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* (Unaudited)	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000*	*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

* *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)* (Unaudited)	*(%)* (Unaudited)	*(RMB'000)*	*(%)*
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. $\dfrac{\text{Average inventories}}{\text{Cost of sales}}$ x 365 days or 181 days

2. $\dfrac{\text{Average trade receivables}}{\text{Turnover}}$ x 365 days or 181 days

3. $\dfrac{\text{Average trade payables}}{\text{Cost of sales}}$ x 365 days or 181 days

4. $\dfrac{\text{Bank loans and other borrowings – Pledged deposits – Cash and cash equivalents}}{\text{Total equity}}$ 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 *(RMB'million)*	Yield on the Employee Investments	Interest rates on BITIC Loans	Settlement
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 *RMB'000* *(Note 1)*	**Estimated net proceeds from the Share Offer** *RMB'000* *(Note 2)*	**Unaudited pro forma adjusted net tangible assets** *RMB'000*	**Unaudited pro forma adjusted net tangible assets per Share** *(RMB)* *(Note 3)*	**Unaudited pro forma adjusted net tangible assets per Share** *(HK$)* *(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.