
STATEMENT OF BUSINESS OBJECTIVES

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.

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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.

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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 <i>HKS'million</i>
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 HKS'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 HKS'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 HKS'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 HKS'million)	<u>60.0</u>	<u>153.2</u>	<u>153.2</u>	<u>68.6</u>	<u>68.6</u>	<u>281.8</u>
Total cost of implementation (approximately in HKS'million)	<u>60.0</u>	<u>243.2</u>	<u>243.2</u>	<u>133.2</u>	<u>133.2</u>	<u>436.4</u>

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

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	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 <i>HK\$ million</i>
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)	<u>65.0</u>	<u>27.0</u>	<u>8.0</u>	<u>27.0</u>	<u>11.6</u>	<u>138.6</u>
Total cost of implementation (approximately in HK\$ million)	<u>65.0</u>	<u>27.0</u>	<u>8.0</u>	<u>27.0</u>	<u>11.6</u>	<u>138.6</u>

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	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 <i>HK\$'million</i>
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)	<u>13.0</u>	<u>8.0</u>	<u>8.0</u>	<u>8.0</u>	<u>4.6</u>	<u>41.6</u>
Total cost of implementation (approximately in HK\$'million)	<u>13.0</u>	<u>8.0</u>	<u>8.0</u>	<u>8.0</u>	<u>4.6</u>	<u>41.6</u>

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.

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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.

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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.