance of obligations by the obligor; and

(B) the definition of a connected person in sub-paragraph (xi) below shall, mutatis mutandis, apply.

(v) Financial assistance to purchase shares in the Company or any of its subsidiaries

Save as described below, no financial assistance shall be provided at any time and in any manner by the Company or its subsidiaries to any person acquiring or intending to acquire the shares of the Company. The person(s) acquiring the shares of the Company aforesaid shall include the person(s) who undertake(s), directly or indirectly, obligations as a result of an acquisition of shares of the Company.

Save as described below, no financial assistance shall be provided at any time and in any manner by the Company or its subsidiaries to reduce or release the obligations of the said person(s) undertaking such obligations.

The following transactions are not prohibited:

(A) the provision of financial assistance where the financial assistance is given in good faith in the interests of the Company and the principal purpose in giving that assistance is not for the acquisition of shares in the Company, or the assistance is but an incidental part of some larger purpose of the Company;

(B) a distribution of the Company's assets by way of dividend in accordance with law;

(C) the allotment of bonus shares as dividends;

(D) a reduction of share capital, a repurchase of shares of the Company, a reorganisation of the capital structure of the Company effected in accordance with the Articles;

(E) the lending of money by the Company in the ordinary course of its business where the lending of money is part of its scope of business, provided that the Company's net assets are not thereby reduced or, to the extent that those assets are thereby reduced, that financial assistance is provided out of distributable profits of the Company;

(F) the provision of money by the Company for contributions to employees' shares schemes, provided that the Company's net assets are not thereby reduced or, to the extent that those assets are thereby reduced, that financial assistance is provided out of distributable profits of the Company.

For the purposes of the foregoing provisions:

(A) "financial assistance" includes without limitation:

(1) assistance given by way of gift;

(2) assistance given by way of guarantee (including the provision of an undertaking or property to secure the performance of obligations by the obligor), or indemnity (other than an indemnity in respect of the Company's default), or by way of release or waiver;

(3) assistance given by way of a loan or any other agreement under which the obligations of the Company are to be fulfilled before the obligations of another party to the agreement, or by way of the novation of, or the assignment of rights arising under, a loan or such other agreement; or

(4) any other assistance given by the Company when the Company is unable to pay its debts or has no net assets or when its net assets would thereby be reduced by a material extent, and

(B) "undertaking" includes the changing of one's financial position by making an agreement or arrangement (whether enforceable or not, and whether made on his own account or with any other person) or by any other means.

(vi) Disclosure of interests in contracts with the Company or its subsidiaries

Where a Director, Supervisor, general manager or other senior management officer of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company, other than his contract of service, he shall disclose the nature and extent of his interests to the Board at the earliest opportunity, whether or not the related matters are under normal circumstances subject to the approval of the Board. Unless the interested Director, Supervisor, general manager or other senior management officer has disclosed his interest in accordance with the Articles and the contract, transaction or arrangement has been approved by the Board at a meeting in which such interested Director is not counted in the quorum and has abstained from voting, that contract, transaction or arrangement is voidable at the instance of the Company except as against a bona fide party acting without notice of the breach of duty by the Director, Supervisor, general manager or other senior management officer concerned. For the purposes of the foregoing, a Director, Supervisor, general manager or senior management officer is deemed to be interested in a contract, transaction or arrangement in which a person connected with him is interested.

Where a Director, Supervisor, general manager or senior management officer gives to the Board a general notice in writing stating that, by reason of the facts specified in the notice, he is interested in contracts, transactions or arrangements of any description which may subsequently be made by the Company, that notice shall be deemed for the purposes of the Articles to be a sufficient disclosure of his interests, so far as attributable to those facts, in relation to any contract, transaction or arrangement of that description which may subsequently be made by the Company, provided that such general notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration on behalf of the Company.

(vii) Remuneration

The emoluments of a Director shall be approved by shareholders in general meeting as referred to under the paragraph headed "Remuneration and payments for loss of office".

(viii) Retirement, appointment and removal

The term of office of the Chairman and other Directors shall be three years commencing from the date of appointment or re-election, renewable upon re-election.

The Board shall consist of nine members, and shall have one Chairman and three independent non-executive Directors. The Chairman shall be elected and removed by half of the members of the Board.

Directors shall be elected by shareholders in general meeting for a term of three years. Upon the expiry of the term, a director shall be eligible for re-election. More than half of the members of the Board shall be external Directors (Directors who are not working in the Company).

External Directors shall have sufficient time and the necessary knowledge and ability in performing their duties. In performing his duties as an external Director, the Company shall provide all the necessary information.

A Director is not required to hold any shares in the Company.

A Director may be removed prior to the expiration of his term of office with the sanction of an ordinary resolution of a general meeting. There is no stipulation that a Director must retire at a certain age.

(ix) Borrowing powers

The Board has powers to formulate proposals for the issue of bonds of the Company.

There are no provisions in the Articles stipulating the manner of varying the borrowing powers exercisable by the Board. However, such powers, as with other provisions in the Articles, may be altered by way of special resolution of shareholders in general meeting.

(x) Notice and minutes of board meetings

Meetings of the Board shall be held at least four times every year and be convened by the chairman of the Board. Notice of such Board meetings shall be given to all the Directors and supervisors 14 days before the date of the meeting. An extraordinary meeting of the Board may be held upon request of the entitled shareholder(s) representing one-tenth or more of voting rights, the supervisory committee, the general manager of the Company or a one-third or more of the Directors. The chairman of the Board shall convene and preside over the extraordinary meeting of the Board within ten days from receiving the request.

The chairman of the Board may propose to convene extraordinary Board meetings as he deems necessary.

Notice of Board meetings (excluding extraordinary Board meetings) shall be given in a manner and within a time frame as follows:

(i) Notice shall not be required for the convening of regular meetings of the Board where the time and place has been fixed by the Board in advance. If the time and place of the Board meeting has not been fixed by the Board in advance, the chairman of the Board shall instruct the secretary of the Board to, either by telex, telegram, facsimile, express special delivery, registered post or by hand, give the notice of the time and place of that Board meeting to all the Directors at least 14 days before the convention of the meeting. However, such notice requirement shall not apply to extraordinary Board meetings.

(ii) Regular or extraordinary Board meetings may be conducted by telephone or other means of communications, provided that all the participating Directors can hear and speak to each other, and in such cases, all participating Directors shall be deemed to have attended the meeting in person, save and except certain matters set out in the Articles of Association.

Board meetings shall be held only if more than one-half of the Directors are present.

Each Director shall have one vote. Resolutions of the Board require the approval of more than half of all the Directors.

Where the numbers of votes voting for and against a resolution are equal, the chairman of the Board shall have a casting vote.

(xi) Duties

Each Director, Supervisor, general manager or other senior management officer owes a duty, in the exercise of his powers and the discharge of his duties, to exercise the care, diligence and skill that a reasonable prudent person would exercise in comparable circumstances.

In addition to the obligations imposed by laws, administrative regulations or required by the stock exchanges on which shares of the Company are listed, each Director, Supervisor, general manager and other senior management officer owes a duty to each shareholder, in the exercise of the powers of the Company entrusted to him:

(A) not to cause the Company to exceed the scope of business stipulated in its business licence;

(B) to act honestly in what he considers to be in the best interests of the Company;

(C) not to expropriate in any way the Company's property, including without limitation, opportunities beneficial to the Company; and

(D) not to expropriate the individual rights of shareholders, including, without limitation, rights to distribution and voting rights, save and except pursuant to a reorganisation of the Company submitted to shareholders for approval in accordance with the Articles.

Each Director, Supervisor, general manager or other senior management officer owes a duty, in the exercise of powers of the Company entrusted to him, to observe his fiduciary obligations and not to place himself in a position where his duties and his interests may conflict. This principle applies to, without limitation, the following obligations:

(A) to act honestly in what he considers to be in the best interests of the Company;

(B) to exercise the powers within his authority without abuse;

(C) to personally exercise the discretion vested in him and not allow himself to act under the direction of another and, unless and to the extent permitted by law or administrative regulations or with the informed consent of shareholders in general meeting, not to delegate the exercise of his discretion;

(D) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;

(E) except in accordance with the Articles or otherwise permitted by informed shareholders in general meeting, not to enter into any contract, transaction or arrangement with the Company;

(F) unless otherwise permitted by informed shareholders in general meeting, not to use the Company's property for his own benefit;

(G) not to obtain bribe or other illegal income by using his authority or to expropriate in any manner the Company's property, including, without limitation, not to usurp any opportunities beneficial to the Company;

(H) unless otherwise permitted by informed shareholders in general meeting, not to accept commissions paid by a third party in connection with the Company's transactions;

(I) to abide by the Articles, faithfully execute his official duties and protect the Company's interests, and not to exploit his position and power in the Company to advance private interests of his own or others in related, such as figuring for business opportunities which essentially belong to the Company, not to conduct the same kind of business affairs as those of the Company for himself or as an agent of others;

(J) unless otherwise permitted by informed shareholders in general meeting, not to compete in any form with the Company;

(K) not to embezzle the Company's funds, and not to deposit the Company's funds in accounts opened in his own name or in the name of other persons, and not to lend the Company's funds to others in breach of the Articles without a permission of shareholders' meeting or the Board meeting, and not to use the Company's assets to provide security for others; and

(L) unless otherwise permitted by informed shareholders in general meeting, not to disclose confidential information of the Company acquired by him in the course of and during his tenure and not to use such information other than in furtherance of the interests of the Company, save and except that disclosure of such information to the court or other governmental authorities is permitted if (i) the disclosure is required by law; (ii) it is in the public interest; or (iii) such disclosure is necessary to protect the interests of that Director, Supervisor, general manager or senior management officer.

In accordance with his fiduciary obligations, a Director, Supervisor, general manager or other senior management officer shall not cause a person connected with him to do what he is prohibited from doing. A person is connected with a Director, Supervisor, general manager or other senior management officer if he is:

(A) the spouse or minor child of that Director, Supervisor, general manager or other senior management officer;

(B) a person acting in the capacity of trustee of a Director, Supervisor, general manager, other senior management officer or any person referred to in (A) above;

(C) a person who is a partner of a Director, Supervisor, general manager, other senior management officer or any person referred to in (A) or (B) above;

(D) a company in which a Director, Supervisor, general manager or other senior management officer, alone or jointly with one or more persons referred to in (A), (B) and (C) above or other Director, Supervisor, general manager or other senior management officer, has de facto control; or

(E) a director, supervisor, general manager or other senior management officer of a company referred to in (D) above.

The fiduciary duties of a Director, Supervisor, general manager or other senior management officer under the Articles do not necessarily cease with the termination of his term of office.

Their duty of confidence in relation to trade secrets of the Company survives the termination of their term of office. Other duties may continue for such period as fairness may require depending on the time lapse between such termination and the act concerned and the circumstances and the terms under which the relationship with the Company was terminated.

Subject to the provisions with regard to the duties of controlling shareholders defined in paragraph (r) below towards other shareholders as set out in the Articles, a Director, Supervisor, general manager or other senior management officer may be relieved of liability for specific breaches of his duty by the informed consent of shareholders in general meeting.

(b) Alterations to constitutional documents

The Company may amend the Articles in accordance with the following procedures:

(i) the Board needs to prepared the draft of amendment to the Articles in accordance with the Articles;

(ii) shareholders shall be informed of the draft of amendments and a meeting of shareholders shall be convened to vote on the amendments;

(iii) the amendments shall require the sanction by a special resolution of shareholders in general meeting; and

(iv) any amendments to the Articles involving the contents of the Mandatory Provisions shall be effective only after being approved by the relevant departments of the State Council and CSRC. With respect to matters involving registration, any change of registration shall be effected according to law.

(c) Variation of rights of existing shares or classes of shares

Rights conferred on any class of shareholders in the capacity of shareholders ("class rights") may not be varied or abrogated unless approved by way of special resolution of shareholders in general meeting and by holders of shares of that class at a separate meeting conducted in accordance with the Articles. The following circumstances shall be deemed to be a variation or abrogation of the class rights of a class:

(i) the increase or decrease in the number of shares of such class, or an increase or decrease in the number of shares of a class having voting or distribution rights or other privileges equal or superior to the shares of such class;

(ii) the exchange of all or part of the shares of such class or the exchange or the grant of a right of exchange of all or part of the shares of another class into the shares of such class;

(iii) the removal or reduction of rights to accrued dividends or rights to cumulative dividends attached such class;

(iv) the reduction or removal of any preference to dividends or any preference to a distribution of assets upon the Company's liquidation;

(v) the addition, removal or reduction of the right of such class in relation to conversion into shares, option, voting power, transfer or pre-emptive rights to acquire securities of the Company;

(vi) the removal or reduction of rights of such class to receive payment in particular currencies from the Company;

(vii) the creation of a new class of shares having voting or distribution rights or other privileges equal or superior to the shares of such class;

(viii) the imposition of restrictions on the transfer or ownership of the shares of such class or the addition of such restrictions;

(ix) the allotment and issue of rights to subscribe for, or convert into, shares in the Company of such class or another class;

(x) the increase of the rights or privileges of another class;

(xi) the reorganisation of the Company which will result in different classes of shareholders bearing disproportionate burdens in such proposed reorganisation; and

(xii) the variation or abrogation of provision in this part of the Articles.

(d) Ordinary and special resolutions – majority required

Resolutions of general meetings of shareholders shall be divided into ordinary resolutions and special resolutions.

An ordinary resolution shall be passed by more than one half of the voting rights carried by the shareholders (including proxies) present at the meeting in favour of the resolution. A special resolution shall be passed by more than two thirds of the votes represented by the shareholders (including proxies) present at the general meeting exercised in favour of the resolution.

(e) Voting rights (generally, on a poll and right to demand a poll)

Holders of Domestic Shares and H Shares present at a general meeting have one vote of voting rights for each share they hold.

At any meeting of shareholders a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

(i) by the chairman of the meeting;

(ii) by at least two shareholders having the right to vote either present in person or by proxy; or

(iii) by one or more shareholders present in person or by proxy and representing one-tenth or more of all shares carrying the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman as to the passing of the resolution based on the results of a show of hands and an entry to that effect in the minutes of the Company shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

The demand for a poll may be withdrawn by the person who made the demand. A poll demanded on the election of the chairman of the meeting, or on adjournment, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any business other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.

On a poll taken at a meeting, a shareholder entitled to two or more votes need not cast all his votes in the same way.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which whether the show of hands takes place or at which the poll is demanded shall be entitled to one extra vote.

(f) Requirements for general meetings

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meetings shall be convened by the Board. Annual general meetings are held once every year within six months after the last financial year end.

Under any of the following circumstances, the Board shall convene an extraordinary general meeting within two months of the occurrence of the following events:

(i) when the number of directors falls below the number required by the Company Law or two thirds of the number required by the Articles of Association;

(ii) when the losses of the Company which have not been made good amount to one third of the total paid up share capital of the Company;

(iii) upon written requisition of the shareholder(s) holding individually or collectively 10% or more of the Company's issued and outstanding shares carrying voting rights for the convening of an extraordinary general meeting;

(iv) when the Board deems necessary or the supervisory committee of the Company proposes to convene the same; or

(v) when two (or more) independent non-executive Directors propose to convene the same.

(g) Accounts and audit

The Company shall formulate its own financial and accounting system in accordance with the relevant requirements of PRC laws, administrative regulations and the PRC accounting standards formulated by the department in charge of finance under the State Council.

The Board of the Company shall place before the shareholders at every annual general meeting such financial reports as are required by any laws, administrative regulations or directives promulgated by competent local government and the authority-in-charge to be prepared by the Company.

The financial reports of the Company shall be deposited at the Company for inspection by its shareholders not later than 20 days before the annual general meeting.

Each shareholder of the Company shall be entitled to receive a copy of the financial statements referred to in the Articles. The Company shall send by prepaid mail 21 days before the annual general meeting the above reports to each holder of overseas listed foreign shares. The service address shall be the address in the register of shareholders of the Company.

The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards, or those of the place where the Company's H Shares are listed. If there is any material difference between the financial statements prepared in accordance with the respective sets of accounting standards, such difference shall be stated in the notes to the financial statements. When the Company is to distribute its after-tax profits, the lower of the after-tax profits as shown in the two financial statements shall be adopted.

Any interim results or financial information published or disclosed by the Company shall be prepared in accordance with international accounting standards or those of the place where the Company's H Shares are listed, and with the PRC accounting standards and regulations.

The Company shall publish its financial reports twice every financial year; interim reports shall be published within 60 days after the end of the first six months of each financial year and annual reports shall be published within 120 days after the end of the financial year.

The appointment, dismissal or termination of the office of the auditors shall be determined at shareholders' general meetings and reported to the relevant State Council securities regulatory authorities for record.

Shareholders in general meeting may by ordinary resolution remove the Company's auditors before their term of office expires, irrespective of any provisions contained in the contract entered into between the Company and the auditors. Any right of the auditors to claim against the Company in connection with their removal shall not be affected by such removal.

In the event of the dismissal or termination of the services of the auditors, such auditors who are to be dismissed or whose services are to be terminated shall be given notice in advance. Such auditors shall have the right to present their views at the following shareholders' general meetings:

(i) the shareholders' general meeting at which their term of office would otherwise have expired;

(ii) any shareholders' general meeting at which it is proposed to fill the casual vacancy caused by their removal; or

(iii) any shareholders' general meeting convened on their resignation.

(h) Notice of meetings and business to be conducted thereat

The shareholders' general meeting is the organ of authority of the Company and shall exercise its functions according to law.

Notice of meetings of shareholders shall be given 45 days before the meeting. A notice of meeting of shareholders shall:

(i) be in writing;

(ii) specify the place, the date and the time of the meeting;

(iii) state the general nature of the business to be transacted at the meeting;

(iv) provide such information and explanation as are necessary for the shareholders to exercise an informed judgment on the proposals before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate the Company with another, to repurchase shares of the Company, to reorganise the share capital, or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the cause and effect of such proposal must be properly explained;

(v) contain a disclosure of the nature and extent, if any, of material interests of any Director, Supervisor, general manager or other senior management officer in the transaction to be discussed and the effect of the transaction to be discussed on such Director, Supervisor, general manager or other senior management officer in his capacity as shareholder in so far as it is different from the effect on the interests of other shareholders of the same class;

(vi) contain the full text of any special resolution proposed to be moved at the meeting;

(vii) contain conspicuously a statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not also be a shareholder; and

(viii) specify the time and place for lodging proxy forms for the relevant meeting. In respect of holders of H Shares, notice of general meetings of shareholders shall be served on each shareholder, whether or not entitled to vote thereat, by hand or prepaid mail to the address of any such shareholder as appearing on the register of holders of H Shares.

In respect of holders of Domestic Shares, notice of general meetings of shareholders can be published on any one day within the period of 45 to 50 days prior to the meeting in one or more publications specified by the State Council securities regulatory authority. Once published, all holders of Domestic Shares shall be deemed to have received the notice of the relevant general meeting.

The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate that meeting or any resolutions passed thereat.

The following matters shall be resolved by an ordinary resolution at a shareholders' general meeting:

(i) work reports of the Board and the supervisory committee;

(ii) plans formulated by the Board for the distribution of profits and for making up losses;

(iii) appointment and removal of the members of the Board and supervisors of the supervisory committee who are not the representatives of staff, their remuneration and method of payment;

(iv) annual preliminary and final budgets, balance sheets and income statements and other financial statements of the Company; and

(v) matters other than those required by the laws and administrative regulations or by the Articles of Association to be adopted by special resolution.

The following matters shall be resolved by a special resolution at a shareholders' general meeting:

(i) the increase or decrease of share capital of the Company and the Company's issue of shares of any class, warrants and other similar securities;

(ii) the issue of debentures of the Company;

(iii) the division, merger, dissolution and or alteration to the form of the Company;

(iv) amendments to the Articles of Association;

(v) where any material assets of the Company have been disposed of, or a guarantee has been provided in the period of a year, the amount purchased or of which, exceeds 30% of the value of the Company's total assets as shown in the latest audited balance sheet; and

(vi) any other matters considered by the shareholders' general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on the Company and should be adopted by a special resolution.

(i) Transfer of shares

All fully paid H shares listed in Hong Kong are freely transferable pursuant to the Articles.

The Board may refuse to recognise any instrument of transfer without giving any reason unless such transfer is carried out in compliance with the following conditions:

(i) payment of HK$2.50 or maximum fee (whichever is lower) as agreed by the Stock Exchange has been made to the Company for the purpose of registering the instrument of transfer and other documents relating to or which may affect the title to the shares;

(ii) the instrument of transfer only involves the H Shares listed in Hong Kong;

(iii) the stamp duty payable on the instrument of transfer has been paid;

(iv) relevant share certificate and evidence that the transferor has the right to transfer such shares as reasonably required by the Board have been provided;

(v) if the shares are to be transferred to joint holders, the number of joint holders shall not exceed 4; and

(vi) the Company has no lien over the relevant shares.

The overseas listed foreign shares of the Company shall be transferred by way of such standard transfer forms as prescribed by the Stock Exchange from time to time.

(j) Register of shareholders

The Company shall keep a register of shareholders and enter therein the following particulars:

(i) the name, address, occupation (or description of nature) of shareholders, the class and the number of each class of shares held, the amount paid or payable on the shares and, the serial number of the share certificates held by each shareholder;

(ii) the date on which each person acquired the shares;

(iii) the date on which each person was entered in the register as a shareholder; and

(iv) the date on which any person ceased to be a shareholder.

The Company shall have a complete register of shareholders which shall be comprised of the following parts:

(i) a part maintained at the Company's legal address in relation to shares not required to be registered in the parts of the register referred to in (ii) and (iii) below;

(ii) a part maintained in the place where the stock exchange on which the Company's overseas listed securities are listed is located; and

(iii) any part in such other places as the Board may deem necessary for listing purposes.

The Company may appoint overseas agents to manage the register of shareholders outside the PRC. A duplicate of parts of the register of shareholders maintained pursuant to (ii) and (iii) above shall be maintained at the Company's legal address. The appointed overseas agents shall ensure that the original of any overseas part of the register of shareholders is consistent with the duplicate thereof. In the event of discrepancy, the information recorded in the original part shall prevail. Different parts of the register of shareholders shall not overlap. No transfer of any shares registered in any part of the register shall, during the continuance of that registration, be registered in any other part of the register of shareholders. The alteration and rectification of each part of the register of shareholders shall be made in accordance with the laws of its situs. The register of shareholders shall be conclusive evidence, in the absence of evidence to the contrary, of a shareholding in the Company.

(k) Power of the Company to purchase its own shares and reduce its share capital

Subject to governmental approvals, the Company may, subject to the provisions set out in the Articles, repurchase its own shares. A share repurchase may only be made (under one of the following situations):

(i) under an offer to all shareholders in proportion to their respective holdings;

(ii) on a stock exchange by way of public transaction; or

(iii) by an off-market contract.

The Company may, with the prior sanction of shareholders obtained in accordance with the Articles, repurchase its shares by an off-market contract, but the Company may release or modify its rights under a contract so entered into by the Company with the prior approval of shareholders obtained in the same manner. A contract to repurchase shares includes but is not limited to an agreement to become obliged to repurchase or to acquire rights to repurchase shares of the Company. The Company shall not assign its rights under a contract to repurchase its own shares.

Unless the Company has commenced liquidation:

(i) where the Company repurchases its own shares at nominal value, payment may be made out of the book balance of the distributable profits of the Company and/or out of the proceeds of a fresh issue of shares made for that purpose;

(ii) where the Company repurchases its own shares at a premium, payment of the portion equivalent to the nominal value may be made out of the book balance of the distributable profits of the Company and/or out of the proceeds of a fresh issue of shares made for that purpose. Payment of the portion in excess of the nominal value shall be effected as follows:

(A) if the shares being repurchased were issued at nominal value, payment shall be made out of the book balance of the distributable profits of the Company;

(B) if the shares being repurchased were issued at a premium, payment shall be made out of the book balance of the distributable profits of the Company and/or out of proceeds of a fresh issue of shares made for that purpose, provided that the amount paid out of the proceeds of the fresh issue may not exceed (1) the aggregate of premiums received by the Company on the issue of the shares repurchased, or (2) the amount of the Company's share premium account (or capital reserve fund account) at the time of such repurchase including the premiums on the fresh issue of shares;

Payment by the Company in consideration for the following purposes shall be made out of the Company's distributable profits:

(A) the acquisition of the right to repurchase shares of the Company;

(B) the variation of any contract to repurchase shares of the Company; or

(C) the release of any of the Company's obligations under any contract to repurchase shares of the Company.

Shares repurchased by the Company shall be cancelled or transferred and the amount of the Company's registered capital shall be reduced by the par value of those shares accordingly. The amount which has been deducted from the distributable profits and which has been used for repurchasing the nominal value of the shares shall be credited to the share premium account (or capital reserve fund account).

Upon the reduction of registered capital, the Company shall prepare a balance sheet and a list of its assets. The Company shall notify its creditors within 10 days from the date of passing of the resolution for the reduction of registered capital and shall publish the notice in a newspaper within 30 days thereof.

Creditors who receive this notice shall have the right within 30 days from the date of receiving the notice, and the creditors who have not received the notice shall have the right within 45 days from the date of the notice was first published in the newspaper, to require the Company to settle the debt or to provide the corresponding guarantee in respect of the debt.

The registered capital shall not be less than the minimum statutory requirement after the reduction of capital.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Unless otherwise resolved at a shareholders' general meeting, the Board as authorised by shareholders in general meeting has the authority to distribute interim or special dividend.

The Company may distribute dividends by way of cash dividends and/or bonus shares. Cash dividends and other distributions payable on Domestic Shares shall be paid in Renminbi. Cash dividends and other distributions payable in respect of H Shares shall be declared in Renminbi and payable in Hong Kong dollars in accordance with relevant provisions of foreign exchange control of the PRC.

When distributing dividends, the Company shall make such withholdings for income tax from dividends payable to shareholders as may be required in accordance with PRC tax law.

The Company shall appoint a receiving agent to receive on behalf of holders of H Shares dividends declared and all other monies owing by the Company in respect of H Shares. Such receiving agent shall be registered as a trust company under the Trustee Ordinance of Hong Kong.

(n) Proxies

Any shareholder entitled to attend and vote at a shareholders' meeting of the Company shall be entitled to appoint one or more persons (whether a shareholder or not) as his proxies to attend and vote instead of him, and a proxy so appointed shall:

(i) have the same rights as the shareholder to speak at the meeting;

(ii) have authority to demand or join in demanding a poll; and

(iii) have the right to vote on a show of hands or on a poll, but a proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is a company either under seal or under the hand of a director or attorney duly authorised, or if the appointor is a recognized clearing house, the instrument shall be under its legal person seal or under the hand of its directors or other staff internally granted the relevant authority or under the hand of a person or attorney duly authorized. The instrument appointing a proxy and, if such instrument is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, shall be deposited at the legal address of the Company or at such other place specified in the notice convening the meeting, not less than 24 hours before the time for holding the relevant meeting on 24 hours before conducting the designated voting at which the proxy proposes to vote or the time appointed for the taking of the poll.

Any form issued to a shareholder by the Board for use by him for appointing a proxy to attend and vote at a meeting of the Company shall be such as to enable the shareholder, according to his intention, to instruct the proxy to vote in favour of or against respectively each resolution to be voted on and dealing with the business to be transacted at the meeting. Such a form shall contain a statement that, in the absence of such instructions, the proxy may vote as he thinks fit. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that no notice in writing of such death, loss of capacity, revocation or transfer as aforesaid shall have been received by the Company before the commencement of the relevant meeting at which the proxy is used.

(o) Calls on shares and forfeiture of shares

There are no provisions in the Articles relating to making of call on or forfeiture of shares.

(p) Inspection of register of shareholders and shareholders' other rights

The ordinary shareholders of the Company shall enjoy the following rights:

(I) to receive dividends and other distributions in proportion to the number of shares held;

(II) to attend or appoint a proxy to attend on his behalf shareholders' general meetings and to exercise voting right thereat;

(III) to supervise the business operations and activities of the Company and to give advice or raise questions;

(IV) to transfer his shares according to laws, administrative regulations and the provisions of the Articles;

(V) to obtain the following information in accordance with the Articles:

(i) the right to obtain a copy of the Articles after payment of a fee representing the Company's costs;

(ii) the right to inspect and obtain copy after payment of reasonable charges:

(A) all parts of the register of shareholders;

(B) particulars of each of the Directors, Supervisors, general manager and other senior management officers as follows:

(1) his present name and any former name or alias;

(2) his principal residential address;

(3) his nationality;

(4) his primary and all other business occupations; and

(5) his identification document and its number;

(C) the status of the Company's share capital;

(D) reports showing the aggregate number and par value of each class of the shares repurchased by the Company since the end of the last financial year, total face value, the aggregate amount paid by the Company in connection with such repurchase and the maximum and minimum prices paid; and

(E) minutes of shareholders' meetings;

(F) resolutions of meeting of the Board;

(G) resolutions of the supervisory committee;

(H) reports on finance and accounting;

(I) counterfoil of the company bonds.

(VI) to participate, in the event of the termination or liquidation of the Company, in the distribution of surplus assets of the Company in proportion to the number of shares held;

(VII) other rights conferred by the Articles and the relevant laws and regulations.

(q) Quorum for shareholders' meetings and class meetings

A shareholder proposing to attend a shareholder's general meeting shall deposit a written reply confirming his attendance 20 days prior to the holding of the meeting. The Company shall, according to the written replies received 20 days prior to the holding of a shareholders' general meeting, calculate the number of shares carrying the right to vote represented by the shareholders proposing to attend the meeting. If the number of shares carrying the right to vote represented by the shareholders proposing to attend the meeting reaches more than half of the total number of shares of the Company carrying the right to vote, then the Company may hold the shareholders' general meeting; if that number is not reached, the Company shall within five days notify the shareholders again of the matters proposed to be considered at the meeting, the date and the place of the meeting by way of public announcement. After such public announcement, the Company may hold the shareholder's general meeting.

The above procedure applies mutatis mutandis to shareholders of the relevant class of shares in respect of class meetings.

(r) Rights of minority shareholders in relation to fraud or oppression

In addition to obligations imposed by laws, administrative regulations or required by the stock exchange(s) on which the Shares are listed, a controlling shareholder (defined below) shall not exercise his voting rights in a manner prejudicial to the interests of all or some of the shareholders of the Company in respect of the following matters:

(i) in relieving a Director or Supervisor of his duty to act honestly in the best interests of the Company;

(ii) permitting a Director or Supervisor (for his own benefit or for the benefit of another person) to deprive the Company's assets in whatever manner, including without limitation, opportunities beneficial to the Company; or

(iii) permitting a Director or Supervisor (for his own benefit or for the benefit of another person) to deprive the individual rights or interest of other shareholders, including without limitation, rights to distributions and voting rights save and except pursuant to a reorganisation of the Company submitted to the shareholders for approval in accordance with the Articles.

For these purposes, a "controlling shareholder" means a person who satisfies any one of the following conditions:

(i) the shares he holds exceed 50% or more of the total capital of the company;

(ii) the proportions of the shares he holds is lower than 50%, yet the votes represented by the shares he holds have been enough to greatly affect the resolutions of a general meeting;

(iii) he alone or acting in concert with others has the power to elect more than half of the Directors;

(iv) he alone or acting in concert with others has the power to exercise or to control the exercise of 30% or more of the voting rights in the Company;

(v) he alone or acting in concert with others holds 30% or more of the issued shares; or

(vi) he alone or acting in concert with others in any other manner is in de facto control of the Company.

(s) Shareholders' rights relating to, and procedures on, liquidation

Shareholders have the right to participate in the distribution of the surplus assets of the Company in proportion to the number of shares held by them in the event of a liquidation of the Company.

The Company shall be dissolved and liquidated upon the occurrence of any of the following events:

(i) when the business period stipulated by The Articles expires or other reasons stipulated by The Articles for dissolution appear;

(ii) where the shareholders' general meeting resolves that the Company should be dissolved;

(iii) where dissolution is necessary as a result of the merger or division of the Company;

(iv) where the business license is revoked according to laws or where the Company is ordered to be closed down or quashed;

(v) when the Company is ordered to be closed down by the people's court for reason of its violation of Article 183 in the Company Law.

Where the Board decides to liquidate the Company otherwise than because of a declaration of insolvency, the Board shall, in the notice convening the general meeting of shareholders for this purpose, include a statement to the effect that, after having made full inquiry into the affairs of the Company, the Board is of the opinion that the Company will be able to pay its debts in full within 12 months from the commencement of the liquidation.

In the event the Company shall be dissolved under the provisions of (i), (ii), (iv) & (v) above, it shall within 15 days thereof set up a liquidation team, the members of which shall be directors or persons determined by an ordinary resolution passed in the general meeting. If a liquidation team is not set up within the said period, a creditor can petition to the People's Court for the constitution of such liquidation term and implement the liquidation.

In the event the Company shall be declared bankruptcy it shall proceed with the liquidation in accordance with the relevant law on bankruptcy.

Upon the passing of the relevant resolution to liquidate the Company, all powers of the Board of Directors shall cease.

The liquidation team shall follow the directions of the general meeting:

(i) at least once each year report to the general meeting on the team's revenue and expenses, the business of the Company and the progress of liquidation; and

(ii) present a final report to the shareholders' annual general meeting on completion of the liquidation.

(t) Other provisions material to the Company or its shareholders

(i) Scope of Business

The major scope of the Company's operations include, among other things, sale of foodstuff, non-staple foodstuff, beverages, wine, cereal and oil products, fodder, general merchandise, knitted and weaved goods, hardware and electronic and chemical, mobile telephone handsets, medical equipment (categories I & II), cars, artifacts, flowers and plants, magnetic cards; retail of over-the counter drugs (category B), food, PRC published books, periodicals, newspapers and electronic publications, audio-visual articles, golden ornaments, photocopying and catering services (operated by branches and sub-branches); cigarettes; cigars; import and export business; import and export of technology business; import and export agency; commercial facilities leasing; laundry services; enlargement and printing of colour film; warehousing services; commodity delivery; development of technology, transfer of technology, technological consultation, technological services; e-commerce; seamstress services; commercial equipment manufacture; processing of foodstuffs and non-staple foodstuffs; photographic services; repairs of articles for daily use; jewellery processing; sale of monthly tickets as agent; lock repair, key duplication (subject to the scope of business authorized by the administration for industry and commerce departments).

(ii) Effect of the Articles

The Articles become effective upon approval by the relevant governmental authorities (if required), and the completion of the Share Offer and filed with the PRC companies registration authority. From the date when the Articles take effect, the Articles constitute a legally binding document regulating the relationship between the Company and each shareholder and among the shareholders. A shareholder may bring an action against the Company and vice versa and against each other or against the Directors, Supervisors, general manager or other senior management officers in respect of rights and obligations concerning the affairs of the Company arising out of the Articles. For these purposes, actions include court proceedings and arbitration proceedings.

(iii) Legal form of the Company

(A) The Company is a joint stock limited company. It is an independent legal entity, governed and protected by laws, regulations and other governmental provisions of the PRC.

The Company has perpetual existence unless and until terminated and liquidated in accordance with the Articles.

A company may invest in other enterprises. However, unless otherwise required by the laws, it shall not become the contribution party which accepts joint and several liabilities of the obligations of the invested enterprise.

(B) Shares and transfers

Upon approval by the State Council securities regulatory authority, the Company may issue shares to domestic investors and foreign investors.

For the purpose of the foregoing paragraph, "foreign investors" refer to investors outside the PRC and investors from Hong Kong, Macau and Taiwan who subscribe for the shares issued by the Company; and "domestic investors" refer to investors within the PRC other than investors from the territories referred to above who subscribe for the shares issued by the Company. Foreign shares are subscribed by foreign investors (including investors from the regions of Hong Kong, Macau and Taiwan) in foreign currencies or otherwise permitted under PRC laws. Domestic shares are subscribed for in Renminbi by investors within the PRC other than investors from the territories referred to above.

Foreign shares listed overseas are known as overseas listed foreign shares (including, but not limited to H shares). H Shares are foreign shares listed on the Stock Exchange, which are subscribed for in Hong Kong dollars.

Subject to the approval by the securities regulatory authorities of the State Council, holders of Domestic Shares may transfer their Domestic Shares to overseas investors, and such shares may be listed and traded overseas; the listing and trading of such shares on an overseas stock exchange shall comply with the regulations of the overseas securities market, and the listing and trading of such shares on an overseas stock exchange are not subject to the approval of class meeting of the Shareholders. Save as otherwise provided in the Articles, holders of domestic shares and holders of foreign shares shall enjoy the same rights and assume the same obligations. The rights and obligations in respect of the Company enjoyed and assumed by shareholders shall be limited to the extent of the number of shares held by them. The Company shall be liable to its creditors to the extent of all of its assets.

The total amount of shares to be issued by the Company under the Articles as currently constituted shall be not less than 366,620,000 shares and shall not exceed 384,620,000 shares including (i) 246,620,000 promoter shares already in issue at the time of establishment of the Company; and (ii) not less than 132,000,000 overseas listed foreign shares and not more than 151,800,000 overseas listed foreign shares.

The Company may, based on its business development requirements and in accordance with the Articles, increase its total registered capital. The increase in registered capital may be effected by the following methods:

(1) by an issue of new shares to unspecified investors;

(2) by a placing of new shares to the existing shareholders;

(3) by a bonus issue of shares to the existing shareholders; and

(4) by any other method authorised by law and/or administrative regulations of the PRC.

Any increase in the capital of the Company shall be effected in accordance with the Articles and the procedures required by laws and administrative regulations of PRC.

(iv) Legal notices

Notices for shareholders' meetings to be given by the Company to holders of H shares must be served on holders of H Shares by hand to, or by post addressed to each holder of H Shares at, the address shown in the register of shareholders. Notices for shareholders' meetings to be given by the Company to holders of domestic shares may also be published in or one or more publications specified by PRC securities regulatory authority; once published, all holders of domestic shares shall be deemed to have received such notice.

(v) Shareholders' obligations

Ordinary shareholders of the Company shall assume the following obligations:

(A) to abide by the Articles;

(B) to pay subscription monies according to the number of shares subscribed and the method of subscription; and

(C) other obligations imposed by the Articles and relevant laws and administrative regulations.

(vi) Secretary of the Board

The Company shall have one secretary of the Board. The secretary of the Board is a senior management officer of the Company.

The secretary shall be a natural person having the requisite professional knowledge and experience and appointed by the Board.

The secretary shall be mainly responsible for ensuring that the constitutional documents and records of the Company are in order, that the necessary reports and documents are prepared and submitted to relevant PRC authorities in accordance with law, that the register of shareholders of the Company is properly maintained and that persons entitled to have access to records and documents of the Company are furnished with such records and documents without delay.

(vii) Supervisory committee

The Company shall have a supervisory committee. The supervisory committee is the Company's standing internal supervisory organ. The supervisory committee shall comprise of six members, each a Supervisor.

Four members of the supervisory committee shall be the representatives of shareholders and the remaining two Supervisors shall be the representative of the staff of the Company. The representatives of the shareholders shall be elected and removed by the shareholders' general meeting; the representatives of the staff shall be elected and removed through democratic election by the staff of the Company. External Supervisors (being Supervisors who are not working in the Company) shall comprise more than half of the members of the supervisory committee, and there shall be two independent Supervisors (being Supervisors who are independent of the shareholders and are not working in the Company).

The supervisory committee is accountable and reports to shareholders in general meeting and shall exercise the following powers:

(1) to examine the Company's financial affairs;

(2) to supervise the Directors, general manager and other senior management officers to see whether they violate any laws, administrative regulations, the Articles or the resolutions of the shareholder's general meeting in performing their duties and make a proposal to dismiss those from office whose behavior is in breach of the foresaid documents;

(3) to require the Directors, general manager and other senior management officers to rectify their acts which are harmful to the Company;

(4) to verify the financial reports, business reports and profit distribution plans proposed to be tabled at a shareholders' general meeting and to appoint, in the name of the Company, a registered accountant to assist in reviewing them should any queries arise;

(5) to propose to convene extraordinary general meetings of shareholders and to convene and preside the general meeting of shareholders when the Board does not perform its duty stipulated by the Company Law and The Articles on convening and presiding the general meeting of shareholders;

(6) to propose a resolution to the general meeting of shareholders;

(7) to represent the Company in negotiating with any Director or in initiating legal proceeding against any Director, general manager and other senior management officers;

(8) to present its views to the accounting firm of the Company, and where necessary, separately appoint another accounting firm in the name of the Company to audit the accounts of the Company, and may directly report to the securities supervisory and regulatory body of the State Council and to other relevant departments; and

(9) other powers as stipulated in the Articles.

Supervisors are entitled to attend and observe Board meetings. The chairman of the supervisory committee may be elected or removed with a two-third majority or more of the Supervisors. Each Supervisor has a term of three years, renewable upon expiry. Resolutions of the supervisory committee shall be passed by a two-third majority or more of the Supervisors.

(viii) Dispute resolution

Whenever any disputes or claims arise in relation to the Articles, the PRC Company Law or any rights or obligations conferred by any laws or administrative regulations concerning the affairs of the Company between the parties set out below, such disputes or claims shall, unless otherwise provided in the Articles, be referred to arbitration to either the CIETAC in accordance with its rules or to HKIAC in accordance with its securities arbitration rules, at the election of the claimant. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration shall be final and conclusive.

The above provisions apply to disputes or claims between the following parties:

(A) a holder of overseas listed foreign shares and the Company;

(B) a holder of overseas listed foreign shares and a Director, Supervisor, general manager or other senior management officer of the Company; and

(C) a holder of overseas listed foreign shares and a holder of domestic shares.

Where a dispute or claim involves the above parties, the entire claim or dispute must be referred to arbitration and all persons (being shareholders, Directors, Supervisors, general manager or other senior management officers of the Company or the Company), who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall submit to arbitration.

Unless otherwise provided in laws and administrative regulations, any of the above disputes or claims between the above mentioned parties shall be resolved in accordance with the laws of the PRC.

Zhong Lun Wende Law Firm, the Company's legal advisers on PRC law, has sent to the Company a letter confirming that, inter alia, they have reviewed the above summary of the Articles and that in their opinion, such summary is a correct summary of the Articles.

4. PRC LEGAL MATTERS

Zhong Lun Wende Law Firm, the Company's legal advisers on PRC law, has sent to the Company a letter confirming that they have reviewed the summary of relevant laws and regulations contained in this appendix and that in their opinion, the summary is a correct summary of the relevant PRC laws and regulations and the Articles of Association. A copy of this letter is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI in this Prospectus.

Any person wishing to have detailed advice on PRC law is recommended to seek independent legal advice.

(1) FURTHER INFORMATION ABOUT OUR COMPANY

(A) Establishment of the Company

(I) The Company was established as a joint stock limited company in the PRC under the Company Law on 1 November 2004.

(II) The Company is registered as an overseas company under Part XI of the Hong Kong Companies Ordinance and has a place of business in Hong Kong at 20th Floor, Alexandra House, 16-20 Chater Road, Hong Kong. The Company has appointed Richards Butler as the Company's process agent for the acceptance of service of process and notices in Hong Kong.

As the Company is established in the PRC, its corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant laws and regulations of the PRC is set out in Appendix IV to this prospectus and a summary of the Articles of Association is also set out in Appendix IV to this prospectus.

(B) Changes in share capital of our Company

(I) When the Company was previously established as a limited company with the issuance of its business licence dated 20 May 2002 under the name of 北京京客隆超市連鎖有限公司 (Beijing Jingkelong Supermarket Chain Company Limited), the Company had a capital of RMB236,660,000;

(II) for the purpose of converting the Company (being in the form of a limited company under the name of 北京京客隆超市連鎖集團有限公司 (Beijing Jingkelong Supermarket Chain Group Company Limited)) into a joint stock company, the then net asset value of the Company of RMB246,620,000 (as determined by 安永華明會計事務所 (Ernst & Young Hua Ming, the PRC auditors of the Company) by deducting the amount of the declared dividend of RMB29,135,259 from the net asset value as at 31 December 2003 of RMB275,755,259) was converted into 246,620,000 shares of RMB1.00 each in the capital of the Company; and

(III) immediately upon the completion of the Share Offer but without taking into account any H Shares which may be issued on exercise of the Over-allotment Option, the share capital of the Company will be increased to RMB366,620,000, divided into 234,620,000 Domestic Shares and 132,000,000 H Shares, fully paid or credited as fully paid, representing approximately 64.00% and approximately 36.00% of the enlarged share capital of the Company, respectively.

Save as disclosed above, there has been no change in the share capital of the Company within the two years preceding the date of this prospectus.

(C) Changes in share capital of our subsidiaries

The subsidiaries of the Company are set out in the Accountants' Report set out in Appendix I to this prospectus. The following were the only alterations in the share or registered capital of these subsidiaries which have taken place within the two years immediately preceding the date of this prospectus.

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

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

Save as aforesaid, there has been no other alteration in the share or registered capital of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

(D) Resolutions passed at the Shareholders' meeting held on 18 February 2005

On 18 February 2005, a meeting of the shareholders of the Company was held at the Company's registered office, during which, among others, the following matters concerning the Listing were approved:

(I) conditional upon, among others, (i) the CSRC granting the relevant approval for the issue of overseas listed foreign shares and the listing thereof on GEM, (ii) the GEM Listing Committee granting listing of, and permission to deal in, the H Shares; and (iii) the relevant underwriting agreement becoming unconditional and not being terminated in accordance with its terms or otherwise, the issue of H Shares by the Company under the Share Offer and pursuant to the Over-allotment Option;

(II) the conversion of 12,000,000 State-owned Domestic Shares held by Chaoyang Auxillary into H Shares pursuant to the relevant laws and regulations of the PRC and as per the direction of the SASAC for such H Shares to be disposed of by the Company for the NSSF Council, and the amount of the State-owned Domestic Shares held by Chaoyang Auxillary shall be further reduced, in the event the Over-allotment Option is exercised, on a pro-rata basis in accordance with the requirements of the PRC law and regulations;

(III) the increase in the Company's registered capital in the amount equal to the aggregate number of H Shares to be issued under the Share Offer;

(IV) an application should be made for the listing of the H Shares on GEM; and

(V) the adoption of the Articles of Association and the authorisation of the Chairman of the Board to amend the Articles of Association in accordance with any requirement from the relevant governmental authorities in the PRC and the Stock Exchange.

At the annual general meeting of the Company held on 30 March 2006, a special resolution was passed to grant the Board a general mandate to issue domestic shares and/or H shares of the Company (other than pursuant to the Share Offer), the details of which are as follows:

(I) the Board has been granted, during the Relevant Period (as defined below), an unconditional general mandate to separately or concurrently issue, allot and deal with additional domestic shares and/or H shares of the Company, and to make or grant offers, agreements and options in respect thereof, subject to the following conditions:

(a) such mandate shall not extend beyond the Relevant Period save that the Board may during the Relevant Period make or grant offers, agreements or options which may require the exercise of such powers after the end of the Relevant Period; and

(b) the aggregate nominal amount of the domestic shares or H shares of the Company allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the Board otherwise than pursuant to a Rights Issue (as defined below) or any option scheme or similar arrangement or any separate approval of the shareholders of the Company, shall not exceed 20% of the aggregate nominal amount of the domestic shares and H shares, respectively, of the Company in issue after the completion of the Share Offer (but before the exercise of the Over-allotment Option) and the Board will only exercise its power under such mandate in accordance with the Company Law and the GEM Listing Rules (as amended from time to time) and only if all necessary approvals from the CSRC, the Stock Exchange and/or other relevant PRC and/or Hong Kong authorities are obtained;

"Relevant Period" means the period from the passing of the special resolution until the earliest of: (i) the conclusion of the next annual general meeting of the Company following the passing of the special resolution; or (ii) the expiration of the 12-month period following the passing of the special resolution; or (iii) the date on which the authority sets out in the special resolution is revoked or varied by a special resolution of the shareholders of the Company in a general meeting; and

"Rights Issue" means the allotment or issue of shares in the Company or other securities which would or might require shares in the Company to be allotted and issued pursuant to an offer made to all the shareholders of the Company (excluding for such purpose any shareholder who is resident in a place where such offer is not permitted under the law or regulation of that place) entitled to such offer, pro rata (apart from fractional entitlements) to their holdings of shares in the Company;

(II) contingent on the Board resolving to issue shares in the Company pursuant to paragraph (I) above, the Board has been authorized to approve, execute and do or procure to be executed and done, all such documents, deeds, and things as it may consider necessary in connection with the issue of such shares (including, without limitation, determining the time and place of issue, making all necessary applications to the relevant authorities, entering into underwriting agreements (or any other agreements), determining the use of proceeds and making all necessary filings and registrations with the relevant PRC, Hong Kong and other relevant authorities, including but not limited to registering or making filing of the increased capital of the Company with the relevant authorities in the PRC and/or Hong Kong as a result of the issuance of shares in the Company pursuant to paragraph (I) above; and

(III) the Board has been authorized to make amendments to the Articles of Association to increase the share capital of the Company and reflect the new capital structure of the Company upon the allotment and issuance of shares of the Company as contemplated in paragraph (I) above.

(E) Certain brief history of the predecessor of the Company

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

(II) On 6 February 1996, upon the approval and the issuance of business licence by Chaoyang Industry and Commerce Bureau, the name of the Company was changed to 京客隆商廈 (Beijing Jingkelong Shang Sha).

(III) On 4 June 1997, upon the approval and the issuance of business licence by Chaoyang Industry and Commerce Bureau, the registered capital of the Company was changed to RMB22,190,000.

(F) Chaoyang Auxillary State Owned Assets Restructuring

The Chaoyang Auxillary State Owned Assets Restructuring (of which the Reorganisation forms part) was carried out to segregate the operating/performing assets from the non-operating/non-performing assets, and rationalise the various business units and holding structure of Chaoyang Auxillary, certain brief details of which are as follows:

(I) On 28 April 2002, 北京金朝陽商貿國有資本運營公司 (Beijing Jin Chaoyang State-owned Capital Trading Company) issued an approval, whereby it approved, among other things:

(a) the reorganisation of the Company into a limited liability company under the name of 北京京客隆超市連鎖有限公司 (Beijing Jingkelong Supermarket Chain Company Limited); and

(b) the establishment of the Company as aforesaid through the injection by Chaoyang Auxillary of 京客隆商廈 (Beijing Jingkelong Shang Sha) and cash, together with the conversion of 北京市朝陽肉禽水產批發部 (Beijing City Chaoyang Poultry and Seafood Wholesale Department)、北京市生命綠洲健康服務中心 (Beijing City Life Health Service Centre)、北京市朝陽肉禽蔬菜公司 (Beijing City Chaoyang Poultry and Vegetables Company), 北京市朝陽藥品器材經營公司 (Beijing City Chaoyang Medical Equipment Operating Company)、北京市朝陽區文化用品批發公司 (Beijing City Chaoyang District Cultural Commodities Wholesale Company)、北京市朝陽副食品批發總公司 (Beijing City Chaoyang Food Wholesale Company)、北京月盛元飯莊 (Beijing Yue Sheng Yuan Restaurant)、北京市朝陽東方招待所 (Beijing City Chaoyang Eastern Service Centre)、北京市騰遠汽車維修中心 (Beijing City Teng Yuan Vehicle Repair Centre)、北京市朝陽區商業設備公司 (Beijing City Chaoyang District Business Equipment Company)、北京市朝陽東方加油站 (Beijing City Chaoyang Eastern Petrol Station) and 北京市朝陽區騰遠出租汽車公司 (Beijing City Chaoyang District Teng Yuan Car Rental Company).

(II) On 20 May 2002, upon the issuance of the business licence by 北京市工商行政管理局 (Beijing Administration for Industry and Commerce), the Company was reorganized into a limited liability company, and the name of the Company was changed to 北京京客隆超市連鎖有限公司 (Beijing Jingkelong Supermarket Chain Limited Company). The registered capital of the Company was changed to RMB236,660,000.

王淑英 (Wang Shu Ying), 劉躍進 (Liu Yue Jin), 李慎林 (Li Shen Lin), 東海霞 (Dong Hai Xia), 孫麗英 (Sun Li Ying), 賀志勇 (He Zhi Yong), 王愛蓮 (Wang Ai Lian), 馬秀榮 (Ma Xiu Rong), 錢貝貝 (Qian Bei Bei), 李春燕 (Li Chun Yan), 謝冰 (Xie Bing), 盧寬明 (Lu Kuan Ming) (the "Nominees") were then holding an aggregate of 10.8% of the then registered capital of the Company, amounting to RMB25,560,000, for themselves and for a total of other 110 natural persons, being the employees of the Company at the relevant time who had made capital contributions to the Company (together the "Beneficiaries").

(III) On 31 May 2002, 北京市朝陽副食品批發總公司 (Beijing City Chaoyang Food Wholesale Company) was converted into Chaopi Trading, a limited liability company.

(IV) On 31 May 2002, 北京市朝陽區商業設備公司 (Beijing City Chaoyang District Business Equipment Company) was converted into Xinyang Tongli, a limited liability company.

(V) On 31 May 2002, 北京市朝陽區騰遠出租汽車公司 (Beijing City Chaoyang District Teng Yuan Car Rental Company) was converted into Tengyuan, a limited liability company. Concurrently, 北京月盛元飯庄 (Beijing Yue Sheng Yuan Restaurant), 北京市朝陽東方招待所 (Beijing City Chaoyang Eastern Service Centre), 北京市騰遠汽車維修中心 (Beijing City Teng Yuan Vehicle Repair Centre) and 北京市朝陽東方加油站 (Beijing City Chaoyang Eastern Petrol Station) were injected into Tengyuan. Tengyuan was subsequently disposed on 22 June 2004, and the Company ceased to have any interest therein with effect from 23 June 2004.

(VI) On 8 November 2002, 北京市朝陽藥品器材經營公司 (Beijing City Chaoyang Medical Equipment Operating Company)、北京市朝陽區文化用品批發公司 (Beijing City Chaoyang District Cultural Commodities Wholesale Company) were reorganized into Yiyuantang, in which the Company held 70.13% of the equity interest. Subsequently, on 8 July 2003, the Company transferred 35.065% of the equity interest in Yiyuantang to 北京國際信托投資有限公司 (Beijing International Trust Investment Company Limited), and the remaining 35.065% equity interest was transferred to Chaoyang Auxillary on 23 June 2004.

(VII) On 6 December 2002, 北京市工商行政管理局 (Beijing Administration for Industry and Commerce) issued a business licence, whereupon the name of the Company was changed to 北京京客隆超市連鎖集團有限公司 (Beijing Jingkelong Supermarket Chain Group Limited Company).

(2) THE REORGANISATION

(I) On 12 June 2004, the Company entered into an equity interest transfer agreement with each of Chaopi Huaqing and Chaopi Flavourings. Under these agreements, the Company agreed to acquire the approximately 1.25% interest and approximately 0.79% interest in Chaopi Trading then held by Chaopi Huaqing and Chaopi Flavourings, respectively.

(II) (a) On 16 June 2004, each of the 122 Beneficiaries (as appointor and beneficiary) as referred to in paragraph (F)(II) in section (1) above in this Appendix entered into a trust agreement with Shanxi Trust (as supplemented by a supplemental agreement dated 22 July 2005), whereby each of the Beneficiaries (as appointor) shall transfer a specified sum of money to Shanxi Trust, which shall then, as trustee, hold such monies on trust and apply these trust funds to acquire interests in the Company, and Shanxi Trust shall, as the trustee for each of the Beneficiaries, manage and deal with the trust properties (including the shareholdings in the Company acquired with the said trust monies). Please refer to the section headed "(3)Trust arrangements regarding interests in the Company and Chaopi Trading" below for more details.

(b) On 16 June 2004, the Nominees (as referred to in paragraph (F)(II) in section (1) above in this Appendix) (as the transferors) and Shanxi Trust (as the transferee) entered into a registered capital transfer agreement, whereby the equity interest held by each of the Nominees for and on behalf of the Beneficiaries in the Company, amounting to RMB25,560,000, shall be transferred to Shanxi Trust at an aggregate consideration of RMB25,560,000 and Shanxi Trust paid RMB25,560,000 (being the trust monies it received from the Beneficiaries) to the Nominees.

(c) On 22 July 2005, Shanxi Trust entered into an agreement supplementary to the respective trust agreements with each of the appointors to further clarify the objectives, term, and application and management of the trust property under the trusts.

(III) On 21 June 2004, the Company entered into an equity interest transfer agreement with Chaoyang Auxillary, whereby Chaoyang Auxillary agreed to acquire the approximate 62.73% interest held by the Company in Tengyuan.

(IV) On 21 June 2004, the Company entered into an equity interest transfer agreement with Chaopi Trading, whereby Chaopi Trading agreed to acquire the 10% interest held by the Company in Chaopi Shuanglong.

(V) On 23 June 2004, the Company entered into an equity interest transfer agreement with Chaoyang Auxillary, whereby Chaoyang Auxillary agreed to acquire the approximate 35.07% interest held by the Company in Yiyuantang.

(VI) On 12 August 2004, the Promoters entered into the promoters' agreement, pursuant to which, the Promoters agreed, among other things, to reorganize the Company into a joint stock limited company and to stipulate the capital contributions made by the Promoters towards the Company.

(VII) On 1 November 2004, upon the approval of 北京市工商行政管理局(Beijing Administration for Industry and Commerce), the Company was reorganized into a joint stock limited company, and the name of the Company was changed to 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Limited Company). The registered capital of the Company was changed to RMB246,620,000 divided into 246,620,000 Domestic Shares.

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

(IX) On 18 February 2005, a shareholders' meeting of the Company was held, at which, among other matters, the following matters were approved:

(a) the allotment and issue of not exceeding 120,000,000 H Shares and upon the exercise of the Over-allotment Option not exceeding 138,000,000 H Shares (including the additional 18,000,000 H Shares which may be issued upon the exercise of the Over-allotment Option) by way of the Share Offer;

(b) the listing of the H Shares on GEM;

(c) the granting of the Over-allotment Option and the corresponding increase of the Company's registered capital in the amount equal to the aggregate number of H Shares issued under the Share Offer; and

(d) the adoption by the Company of the Articles of Association and the authorisation of the Chairman of the Board to amend the Articles of Association in accordance with any requirement from the relevant governmental authorities in the PRC and the Stock Exchange.

(X) On 9 July 2005, the SASAC issued《關於北京京客隆商業集團股份有限公司國有股劃轉有關問題的批覆》(approval of the allocation of State-owned shares), pursuant to which up to 13,800,000 State-owned Domestic Shares held by Chaoyang Auxillary were allocated to the NSSF Council, and the NSSF Council was directed to instruct the Company to offer the same for sale under the Share Offer.

(XI) On 25 July 2005, Chaopi Trading acquired an approximately 7.33% equity interests in Chaopi Shuanglong from Shenzhen Yunzhongyuan Trading Company Limited and thereby increasing its equity interest in Chaopi Shuanglong to approximately 59.0%.

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

(XIII) On 22 August 2005, the NSSF Council issued《關於委托出售全國社保基金理事會所持北京京客隆商業集團股份有限公司國有股的函》(a document authorising the Company to dispose of State-owned Domestic Shares on behalf of the NSSF Council under the Share Offer).

(XIV) On 12 January 2006, 北京市朝陽肉禽水產批發部 (Beijing City Chaoyang Poultry and Seafood Wholesale Department), 北京市生命綠洲健康服務中心 (Beijing City Life Health Service Centre) and 北京市朝陽肉禽蔬菜公司 (Beijing City Chaoyang Poultry and Vegetables Company) were dissolved.

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

(3) TRUST ARRANGEMENTS REGARDING INTERESTS IN THE COMPANY AND CHAOPI TRADING

(I) An aggregate of 10.8% (prior to the Share Offer) equity interest in the Company is held by Shanxi Trust as trustee for the benefit of a total of 122 Beneficiaries (as defined in paragraph (F)(II) in section (1) of this Appendix). In this relation, on 16 June 2004, each of the 122 Beneficiaries entered into a trust agreement (and each entered into a supplementary agreement dated 22 July 2005) with Shanxi Trust whereby:

(1) Shanxi Trust shall as trustee and in its name hold such equity interest (being 25,560,000 Domestic Shares);

(2) as a Shareholder, Shanxi Trust shall be entitled to the right of supervising the operation and management of the Company as well as the right to receive information and make enquiry;

(3) Shanxi Trust shall attend, or nominate proxy to attend, Shareholders' meetings and to exercise the right to propose and vote on resolutions, provided that with respect to certain specific matters including the nomination and election of Directors or Supervisors, profits distribution or amendment to Articles, Shanxi Trust shall exercise its voting power to propose and vote on any resolution as the meeting of the Beneficiaries shall in writing direct; and

(4) a Beneficiary shall only transfer his indirect interest in the Company by way of assigning his interest under his trust agreement with Shanxi Trust to another person who may be a core employee (as defined in the relevant trust agreement) of the Company as a meeting of the Beneficiaries may nominate or another Beneficiary.

(II) An aggregate of 11.9% interest in Chaopi Trading is also held by Shanxi Trust (as trustee) on trust for a total of 119 beneficiaries. In this relation, on 21 June 2004, each of these beneficiaries entered into a trust agreement with Shanxi Trust setting out the terms and conditions of such trust arrangements, which are substantially similar to those of the trust agreements in relation to the Company as set out in paragraph (I) above. On 1 August 2005, Shanxi Trust entered into an agreement supplementary to the respective trust agreements with each of the beneficiaries to further clarify the objectives, term, and application and management of the trust property under the trusts, and reduce the number of beneficiaries thereunder to 115 as certain of the original 119 beneficiaries had, since the establishment of the trusts, deceased or ceased to be an employee/officer of Chaopi Trading. On the same day, the registered capital of Chaopi Trading was increased to RMB96,000,000 and the interest of Shanxi Trust in Chaopi Trading was reduced from 11.9% to 9.919% accordingly.

(III) The Company's PRC legal advisers have confirmed that the establishment and operation of an trust fund under the trust agreement between the Company and Shanxi Trust ("Trust Agreement") and the investment in the Company by Shanxi Trust (collectively the "Trust Arrangements") are in compliance with the relevant provisions of the "Trust Law of People's Republic of China", "Law of Supervision and Administration on Banking Industry of People's Republic of China", "Company Law of People's Republic of China", "Rules of Administration on Company Registration of People's Republic of China", "Rules of Administration on Trust Investment Company", "Temporary Rules of Administration on Capital Trust in Trust Investment Company" and "People's Bank of China's Notice on Issues Concerning Capital Trust Practice in Trust Investment Company". The Company's PRC legal advisers have further confirmed that the Trust Arrangements were completed in June 2004, thus《中國銀行業監督管理委員會關於信托投資公司集合資金信托業務信息披露有關問題的通知》(China Banking Regulatory Commission's Notice on Issues Concerning Disclosure of Collective Money Trust Business Operated by Trust and Investment Companies), which became effective on 8 December 2004, is not applicable in respect thereof.

In accordance with article 10 of the "Trust Law of People's Republic of China", in respect of any trust for which registration of trust properties is required, a trust shall only be become legally valid upon registration of its trust assets in accordance with the relevant PRC laws and regulations. However, there are no PRC laws or regulations requiring such registration in relation to trust assets under the trust fund under the Trust Agreement. Therefore, the Company's PRC legal advisers have confirmed that the trust fund under the Trust Agreement is valid without the above-mentioned registration.

The Company's PRC legal advisers have also confirmed that there are presently no prohibitive provisions in the PRC laws, regulations and rules in relation to the meetings of trustors and its working committee. These meetings of trustors and its working committee shall operate in accordance with the "Rules of Procedure for the Meetings of Trustors" (including but not limited to opening and notice of the meeting, calling for and attending the meeting, the agenda and schedule of the meeting, voting of the meeting, decision and record of the meeting, execution of decision of the meeting, etc.), which are in compliance with the relevant provisions of "General Principles of the Civil Law of the People's Republic of China" and "Contract Law".

(4) FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

(A) Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material:–

(i) an equity interest transfer agreement dated 12 June 2004 between the Company and Chaopi Huaqing in relation to the acquisition of an approximate 1.25% interest in Chaopi Trading by the Company from Chaopi Huaqing for a consideration of RMB1,000,000;

(ii) an equity interest transfer agreement dated 12 June 2004 between Chaopi Flavourings, the Company, 王新力(Wang Xinli),劉晴(Liu Qing),高曉梅(Gao Xiaomei),趙亞清(Zhao Yaqing),黃玉華(Huang Yuhua),楊繼英(Yang Jiying),朱文蘭(Zhu Wenlan),吳永梅(Wu Yongmei),李俊偉(Li Junwei) and 孫鵬(Sun Li) in relation to acquisition from Chaopi Flavourings of 0.785%, 0.02%, 0.01%, 0.04%, 0.0375%, 0.02%, 0.05%, 0.0875%, 0.04%, 0.07% and 0.09% equity interest in Chaopi Trading by the aforesaid parties, respectively, for the respective consideration of RMB628,000, RMB16,000, RMB8,000, RMB32,000, RMB30,000, RMB16,000, RMB40,000, RMB70,000, RMB32,000, RMB56,000 and RMB72,000;

(iii) an equity interest transfer agreement dated 21 June 2004 between the Company and Chaoyang Auxillary in relation to the acquisition of an approximate 62.73% interest in Tengyuan by Chaoyang Auxillary from the Company. The consideration was subsequently approved by the relevant governmental authority and was for the amount of RMB9,037,676.63;

(iv) an equity interest transfer agreement dated 21 June 2004 between the Company and Chaopi Trading in relation to the acquisition of a 10% interest in Chaopi Shuanglong by Chaopi Trading from the Company. The consideration was subsequently approved by the relevant governmental authority and was for the amount of RMB1,611,308.91;

(v) an equity interest transfer agreement dated 23 June 2004 between the Company and Chaoyang Auxillary in relation to the acquisition of an approximate 35.065% interest in Yiyuantang by Chaoyang Auxillary from the Company. The consideration was subsequently approved by the relevant governmental authority and was for the amount of RMB14,983,644.02;

(vi) the promoters' agreement amongst the Promoters dated 12 August 2004 in relation to the reorganization of the Company into a joint stock limited company;

(vii) an agreement dated 25 July 2005 between Chaopi Trading and 深圳市雲中園貿易有限公司 (Shenzhen Yunzhongyuan Trading Company Limited) in relation to the purchase by Chaopi Trading of an approximate 7.33% equity interest in Chaopi Shuanglong from 深圳市雲中園貿易有限公司 (Shenzhen Yunzhongyuan Trading Company Limited) for a consideration of RMB880,000;

(viii) an agreement dated 19 August 2004 between the Company and Beijing State-owned Land Resources and Building Administration Bureau in relation to the purchase by the Company of the property located at Block 16 Tianshui Yuan Bei Li, Chaoyang District, Beijing, the PRC;

(ix) a transfer agreement dated 1 April 2005 between the Company and 北京昆泰嘉業房地產開發有限公司 (Beijing Kuntai Jiaye Real Estate Development Company Limited) in relation to the purchase by the Company of the property located at Fudun Building, Dongsan Huan South Road, Chaoyang District, Beijing, the PRC;

(x) a contract for grant of State-owned land use right dated 18 August 2004 between the Company and Beijing State-owned Land Resources and Building Administration Bureau in relation to the purchase by the Company of the property located at No. 45 Xinyuan Street, Chaoyang District, Beijing, the PRC;

(xi) a contract for grant of State-owned land use right dated 30 June 2004 between the Company and Beijing State-owned Land Resources and Building Administration Bureau in relation to the purchase by the Company of the property located at No. 1108 Ping Fang Village, Chaoyang District, Beijing, the PRC;

(xii) a contract for grant of State-owned land use right dated 30 June 2004 between the Company and Beijing State-owned Land Resources and Building Administration Bureau in relation to the purchase by the Company of the property located at No. 1 Liu Fang Nan Li Jia, Chaoyang District, Beijing, the PRC;

(xiii) a contract for grant of State-owned land use right dated 16 July 2004 between the Company and Beijing State-owned Land Resources and Building Administration Bureau in relation to the purchase by the Company of the property located at Jiuxianqiao, Chaoyang District, Beijing, the PRC;

(xiv) a non-competition agreement dated 25 July 2005 entered into between Chaoyang Auxillary and the Company in which Chaoyang Auxillary has given certain non-competition undertakings to the Company;

(xv) a loan agreement dated 26 October 2005 between the Company and Bank of Communications in relation to a loan facility being offered by Bank of Communications to the Company with a maximum loan amount of RMB170 million;

(xvi) a mortgage deed dated 26 October 2005, supplemental to the loan agreement being referred to in paragraph (xv) above, between the Company and Bank of Communications in relation to two landed properties owned by the Company being pledged as security in the loan facility;

(xvii) a deed of indemnity dated 1 March 2006, together with a supplemental agreement dated 10 August 2006, given by Chaoyang Auxillary in favour of the Company against any cost and penalties that the Group may suffer due to the non-compliance with the relevant PRC Laws as disclosed in the paragraphs headed "Risks associated with leased property interest of Chaopi Trading and the Company", "Certain loans to the Company" and "The use of Jingkelong cards and the membership reward cards" in the "Risk Factors" section of this prospectus;

(xviii) a loan agreement dated 6 March 2006 between the Company and Bank of Beijing in relation to a loan of RMB100 million being offered by Bank of Beijing to the Company;

(xix) a mortgage deed dated 6 March 2006, supplemental to the loan agreement being referred in paragraph (xviii) above, between the Company and Bank of Beijing in relation to a landed property owned by the Company being pledged as security in the loan; and

(xx) the Underwriting Agreement.

(B) Intellectual property rights of the Group

Trademarks

As at the Latest Practicable Date, the Group had registered the following trademarks in the PRC:–

Trademark	Place of registration	Class	Registration number	Date of registration
	The PRC	3	1565701	07/05/2001
	The PRC	5	1700845	21/01/2002
	The PRC	7	1585779	14/06/2001
	The PRC	8	1589970	21/06/2001
	The PRC	9	1586370	14/06/2001
	The PRC	10	1601509	14/07/2001
	The PRC	11	1594007	28/06/2001
	The PRC	16	1592666	28/06/2001
	The PRC	18	1568769	14/05/2001
	The PRC	20	1568907	14/05/2001
	The PRC	21	1565004	07/05/2001
	The PRC	24	1556963	21/04/2001
	The PRC	25	1557629	21/04/2001
	The PRC	28	1561109	28/04/2001
	The PRC	29	1587152	14/06/2001
	The PRC	30	1590914	21/06/2001
	The PRC	31	1586624	14/06/2001
	The PRC	32	1595386	28/06/2001
	The PRC	33	1591520	21/06/2001
	The PRC	34	1590654	21/06/2001
	The PRC	35	1587869	14/06/2001

Trademark	Place of registration	Class	Registration number	Date of registration
	The PRC	37	955896	28/02/1997
	The PRC	39	995744	28/04/1997
	The PRC	40	1659660	28/10/2001
	The PRC	42	1591601	21/06/2001
	The PRC	31	2014858	14/10/2002
	The PRC	16	1995994	14/01/2003
	The PRC	28	1998746	07/02/2003
	The PRC	24	2002907	21/12/2002
	The PRC	5	1976652	28/11/2002
	The PRC	27	1995739	14/12/2002
	The PRC	25	2000719	28/01/2003
	The PRC	30	1990761	14/01/2003
	The PRC	29	1999150	28/10/2002
	The PRC	35	3212778	14/01/2004
	The PRC	39	3212774	21/10/2003
	The PRC	35	3212773	07/01/2004
	The PRC	39	3212775	21/10/2003
	The PRC	35	3212776	14/01/2004
	The PRC	39	3212777	21/10/2003

As at the Latest Practicable Date, the Group had obtained approval for the transfer of the registrations of the following trademarks to the Group:–

Trademark	Place of application	Class	Registration number	Date of approval
瑞 达	The PRC	30	1502064	21/10/2005
	The PRC	30	1485951	21/10/2005
瑞达急冻	The PRC	30	1510259	21/10/2005
Ruida	The PRC	30	691126	21/10/2005

As at the Latest Practicable Date, the Group had registered the following trademarks in Hong Kong:–

Trademark	Place of application	Name of applicant	Class	Trade Mark number	Date of registered
	Hong Kong	The Company	3, 5, 7, 8 9, 10, 11, 14 16, 18, 20, 21 24, 25, 26, 27 28, 29, 30, 31 32, 33, 34, 35 37, 39, 40, 42, 43	300484858	26/8/2005
	Hong Kong	The Company	35, 39	300482139	23/8/2005

The following is a brief description of the classes referred to above:

Class 3	Bleaching preparations and other substances for laundry use; cleaning, polishing, scouring and abrasive preparations; soaps; perfumery, essential oils, cosmetics, hair lotions; dentifrices.
Class 5	Pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic substances adapted for medical use, food for babies; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.
Class 7	Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs.

Class 8	Hand tools and implements (hand operated); cutlery; side arms; razors.
Class 9	Scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signalling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; automatic vending machines and mechanisms for coin operated apparatus; cash registers; calculating machines, data processing equipment and computers; fire-extinguishing apparatus.
Class 10	Surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopaedic articles; suture materials.
Class 11	Apparatus for lighting, heating, steam generating, cooking, refrigerating, drying, ventilating, water supply and sanitary purposes.
Class 14	Precious metals and their alloys and goods in precious metals or coated therewith, not included in other classes; jewellery, precious stones; horological and chronometric instruments.
Class 16	Paper, cardboard and goods made from these materials, not included in other classes; printed matter; book binding material; photographs; stationery; adhesives for stationery or household purposes; artists' materials; paint brushes; typewriters and office requisites (except furniture); instructional and teaching material (except apparatus); plastic materials for packaging (not included in other classes); printers' type; printing blocks.
Class 18	Leather and imitations of leather, and goods made of these materials and not included in other classes; animal skins, hides; trunks and travelling bags; umbrellas, parasols and walking sticks; whips, harness and saddlery.
Class 20	Furniture, mirrors, picture frames; goods (not included in other classes) of wood, cork, reed, cane, wicker, horn, bone, ivory, whalebone, shell, amber, mother-of-pearl, meerschaum and substitutes for all these materials, or of plastics.

Class 21	Household or kitchen utensils and containers (not of precious metal or coated therewith); combs and sponges; brushes (except paint brushes); brush-making materials; articles for cleaning purposes; steel wool; un-worked or semi-worked glass (except glass used in building); glassware, porcelain and earthenware not included in other classes.
Class 24	Textiles and textile goods, not included in other classes; bed and table covers.
Class 25	Clothing, footwear, headgear.
Class 26	Lace and embroidery, ribbons and braid; buttons, hooks and eyes, pins and needles; artificial flowers.
Class 27	Carpets, rugs, mats and matting, linoleum and other materials for covering existing floors; wall hangings (non-textile).
Class 28	Games and playthings; gymnastic and sporting articles not included in other classes; decorations for Christmas trees.
Class 29	Meat, fish, poultry and game; meat extracts; preserved, dried and cooked fruits and vegetables; jellies, jams, fruit sauces; eggs, milk and milk products; edible oils and fats.
Class 30	Coffee, tea, cocoa, sugar, rice, tapioca, sago, artificial coffee; flour and preparations made from cereals, bread, pastry and confectionery, ices; honey, treacle; yeast, baking-powder; salt, mustard; vinegar, sauces (condiments); spices; ice.
Class 31	Agricultural, horticultural and forestry products and grains not included in other classes; live animals; fresh fruits and vegetables, seeds, natural plants and flowers; foodstuffs for animals; malt.
Class 32	Beers; mineral and aerated waters and other non-alcoholic drinks; fruit drinks and fruit juices; syrups and other preparations for making beverages.
Class 33	Alcoholic beverages (except beers).
Class 34	Tobacco; smokers' articles; matches.
Class 35	Advertising; business management; business administration; office functions.

Class 37	Building construction; repair; installation services.
Class 39	Transport; packaging and storage of goods; travel arrangement.
Class 40	Treatment of materials.
Class 42	Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software; legal services.
Class 43	Services for providing food and drink; temporary accommodation.

Domain names

As at the Latest Practicable Date, the Group had registered the following domain names:–

Domain Name	Registrant	Date of Registration
www.jkl.com.cn	The Company	15th October, 2003
www.京客隆.com	The Company	9th December, 2003
www.京客隆.net	The Company	9th December, 2003
www.京客隆集團.com	The Company	9th December, 2003
www.京客隆集團.net	The Company	9th December, 2003
www.京客隆.中國	The Company	9th December, 2003
www.京客隆集團.中國	The Company	9th December, 2003

(5) FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUPERVISORS

(A) Particulars of Directors' and Supervisors' service contracts

(a) Executive Directors

Each of the executive Directors has entered into an employment agreement with the Company pursuant to which they have agreed to act as executive Directors for a term of three years with effect from 1 November 2004.

The particulars of these agreements are in all material respects identical and are set out below:–

(1) each of the executive Directors is entitled to a fixed basic salary, a performance based salary (subject to clawback based on the Company's gross profit for the relevant year), a discretionary bonus (based on the Company's gross profit for the relevant year) and other allowance and benefits in kind under applicable PRC law and regulations; and

(2) the aggregate fixed annual salary (annualized on the basis of current monthly salary) of the four executive Directors is RMB1,320,000.

(b) Non-executive Directors and independent non-executive Directors

Each of the non-executive Directors has entered into an appointment letter with the Company pursuant to which they have agreed to act as non-executive Directors for a term of three years with effect from 1 November 2004. The terms of the appointment letters of the non-executive Directors are identical in all material respects. In view of the non-executive nature of their appointments, they do not receive any director's fee.

Each of the independent non-executive Directors has entered into an appointment agreement with the Company pursuant to which they have agreed to act as independent non-executive Directors with effect from 7 January 2005 (in the case of Fan Faming and Huang Jiangming) and from 27 July 2005 (in the case of Chung Chi Kong), in each case until 31 October 2007. The terms of the appointment agreements of the independent non-executive Directors are identical in all material respects and they are entitled to receive a fixed director's fee. The aggregate fixed annual salary (annualized on the basis of current monthly salary) of the three independent non-executive Directors is approximately RMB160,000.

(c) Supervisors

Each of the Supervisors has entered into an appointment letter or agreement with the Company pursuant to which they agreed to act as Supervisors with effect from 1 November 2004 (in the case of Chen Jie, Qu Xinhua, and Yang Baoqun); from 7 January 2005 (in the case of Chen Zhong and Chen Xianghong); and from 23 February 2006 (in the case of Wang Shuying), in each case until 31 October 2007. The terms of the appointment agreements of the Supervisors are identical in all material respects save that:

(i) Yang Baoqun does not receive any supervisor's fee;

(ii) each of Chen Zhong and Chen Xianghong receives a fixed supervisor's fee; and

(iii) each of Chen Jie, Qu Xinhua and Wang Shuying (being internal employee supervisors) receives a fixed basic salary, a performance based salary (subject to clawback based on the Company's gross profit for the relevant year), a discretionary bonus (based on the Company's gross profit for the relevant year) and other allowance and benefits in kind under the applicable PRC laws and regulations.

The aggregate fixed annual salary (annualized on the basis of current monthly salary) of ChenZong, ChenXianghong, ChenJie, Qu Xinhua and Wang Shuying is approximately RMB898,000.

(d) Remuneration of Directors and Supervisors

Remuneration and benefits in kind of approximately RMB1.3 million in aggregate were paid and granted by the Group to the Directors in respect of the financial year ended 31 December 2005. Remuneration and benefits in kind of approximately RMB596,000 in aggregate were paid and granted by the Group to the Supervisors in respect of the financial year ended 31 December 2005.

Under the arrangements currently in force, the Directors will be entitled to receive remuneration and benefits in kind (if any) which, for the year ending 31 December 2006, will be approximately RMB2 million in aggregate (including performance based salary (if any) assuming that the relevant gross profit target can be met, but excluding discretionary bonus), and the Supervisors will be entitled to receive remuneration and benefits in kind (if any) which, for the year ending 31 December 2006 will be approximately RMB1.2 million in aggregate (including performance based salary (if any) assuming that the relevant gross profit target can be met, but excluding discretionary bonus).

Save as disclosed in this prospectus, none of the Directors or the Supervisors has or is proposed to have a service contract with any member of the Group other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

(B) Disclosure of interests

(a) Interests and short positions of the Directors and the Supervisors in the share capital of the Company and its associated corporations following the Share Offer

Immediately following completion of the Share Offer and taking no account of any Share which may be allotted and issued pursuant to the Over-allotment Option, the interests or short positions of the Directors, the Supervisors and the chief executive in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the SFO (and as if it were applicable to supervisors) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors once the H Shares have been listed on GEM, will be as follows:–

Name of Director/ Supervisor	Name of corporation	Capacity/ Nature of interest	Total number of Domestic Shares	Approximate percentage of shareholding in the relevant class of shares in the corporation	Approximate percentage of shareholding in the entire issued capital of the corporation
Wei Tingzhan	The Company	Personal (Long position)	1,417,237	0.60%	0.39%
Li Jianwen	The Company	Personal (Long position)	1,354,712	0.58%	0.37%
Li Chunyan	The Company	Personal (Long position)	208,417	0.09%	0.06%
		Beneficiary (Long position)	187,575 *(Note 1)*	0.08%	0.05%
Liu Yuejin	The Company	Beneficiary (Long position)	375,151 *(Note 2)*	0.16%	0.10%
Gu Hanlin	The Company	Personal (Long position)	1,417,237	0.60%	0.39%
Li Shunxiang	The Company	Personal (Long position)	5,210,428	2.22%	1.42%
Yang Baoqun	The Company	Personal (Long position)	1,042,086	0.44%	0.28%
Qu Xinhua	The Company	Personal (Long position)	833,669	0.36%	0.23%
Wang Shuying	The Company	Beneficiary (Long position)	375,151 *(Note 3)*	0.16%	0.10%

Notes:–

1. These 187,575 Domestic Shares are held by Shanxi Trust as trust property, the beneficiary of which is Li Chunyan. Please refer to the section headed "Trust arrangements regarding interests in the Company and Chaopi Trading" for more details.

2. These 375,151 Domestic Shares are held by Shanxi Trust as trust property, the beneficiary of which is Liu Yuejin. Please refer to the section headed "Trust arrangements regarding interests in the Company and Chaopi Trading" for more details.

3. These 375,151 Domestic Shares are held by Shanxi Trust as trust property, the beneficiary of which is Wang Shuying. Please refer to the section headed "Trust arrangements regarding interests in the Company and Chaopi Trading" for more details.

(b) Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO

Immediately following the completion of the Share Offer (being after the time when the right to exercise the Over-allotment Option lapses) and taking no account of any Share which may be allotted and issued pursuant to the Over-allotment Option (and assuming that the obligations of the Underwriters to subscribe and/or purchase, and/or procure the subscription and/or purchase of, Shares under the Underwriting Agreement will terminate on the Listing Date) and none of the Underwriters is required to subscribe and/or purchase, and/or procure the subscription and/or purchase of Shares thereunder on or prior to the Listing Date, in addition to the interests disclosed under paragraph (a) above, so far as the Directors are aware, as at the Latest Practicable Date, the following persons (other than members of the Group) are expected to have interests and/or short positions in the shares and underlying shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, and/or are expected to be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:–

Name of interested party	Name of corporation	Capacity/Nature of interest	Number of shares or amount of registered capital in which the interested party has or is deemed have interests	Approximate percentage of interest in the registered capital or the same class of shares in the corporation
Chaoyang Auxillary	The Company	Beneficial owner (Long position)	171,969,808 Domestic Shares	73.30% *(Note 3)*
Shanxi Trust	The Company	Trustee (Long position)	26,635,710 Domestic Shares *(Note 1)*	11.35% *(Note 4)*
Shanxi Trust	Chaopi Trading	Trustee (Long position)	RMB9,522,000 *(Note 2)*	9.92%
黃玉華 (Huang Yuhua)	Chaopi Huaqing	Beneficial owner (Long position)	RMB2,140,000	23.78%
李俊偉 (Li Junwei)	Chaopi Flavourings	Beneficial owner (Long position)	RMB2,930,000	30.84%

Name of interested party	Name of corporation	Capacity/Nature of interest	Number of shares or amount of registered capital in which the interested party has or is deemed have interests	Approximate percentage of interest in the registered capital or the relevant class of shares in the corporation
李俊偉 (Li Junwei)	Chaopi Jinglong	Beneficial owner (Long position)	RMB3,813,480	31.78%
王春林 (Wang Chunlin)	Chaopi Qingdao	Beneficial owner (Long position)	RMB500,000	25.00%
劉東 (Liu Dong)	Chaopi Qingdao	Beneficial owner (Long position)	RMB250,000	12.50%
王春林 (Wang Chunlin)	Chaopi Shuanglong	Beneficial owner (Long position)	RMB3,420,000	28.50%
王春林 (Wang Chunlin)	Chaopi Shijiazhuang	Beneficial owner (Long position)	RMB500,000	25.00%
段雲洪 (Duan Yunhong)	Chaopi Shijiazhuang	Beneficial owner (Long position)	RMB250,000	12.50%
李萬鎰 (Li Wanyi)	Xinyang Tongli	Beneficial owner (Long position)	RMB240,000	15%
廊坊華夏房地產開發有限公司 (Langfang Huaxia Real Estate Development Company Limited)	Jingkelong Langfang	Beneficial owner (Long position)	RMB2,000,000	20%

Notes:

1. These 26,635,710 Domestic Shares are trust property, the beneficiaries of which are 122 employees and officers of the Company. Please refer to the section headed "Trust arrangements regarding interests in the Company and Chaopi Trading" for more details.

2. This registered capital amounting to RMB9,522,000 in Chaopi Trading is trust property, the beneficiaries of which are 115 employees and officers of Chaopi Trading. Please refer to the section headed "Trust arrangements regarding interests in the Company and Chaopi Trading" for more details.

3. These Shares amount to approximately 46.91% of the Company's total issued Shares.

4. These Shares amount to approximately 7.27% of the Company's total issued Shares.

(c) Connected transactions and related party transactions

Save as disclosed in this prospectus and in Section 9 of the Accountants' Report, the text of which is set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, the Company has not engaged in any other material connected transactions or related party transactions.

(C) Disclaimers

Save as disclosed in this prospectus, as at the Latest Practicable Date:–

(a) the Directors were not aware of any person (not being a Director, a Supervisor or chief executive of the Company) who would, immediately after completion of the Share Offer (taking no account of the Over-allotment Option or any Shares which may be taken up under the Share Offer), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions two and three of Part XV of the SFO, or who would, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group;

(b) none of the Directors and the Supervisors had any interest or short position in any of the Shares, underlying Shares or debentures or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to the Company and the Stock Exchange pursuant to Divisions seven and eight of Part XV of the SFO (including interests and short positions which he is deemed to have under such provisions of the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, in each case once the H Shares are listed;

(c) none of the Directors or the Supervisors nor any of the parties listed in the section headed "Consents of experts" of this Appendix was interested in the promotion of, or in any assets which had been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to the Company or any of the subsidiaries of the Company, or were proposed to be acquired or disposed of by or leased to the Company or any of the subsidiaries of the Company;

(d) none of the Directors or the Supervisors nor any of the parties listed in the section headed "Consents of experts" of this Appendix was materially interested in any contract or arrangement subsisting at the date of this prospectus which was significant in relation to the business of the Company;

(e) save in connection with the Underwriting Agreement, none of the parties listed in the section headed "Consents of experts" of this Appendix:–

   (i) was interested legally or beneficially in any securities of any member of the Group; or

   (ii) had any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;

(f) none of the Directors, the Supervisors or their associates nor, to the knowledge of the Directors, had any Shareholder who held more than 5% of the total issued Shares as at the Latest Practicable Date had any interest in any of the five largest customers of the Group;

(g) none of the Directors, the Supervisors or their associates nor, to the knowledge of the Directors, had any Shareholder who held more than 5% of the total issued Shares as at the Latest Practicable Date had any interest in any of the five largest suppliers of the Group; and

(h) none of the Directors or the Supervisors had entered into or was proposing to enter into a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

(6) OTHER INFORMATION

(A) Estate duty and tax

The Directors have been advised that no material liability for estate duty under the laws of the PRC would be likely to fall upon the Company and any of its subsidiaries.

Dealings in H Shares will be subject to Hong Kong stamp duty.

Intending shareholders of the H Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the H Shares. It is emphasized that none of Sponsor, the Underwriters, the Directors or any other parties involved in the Share Offer accepts responsibility for any tax effect on, or liabilities of, holders of the H Shares resulting from their subscription for, purchase, holding or disposal of or dealing in the H Shares.

(B) Indemnities

Chaoyang Auxillary has undertaken to indemnify the Company against any costs and penalties that the Group may suffer due to the non-compliance with the relevant PRC Laws as disclosed in the paragraphs headed "Risks associated with leased property interest of Chaopi Trading and the Company", "Certain loans to the Company" and "The use of Jingkelong cards and the membership reward cards" in the "Risk Factors" section of this prospectus.

(C) Litigation

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Company, that would have a material adverse effect on the results of operations or financial condition of the Company.

(D) Preliminary expenses

The preliminary expenses of the Company were approximately RMB6,710 in aggregate.

(E) Promoters

The Promoters in connection with the establishment of the Company were Chaoyang Auxillary, Shanxi Trust, Beijing Gaoya, Beijing Jiazeng, Tianjin Jinganghua,李順祥 (Li Shunxiang),楊寶群 (Yang Baoqun),劉彥力 (Liu Yanli),夏文盛 (Xia Wensheng),高家強 (Gao Jiaqiang), 顧漢林 (Gu Hanlin), 衛停戰 (Wei Tingzhan), 戴京 (Dai Jing), 白憲榮 (Bai Xianrong), 陳莉敏 (Chen Limin), 趙維歷 (Zhao Weili), 李建文 (Li Jianwen), 高京生 (Gao Jinsheng), 田俊英 (Tian Junying), 屈新華 (Qu Xinhua), 李春燕 (Li Chunyan). Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given to or is proposed to be paid, allotted or given to the Promoters.

(F) Sponsor

The Sponsor has made an application on our behalf to the GEM Listing Committee of the Stock Exchange for listing of, and permission to deal in, the H Shares to be issues as mentioned herein. All necessary arrangements have been made enabling such H Shares to be admitted into CCASS.

(G) No material adverse change

Save as disclosed in this prospectus, the Directors believe that there has been no material adverse change in the financial or trading position of the Company since 30 June 2006.

(H) Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

(I) Miscellaneous

(a) Save as disclosed in this prospectus:–

(i) within the two years immediately preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) neither the Company nor any of its subsidiaries has issued or agreed to issue any founder shares, management shares or deferred shares;

(iv) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of the Group;

(v) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in the Company;

(vi) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and

(vii) the Company had no material mortgage or charge as at the Latest Practicable Date.

(b) The Company had no outstanding convertible debt securities as at the Latest Practicable Date.

(J) Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:–

Name	Qualification
DBS Asia	A licensed corporation under the SFO to engage in types 1, 4 and 6 of the regulated activities (as defined under the SFO) and a GEM approved sponsor
Ernst & Young	Certified public accountants
Zhonglun Wende Law Firm	PRC lawyers
Vigers Appraisal & Consulting Limited	Property valuer

(K) Consents of experts

Each of the DBS Asia, Ernst & Young, Zhonglun Wende Law Firm and Vigers Appraisal & Consulting Limited has given and has not withdrawn their respective consents to the issue of this prospectus with the inclusion of its advice and/or report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it appears.

As at the Latest Practicable Date and save as disclosed in this prospectus, none of the experts named in the paragraph headed "Qualifications of experts" in this Appendix had any shareholding interests in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(L) Particulars of Selling Shareholder

The following are the particulars of the Selling Shareholder.

Name	Address	Description	Number and description of sale Shares
北京市朝陽區副食品總公司 (Beijing Chaoyang Auxillary Food Company) holding the relevant sale Shares for the NSSF Council	Fourth Building, Hongmiaobei Lane, Chaoyang District, Beijing, PRC	Chaoyang Auxillary is a PRC State-owned enterprise established in the PRC, being the controlling shareholder of the Company and one of the Promoters. Chaoyang Auxillary's principal business is investment holding and property management. The NSSF Council (全國社會保障基金理事會 (The National Social Security Fund Council of the PRC)) is an organisation authorised by the State Council and is responsible for the administration of the State's national social security fund	The Sale H Shares (being 12,000,000 H Shares) to be offered by the Company in the Share Offer for the NSSF Council, plus an additional of up to 1,800,000 H Shares (in the event that the Over-allotment Option is exercised in full)

(M) Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were (i) copies of the yellow and white Application Forms, (ii) the written consents referred to in the paragraph headed "(6) Other information – (K) Consents of experts" in Appendix V to this prospectus, (iii) copies of each of the material contracts referred to in the paragraph headed "(4) Further information about the business of the Group – (A) Summary of material contracts" in Appendix V to this prospectus, and (iv) a list containing the name, address and a description of the Selling Shareholder.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Richards Butler at 20/F, Alexandra House, 16-20 Chater Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Articles of Association;

(b) the Accountants' Report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;

(c) the letter relating to unaudited pro forma financial information, the text of which is set forth in Appendix II to this prospectus;

(d) the audited financial statements of the Group for the three financial years ended 31 December 2005 and six months ended 30 June 2006;

(e) the letters, summary of valuation and valuation certificates relating to the property interests of the Group prepared by Vigers Appraisal & Consulting Limited, the texts or extracts of which are set out in, among other parts, Appendix III to this prospectus;

(f) the PRC Company Law together with an unofficial English translation thereof;

(g) the Special Regulations together with an unofficial English translation thereof;

(h) the Mandatory Provisions together with an unofficial English translation thereof;

(i) the material contracts referred to in the section headed "(4) Further information about the business of the Group – (A) Summary of material contracts" in Appendix V to this prospectus;

(j) the service contracts and appointment letters referred to in the paragraph headed "(5) Further information about our Directors and our Supervisors – (A) Particulars of Directors' and Supervisors' service contracts" in Appendix V to this prospectus;

(k) the written consents referred to in the paragraph headed "(6) Other information – (K) Consents of experts" in Appendix V to this prospectus;

(l) a list of the details of the Selling Shareholder;

(m) the PRC legal opinion (in Chinese) dated 12 September 2006 issued by Zhong Lun Wende Law Firm confirming that, in their opinion, among other things, the summary of relevant PRC laws and principal regulatory provisions set out in Appendix IV to this prospectus is a correct summary of the relevant PRC laws and regulatory provisions;

(n) 設立外商投資股份有限公司暫行規定 (the Provisional Regulations on Establishment of Foreign Investment Joint Stock Limited Companies) issued by MOFTEC on 10 January 1995 together with an unofficial English translation thereof;

(o) the Opinion on the Further Promotion of the Regular Operation and In-Depth Reform of Companies Listed Overseas issued by SETC and CSRC on 29 March 1999, together with an unofficial English translation thereof;

(p) the Securities Law of the PRC promulgated by the Standing Committee of the NPC on 29 December 1998, together with an unofficial English translation thereof;

(q) the Arbitration Law of the PRC promulgated by the Standing Committee of the NPC on 31 August 1994, together with an unofficial English translation thereof; and

(r) the Civil Procedure Law of the PRC adopted at the fourth meeting of the seventh NPC promulgated by the president of the PRC on 9 April 1991, together with an unofficial English translation thereof.