



18th Floor
Two International Finance Centre
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Central
Hong Kong

12 September 2006

The Directors
Beijing Jingkelong Company Limited
DBS Asia Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Beijing Jingkelong Company Limited (the “Company”), its subsidiaries and associates for each of the three years ended 31 December 2005 and the six months ended 30 June 2006 (the “Relevant Periods”) and the six months ended 30 June 2005 (the “30 June 2005 Financial Information”), for inclusion in the prospectus of the Company dated 12 September 2006 (the “Prospectus”) in connection with the placing and public offering of the shares of the Company.

The Company was established as a state-owned enterprise under the name of Beijing Guandongdian Shang Sha in the People’s Republic of China (the “PRC”) in May 1994 with a registered capital of RMB2 million. In February 1996, the Company changed its name to Beijing Jingkelong Shang Sha. In June 1997, the Company’s registered capital was increased to RMB22.19 million. In May 2002, the Company was transformed into a limited liability company with a registered capital of RMB236.66 million and was renamed as Beijing Jingkelong Supermarket Chain Company Limited. In December 2002, the Company changed its name to Beijing Jingkelong Supermarket Chain Group Company Limited. With effect from 1 November 2004, the Company was transformed into a joint stock company with limited liability by converting its net assets as at 31 December 2003, as determined in accordance with the applicable relevant PRC accounting principles and financial regulations (the “PRC GAAP”), net of dividends declared in August 2004, into 246,620,000 shares of RMB1 each, and was renamed as Beijing Jingkelong Company Limited.

In the opinion of the directors of the Company, the parent and ultimate holding company of the Company is Beijing Chaoyang Auxillary Food Company (“Chaoyang Auxillary”).

The Company and its subsidiaries (collectively the “Group”) are principally engaged in the retail and wholesale distribution of daily consumer products in the Greater Beijing Region. The retail distribution business, comprising a network of hypermarkets, supermarkets and convenience stores (collectively the “Retail Outlets” and individually a “Retail Outlet”), operates in the distribution of live and fresh produce, dry products, beverages, processed food and daily necessities, whereas the wholesale distribution business provides the wholesale supply of daily consumer products to consumers, including the Retail Outlets and other retail operators, and trading companies.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries and associates. All of these entities are private limited liability companies, which have substantially similar characteristics to a private company incorporated in Hong Kong.

Name	Place and date of incorporation and operations	Paid-up registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Subsidiaries					
Beijing Jingkelong (Langfang) Company Limited ("Jingkelong Langfang")	Langfang, PRC 26 April 2000	RMB10,000,000	80.00	–	Retail of general merchandise
Beijing Chaopi Trading Company Limited ("Chaopi Trading")	Beijing, PRC 31 May 2002*	RMB96,000,000	76.42	–	Wholesale of general merchandise
Beijing Xinyang Tongli Commercial Facilities Company Limited ("Xinyang Tongli")	Beijing, PRC 31 May 2002*	RMB1,600,000	52.03	–	Production of plastic packing materials and production, installation and maintenance of commercial equipment
Beijing Jingkelong Supermarket Chain Company Limited	Beijing, PRC 5 July 2006	RMB5,000,000	100.00	–	Retail of general merchandise
Beijing Chaopi Huaqing Beverage Company Limited ("Chaopi Huaqing") **	Beijing, PRC 13 December 2000	RMB9,000,000	–	39.91	Wholesale of drinks and food
Beijing Chaopi Flavourings Company Limited ("Chaopi Flavourings") **	Beijing, PRC 29 April 2001	RMB9,500,000	–	40.22	Wholesale of flavourings, edible oil and food
Beijing Chaopi Shuanglong Alcohol Sales Company Limited ("Chaopi Shuanglong") **	Beijing, PRC 29 August 2002	RMB12,000,000	–	45.09	Wholesale of alcoholic beverages
Beijing Chaopi Jinglong Oil Sales Company Limited ("Chaopi Jinglong") **	Beijing, PRC 9 May 2005	RMB12,000,000	–	41.44	Wholesale of edible oil
Shijiazhuang Chaopi Xinlong Trading Company Limited ("Chaopi Shijiazhuang") **	Shijiazhuang, PRC 12 September 2005	RMB2,000,000	–	45.09	Wholesale of alcoholic beverages
Qingdao Chaopi Jinlong Trading Company Limited ("Chaopi Qingdao") **	Qingdao, PRC 28 September 2005	RMB2,000,000	–	45.09	Wholesale of alcoholic beverages
Associates					
Beijing Chaopi Tianxing Vegetables Company Limited	Beijing, PRC 31 July 2002	RMB310,000	–	27.11	Retail of fruits and vegetables
Beijing Chaopi Ziguang Trading Company Limited	Beijing, PRC 8 December 2003	RMB1,100,000	–	34.73	Wholesale of alcoholic beverages

- * *Represent the date of change of legal status from a state-owned enterprise to a limited liability company.*
- ** *The companies are directly held by Chaopi Trading as to more than 50% equity interests and are recognised as the subsidiaries of Chaopi Trading. Since the Company holds a 76.42% equity interest in Chaopi Trading, such companies are accounted for as subsidiaries of the Company, though the equity interests indirectly attributable to the Company are less than 50%.*

Note: The Company, its subsidiaries and associates were all established in the PRC and have adopted 31 December as their financial year end date. The financial statements of the Company and its subsidiaries (the "PRC GAAP Consolidated Financial Statements") were prepared in accordance with the PRC GAAP. The audited financial statements of the Company for the two years ended 31 December 2005 prepared in accordance with the PRC GAAP were audited by Ernst & Young Hua Ming Certified Public Accountants (安永華明會計師事務所) which is not a certified public accountant firm registered in Hong Kong. The audited financial statements of the Company for the year ended 31 December 2003 and the audited financial statements of all its subsidiaries and associates, except for Jingkelong Langfang, for the three years ended 31 December 2005 prepared in accordance with the PRC GAAP were audited by Beijing Hua Long Certified Public Accountants Co., Ltd. (北京華龍會計師事務所有限公司). The auditors of Jingkelong Langfang for the year ended 31 December 2003 and the two years ended 31 December 2005 were Langfang Zhixin Certified Public Accountants Co., Ltd. (廊坊至信會計師事務所有限公司) and Langfang Huaanda Certified Public Accountants Co., Ltd. (廊坊華安達會計師事務所有限公司), respectively. The management accounts of all the Group companies were prepared in accordance with the PRC GAAP.

For the purpose of this report, the directors of the Company have prepared the Company's and the Group's accounts for each of the Relevant Periods, or from their respective dates of establishment or dates of acquisition, whichever is a shorter period, in accordance with the accounting principles generally accepted in Hong Kong and the accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") (the "HK GAAP accounts"). In preparing this report, no adjustments were considered necessary to restate the audited HK GAAP accounts to conform to the accounting policies referred to in Section 1 of this report, which are in compliance with the HK GAAP. The HK GAAP accounts have been audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The financial information of the consolidated income statement, consolidated statements of changes in equity and consolidated cash flow statements of the Group and the statements of changes in equity of the Company for the Relevant Periods and the consolidated balance sheets of the Group and the balance sheets of the Company as at 31 December 2003, 2004 and 2005 and 30 June 2006 (the "Financial Information") set out in this report have been prepared based on the audited HK GAAP accounts. We have examined the Financial Information in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The directors of the respective companies now comprising the Group are responsible for preparing accounts which give a true and fair view. The directors of the Company are responsible for preparing the HK GAAP accounts and the Financial Information which give a true and fair view. In preparing these accounts and the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion and a review conclusion on such information in respect of the Relevant Periods and for the six months ended 30 June 2005, respectively, and to report our opinion and review conclusion to you.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of state of affairs of the Company and of the Group as at 31 December 2003, 2004 and 2005 and 30 June 2006 and of the Group's consolidated income statement and cash flows for each of the Relevant Periods.

The unaudited 30 June 2005 Financial Information has been prepared solely for the purpose of this report. The directors of the Company are responsible for preparing this comparative financial information. It is our responsibility to form an independent conclusion, based on our review, on this comparative financial information and to report our conclusion to you. For the purpose of this report, we have performed a review of the 30 June 2005 Financial Information in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consists principally of making enquiries of management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope and provides a lower level of assurance than the audit or examination procedures described in the preceding paragraphs and, accordingly we do not express an audit opinion on the 30 June 2005 Financial Information.

On the basis of our review, for the purpose of this report, we are not aware of any material modification that should be made to the 30 June 2005 Financial Information.

1. PRINCIPAL ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with the accounting principles generally accepted in Hong Kong and Hong Kong Financial Reporting Standards ("HKFRSs", which also include Hong Kong Accounting Standards ("HKASs") and interpretations) issued by the HKICPA. HKFRS 1 "*First-time Adoption of Hong Kong Financial Reporting Standards*" has been applied in preparing the Financial Information. The Financial Information has been prepared on a historical cost basis, except for the measurement at fair value of financial instruments in accordance with HKAS 39 "*Financial Instruments: Recognition and Measurement*". The accounting policies set out below have been consistently applied throughout the Relevant Periods. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries for the Relevant Periods. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All significant intercompany balances and transactions within the Group, including unrealised profits arising from intragroup transactions, are eliminated on consolidation. Unrealised losses are eliminated unless when costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share or registered capital, and is able to govern the financial and operating policies of that company so as to benefit from its activities.

Minority interests represent the interests of outside shareholders in the income statement and net assets of the Company's subsidiaries. They are presented in the consolidated balance sheet within the equity section, separately from the equity attributable to shareholders of the parent.

(b) Subsidiaries

A subsidiary is an entity, whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

(c) Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

(d) Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisition is initially recognised in the consolidated balance sheet as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or secondary reporting format determined in accordance with HKAS 14 "*Segment Reporting*".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

(e) Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The excess for associates is included in the Group's share of the associates' profit or loss in the period in which the investments are acquired.

(f) Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties, goodwill and non-current assets/disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only when the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than

the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

(g) Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

(h) Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for “Non-current assets and disposal groups held for sale”. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Buildings	20 to 25 years
Leasehold improvement	Over the lease terms
Machinery	5 to 10 years
Office equipment	5 years
Motor vehicles	5 to 8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and various infrastructure projects under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(i) Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are stated at cost including transaction costs and are depreciated on the straight-line basis to write off the cost of each property over their estimated useful lives between 20 to 25 years, after taking into account their estimated residual values.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

(j) Lease prepayments

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

(k) Intangible assets

Intangible assets represent the acquisition costs of software less accumulated amortisation and impairment losses. Intangible assets are amortised on the straight-line basis over 10 years.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis for all inventories except motor vehicles, the cost of which is determined on the individual basis. Cost, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(m) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(n) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(o) Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, reevaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

(p) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

(q) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(r) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

(s) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

(t) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

(u) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary difference except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with interests in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with interests in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(v) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(w) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) from sale of merchandise and produce, when the significant risks and rewards of ownership of the merchandise and produce have passed to the buyer and the amount of revenue can be measured reliably;
- (ii) income from suppliers, comprising promotion income, display space leasing fee and warehouse storage space income, according to the underlying contract terms and as these services are provided in accordance therewith;
- (iii) rental income, on a time proportion basis over the lease terms; and
- (iv) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

(x) Retirement benefits scheme

The Company and its subsidiaries participate in defined contribution retirement benefits schemes organised by the local government authorities in the PRC. The Company and its subsidiaries are required to make contributions to the retirement benefits schemes which are based on a certain percentage of the total salary of those employees and have no further obligation for post-retirement benefits. The contributions are charged to the income statement of the Group as they become payable in accordance with the rules of the schemes.

(y) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as a part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Where funds have been borrowed generally, and used for the purpose of obtaining

qualifying assets, a capitalisation rate based on the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining qualifying assets, has been applied to the expenditure on the individual assets.

(z) Dividends

Dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

(aa) Foreign currencies

The functional and presentation currency of the Group is RMB. Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated into RMB at the applicable exchange rates ruling at that date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(ab) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

(ac) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write-down amount requires management's estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and writedown charge/reversal in the period in which such estimate has been changed.

(ii) Provision for doubtful debts

Provision for doubtful debts is made based on assessment of the recoverability of trade receivables and other receivables. The identification of doubtful debts requires management's estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and doubtful debt expenses/write-back in the period in which such estimate has been changed.

(ad) Impact of issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, to the Financial Information. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2007:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 requires disclosures relating to financial instruments and incorporates many of the disclosure requirements of HKAS 32. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

The Group expects that the adoption of the above pronouncements will not have significant impact on the Group's financial statements in the period of initial application.

2. CONSOLIDATED INCOME STATEMENT

The following is a summary of the consolidated income statement of the Group for the Relevant Periods and the six months ended 30 June 2005:

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

Notes:

(a) Revenue

Revenue represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts. The allowances for returns and trade discounts were approximately RMB40 million, RMB44 million, RMB36 million, RMB15 million and RMB18 million for each of the three years ended 31 December 2005 and the six months ended 30 June 2005 and 2006, respectively. An analysis of the Group's revenue for the Relevant Periods and the six months ended 30 June 2005 is as follows:

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

(b) Discontinued operations

The discontinued operations represented the sale of pharmaceuticals, the trading of automobiles and the provision of related repair services, which were respectively conducted by Beijing Yiyuantang Medicine Chain Company Limited ("Yiyuantang"), a then 70.13%-owned subsidiary, and Beijing City Tengyuan Xingye Vehicle Service Limited Company ("Tengyuan"), a then 62.73%-owned subsidiary. The operating results of Yiyuantang were consolidated into the Group's consolidated income statement until June 2003 when the Company disposed of half of its equity interests therein to a third party. Together with all the equity interests in Tengyuan, the remaining half of the equity interests in Yiyuantang was sold to Chaoyang Auxillary in June 2004.

In the opinion of the directors of the Company, the disposal of the discontinued operations above-mentioned is consistent with the Group's long term strategy to concentrate on retail chain and wholesaling operations of general merchandise and produce.

The carrying amounts of the total assets and liabilities relating to the discontinued operations included in the consolidated balance sheets at the end of each of the Relevant Periods are as follows:

	31 December 2003 RMB'000	31 December 2004 RMB'000	31 December 2005 RMB'000	30 June 2006 RMB'000
Total assets	107,278	–	–	–
Total liabilities	(90,209)	–	–	–
Net assets	<u>17,069</u>	<u>–</u>	<u>–</u>	<u>–</u>

The earnings per share are as follows:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
	(Unaudited)				
Basic – from discontinued operations (RMB) (Section 2, note (j))	<u>0.28 cents</u>	<u>0.15 cents</u>	<u>–</u>	<u>–</u>	<u>–</u>

(c) **Other income**

	Year ended 31 December 2003			Year ended 31 December 2004			Year ended 31 December 2005			Six months ended 30 June 2005			Six months ended 30 June 2006		
	Continuing operations		Discontinued operations	Continuing operations		Discontinued operations	Continuing operations		Discontinued operations	Continuing operations		Discontinued operations	Continuing operations		Discontinued operations
	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	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)														
Income from suppliers	39,180	18	39,198	58,377	–	58,377	76,564	–	76,564	44,607	–	44,607	56,972	–	56,972
Promotion income	19,563	18	19,581	35,585	–	35,585	42,765	–	42,765	21,426	–	21,426	31,441	–	31,441
Display space leasing fee	8,813	–	8,813	12,915	–	12,915	18,332	–	18,332	15,119	–	15,119	19,261	–	19,261
Others	10,804	–	10,804	9,877	–	9,877	15,467	–	15,467	8,062	–	8,062	6,270	–	6,270
Rental income	32,802	307	33,109	34,497	–	34,497	36,950	–	36,950	17,080	–	17,080	19,641	–	19,641
Net compensation on demolished properties (note 1)	21,968	–	21,968	11,982	–	11,982	11,129	–	11,129	11,129	–	11,129	5,667	–	5,667
Interest income	5,934	240	6,174	8,875	112	8,987	8,378	–	8,378	6,740	–	6,740	7,200	–	7,200
Gain on exchange of property, plant and equipment (Section 3, note (h))	–	–	–	27,486	–	27,486	–	–	–	–	–	–	–	–	–
Gain on disposal of a subsidiary (note 2)	–	887	887	–	–	–	–	–	–	–	–	–	–	–	–
Gain on disposal of an associate (note 2)	–	–	–	–	1,248	1,248	–	–	–	–	–	–	–	–	–
Gain on disposal of property, plant and equipment (note 3)	4,090	–	4,090	2,710	–	2,710	–	–	–	–	–	–	–	–	–
Gain on sale wastes	836	–	836	2,063	–	2,063	3,010	–	3,010	1,476	–	1,476	1,586	–	1,586
Franchise fee	837	–	837	1,256	–	1,256	1,688	–	1,688	1,590	–	1,590	1,068	–	1,068
Excess over the cost of a business combination	–	–	–	169	–	169	1,972	–	1,972	–	–	–	–	–	–
Government grants	–	–	–	50	–	50	–	–	–	–	–	–	133	–	133
Other	5,544	693	6,237	7,235	2	7,237	3,977	–	3,977	753	–	753	1,299	–	1,299
Total	<u>111,191</u>	<u>2,145</u>	<u>113,336</u>	<u>154,700</u>	<u>1,362</u>	<u>156,062</u>	<u>143,668</u>	<u>–</u>	<u>143,668</u>	<u>83,375</u>	<u>–</u>	<u>83,375</u>	<u>93,566</u>	<u>–</u>	<u>93,566</u>

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-owned Enterprises").

For the each of the three years ended 31 December 2005 and the six months ended 30 June 2006, sales to the Group's twenty largest customers represented approximately 20.2%, 20.8%, 30.5% and 33.2% of the Group's total revenue respectively. To the best knowledge of the Directors, out of the sales to the twenty largest customers, transactions with State-owned enterprises represented approximately 14.9%, 14.7%, 12.2%, and 12.5% of the transaction values of the Group's twenty largest customers for the each of the three years ended 31 December 2005 and the six months ended 30 June 2006.

For the each of the three years ended 31 December 2005 and the six months ended 30 June 2006, purchases from the Group's twenty largest suppliers represented approximately 40.9%, 36.8%, 40.0%, and 34.7% of the Group's total purchase respectively. To the best knowledge of the Directors, out of the purchases from the twenty largest customers, transactions with State-owned enterprises represented approximately 27.1%, 28.3%, 31.1%, and 34.4% of the transaction values of the Group's twenty largest suppliers for the each of the three years ended 31 December 2005 and the six months ended 30 June 2006.

(e) Retirement benefits

The aggregate contributions of the Group to retirement benefit schemes were approximately RMB20 million, RMB19 million, RMB17 million, RMB11 million, and RMB9 million for the three years ended 31 December 2005 and the six months ended 30 June 2005 and 2006, respectively.

(f) Directors', supervisors' and senior executives' emoluments

Details of the remuneration of the directors' and supervisors' during the Relevant Periods and the six months ended 30 June 2005, disclosed pursuant to the Rules Governing of the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Directors					Supervisors				
	Year ended 31 December			Six months ended 30 June		Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)					(Unaudited)	
Fees	-	-	-	-	-	-	-	-	-	-
Other emoluments:										
Salaries, allowances and benefits in kind	1,397	1,339	1,151	1,025	1,527	446	685	523	496	828
Retirement benefits contributions	220	203	161	153	58	70	108	73	73	41
Total	<u>1,617</u>	<u>1,542</u>	<u>1,312</u>	<u>1,178</u>	<u>1,585</u>	<u>516</u>	<u>793</u>	<u>596</u>	<u>569</u>	<u>869</u>

The names of the directors and supervisors of the Company and their remuneration for the Relevant Periods and the six months ended 30 June 2005 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2003 RMB'000	2004 RMB'000	2005 RMB'000	2005 RMB'000 (Unaudited)	2006 RMB'000
<i>Name of the directors</i>					
Dai Jing	119	–	–	–	–
Bai Xian Rong	214	220	–	–	–
Chen Li Min	263	348	–	–	–
Gu Han Lin	264	176	–	–	–
Wei Ting Zhan	264	270	270	333	159
Li Jian Wen	278	350	400	365	751
Liu Yue Jin	215	178	260	197	374
Li Shun Xiang	–	–	–	–	–
Li Chun Yan	–	–	258	229	233
Fan Fa Ming	–	–	35	18	17
Deng Xiao Feng	–	–	21	18	–
Huang Jiang Ming	–	–	35	18	17
Chung Chi Kong	–	–	33	–	34
	<u>1,617</u>	<u>1,542</u>	<u>1,312</u>	<u>1,178</u>	<u>1,585</u>
<i>Name of the supervisors</i>					
Tian Jun Ying	103	–	–	–	–
Ma Xiu Rong	127	145	–	–	–
Liu Wen Yu	110	125	–	–	–
Wang Shu Ying	176	205	–	–	307
Yang Bao Qun	–	–	–	–	–
Chen Jie	–	60	205	232	159
Qu Xin Hua	–	258	331	307	375
Chen Zhong	–	–	30	15	14
Cheng Xiang Hong	–	–	30	15	14
	<u>516</u>	<u>793</u>	<u>596</u>	<u>569</u>	<u>869</u>
Total	<u>2,133</u>	<u>2,335</u>	<u>1,908</u>	<u>1,747</u>	<u>2,454</u>

The emoluments of each of the directors and supervisors for each of the Relevant Periods and the six months ended 30 June 2005 fell within the range of nil to HK\$1,000,000 (equivalent to RMB1,020,000).

The five individuals whose remuneration was the highest in the Group during the Relevant Periods and the six months ended 30 June 2005 are all non-director and non-supervisor employees.

The remuneration paid to the above non-director and non-supervisor employees is as follows:

	Year ended 31 December			Six months ended 31 June	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	2,244	2,276	5,348	4,839	6,676
Retirement benefits contributions	72	77	119	42	49
	<u>2,316</u>	<u>2,353</u>	<u>5,467</u>	<u>4,881</u>	<u>6,725</u>

(Unaudited)

The number of non-director, non-supervisor, highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
Nil to HK\$1,000,000 (equivalent to RMB1,020,000)	5	5	3	4	1
HK\$1,000,001 to HK\$1,500,000 (equivalent to RMB1,020,001 to RMB1,530,000)	–	–	2	1	3
HK\$1,500,001 to HK\$2,000,000 (equivalent to RMB1,530,001 to RMB2,040,000)	–	–	–	–	1
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

(Unaudited)

(g) Finance costs

	Year ended 31 December 2003			Year ended 31 December 2004			Year ended 31 December 2005			Six months ended 30 June 2005			Six months ended 30 June 2006		
	Continuing operations		Discontinued operations	Continuing operations		Discontinued operations	Continuing operations		Discontinued operations	Continuing operations		Discontinued operations	Continuing operations		Discontinued operations
	operations	operations	Total	operations	operations	Total	operations	operations	Total	operations	operations	Total	operations	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
Interest on bank loans repayable:															
- Within five year	9,790	997	10,787	15,895	126	16,021	16,205	-	16,205	8,360	-	8,360	11,409	-	11,409
- Over five years	-	-	-	-	-	-	293	-	293	-	-	-	-	-	-
Interest on other borrowings from:															
- Employees (note)	10,581	-	10,581	4,168	-	4,168	-	-	-	-	-	-	-	-	-
- Other enterprises	3,312	1,764	5,076	7,125	4	7,129	14,175	-	14,175	7,187	-	7,187	7,338	-	7,338
	23,683	2,761	26,444	27,188	130	27,318	30,673	-	30,673	15,547	-	15,547	18,747	-	18,747
Less: Interest capitalised	(3,500)	-	(3,500)	(6,200)	-	(6,200)	(11,600)	-	(11,600)	(5,000)	-	(5,000)	(10,060)	-	(10,060)
	<u>20,183</u>	<u>2,761</u>	<u>22,944</u>	<u>20,988</u>	<u>130</u>	<u>21,118</u>	<u>19,073</u>	<u>-</u>	<u>19,073</u>	<u>10,547</u>	<u>-</u>	<u>10,547</u>	<u>8,687</u>	<u>-</u>	<u>8,687</u>

(Unaudited) (Unaudited) (Unaudited)

Note:

The Group acquired certain borrowings from the employees. The borrowings are unsecured, bear annual interest rate of 5% to 6%, and are repayable on demand. At 31 December 2003, total employee borrowings amounted to RMB181 million, which were fully repaid by June 2004.

(h) Tax

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The Group is not liable for income tax in Hong Kong as it did not have assessable income currently arising in Hong Kong during the Relevant Periods and the six months ended 30 June 2005. Under the prevailing PRC income tax law, except for certain preferential treatment available to a subsidiary of the Company, Chaopi Shuanglong, the Group and its associates are subject to corporate income tax ("CIT") at a rate of 33% on their respective taxable income during the Relevant Periods and the six months ended 30 June 2005.

The determination of income tax in the consolidated income statement of the Group is as follows:

	Year ended 31 December 2003			Year ended 31 December 2004			Year ended 31 December 2005			Six months ended 30 June 2005			Six months ended 30 June 2006			
	Continuing operations		Discontinued operations	Continuing operations		Discontinued operations	Continuing operations		Discontinued operations	Continuing operations		Discontinued operations	Continuing operations		Discontinued operations	Total
	operations	operations	Total	operations	operations	Total	operations	operations	Total	operations	operations	Total	operations	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	RMB'000
Current CIT – the PRC	19,364	658	20,022	33,011	106	33,117	43,682	-	43,682	25,320	-	25,320	31,292	-	31,292	
Deferred CIT	1,155	-	1,155	11,116	-	11,116	3,476	-	3,476	1,474	-	1,474	1,985	-	1,985	
CIT reported in consolidated income statement	20,519	658	21,177	44,127	106	44,233	47,158	-	47,158	26,794	-	26,794	33,277	-	33,277	

A reconciliation of CIT applicable to profit before tax at the statutory CIT rate to CIT at the Group's effective CIT rate, and a reconciliation of the statutory CIT rate to the effective tax rate, for each of the Relevant Periods and the six months ended 30 June 2005 are as follows:

	Year ended 31 December 2003			Year ended 31 December 2004			Year ended 31 December 2005			Six months ended 30 June 2005			Six months ended 30 June 2006							
	Continuing operations		Discontinued operations	Continuing operations		Discontinued operations	Continuing operations		Discontinued operations	Continuing operations		Discontinued operations	Continuing operations		Discontinued operations					
	operations	operations	Total	% operations	operations	operations	Total	% operations	operations	operations	Total	% operations	operations	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					
Profit before tax	65,768	1,433	67,201	127,918	484	128,402	145,504	-	145,504	78,731	-	78,731	92,398	-	92,398					
CIT at PRC statutory rate	21,703	473	22,176	33.0	42,213	160	42,373	33.0	48,016	-	48,016	33.0	25,981	-	25,981	33.0	30,491	-	30,491	33.0
Expenses not deductible for tax	2,288	872	3,160	4.7	3,980	502	4,482	3.5	5,756	-	5,756	4.0	4,953	-	4,953	6.3	1,844	-	1,844	2.0
Tax losses not recognised	845	-	845	1.2	84	-	84	-	24	-	24	-	21	-	21	-	98	-	98	0.1
Tax exemption (note)	(2,624)	-	(2,624)	(3.9)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax losses utilised from previous periods	-	-	-	-	(390)	-	(390)	(0.3)	(89)	-	(89)	-	(88)	-	(88)	(0.1)	-	-	-	-
Non taxable income	(1,229)	(182)	(1,411)	(2.1)	(2,367)	(580)	(2,947)	(2.3)	(3,896)	-	(3,896)	(2.7)	(3,262)	-	(3,262)	(4.1)	-	-	-	-
Others	(464)	(505)	(969)	(1.4)	607	24	631	0.5	(2,653)	-	(2,653)	(1.9)	(811)	-	(811)	(1.0)	844	-	844	0.9
CIT charged at Group's effective rate	20,519	658	21,177	31.5	44,127	106	44,233	34.4	47,158	-	47,158	32.4	26,794	-	26,794	34.1	33,277	-	33,277	36.0

Note:

Pursuant to the applicable corporate income tax laws and regulations in Beijing, the PRC, newly formed tertiary industry enterprises are eligible for apply for corporate income tax exemption of one year. Chaopi Shuanglong was approved by the relevant PRC tax authority to have a one year corporate income tax exemption for 2003.

The share of tax attributable to associates amounting to RMB1,199,000, RMB2,100,000, RMB300, RMB1,723 and Nil for the three years ended 31 December 2005 and the six months ended 30 June 2005 and 2006, respectively, is included in "Share of net profits and losses of associates" on the face of the consolidated income statement.

(i) Profit appropriations

(1) Statutory reserve funds

(a) Statutory surplus reserve

In accordance with the PRC Company Law and the respective companies' articles of association, the Company and its subsidiaries are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses), determined in accordance with PRC GAAP, to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of registered capital after such usages.

(b) Statutory public welfare fund

In accordance with the PRC Company Law and the respective companies' articles of association, the Company and its subsidiaries are required to appropriate 5% to 10% of the annual statutory net profit after tax (after offsetting any prior years' losses), determined in accordance with PRC GAAP, to the statutory public welfare fund, which will be utilised to build or acquire capital items, such as dormitories and other facilities for the employees of the Company and its subsidiaries, and cannot be used to pay for staff welfare expenses. Titles of these capital items will remain with the respective companies now comprising the Group. No allocation to the statutory public welfare fund is required from 1 January 2006 with the effectiveness of the revised PRC Company Law on 1 January 2006.

The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

(2) Dividends

The proposed dividend for the year ended 31 December 2003 was RMB29,133,000 which was approved by the Company's shareholders on 12 February 2004.

A special dividend declared for the year ended 31 December 2004 was RMB3,000 which was approved by the Company's shareholders on 12 August 2004.

The proposed dividend of RMB16 cents per share for the year ended 31 December 2004 was about RMB39,502,000, which was approved by the Company's shareholders on 20 May 2005.

The proposed dividend of RMB22.9 cents per share for the year ended 31 December 2005 was about RMB56,367,000, which was approved by the Company's shareholders on 21 March 2006.

For the period before the listing of the Company's shares, for dividend purposes the amount which the Company can legally distribute by way of a dividend is determined by reference to its profit available for distribution as reflected in its PRC statutory financial statements which are prepared in accordance with PRC GAAP. This profit differs from that reflected in this report which is prepared in accordance with HKFRSs.

Upon the Listing of the Company's shares, the net profit after tax of the Company for the purpose of profit distribution will be the lesser of (i) the net profit determined in accordance with PRC GAAP and (ii) the net profit determined in accordance with the accounting standards of overseas places where the Company's share listed.

(j) Earnings per share

The calculations of basic earnings per share are as follows:

<i>Earnings</i>	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Net profit attributable to ordinary equity holders from continuing operations	38,172	73,167	75,098	38,422	47,305
Net profit attributable to ordinary equity holders from discontinued operations	<u>695</u>	<u>361</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net profit attributable to ordinary equity holders	<u><u>38,867</u></u>	<u><u>73,528</u></u>	<u><u>75,098</u></u>	<u><u>38,422</u></u>	<u><u>47,305</u></u>
				Number of shares	
<i>Shares</i>	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
				(Unaudited)	
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation (<i>note</i>)	<u><u>246,620,000</u></u>	<u><u>246,620,000</u></u>	<u><u>246,620,000</u></u>	<u><u>246,620,000</u></u>	<u><u>246,620,000</u></u>

Note:

Earnings per share for each of the Relevant Periods and the six months ended 30 June 2005 have been computed by dividing the net profit attributable to equity holders of the parent by the number of shares in issue on the assumption that the 246,620,000 shares in issue as at the date of this report had been in issue throughout the Relevant Periods and the six months ended 30 June 2005.

No diluted earnings per share have been presented as the Company did not have any dilutive potential shares during the Relevant Periods and the six months ended 30 June 2005.

3. BALANCE SHEETS

Set out below is a summary of the consolidated balance sheets of the Group and the balance sheets of the Company as at the end of each of the Relevant Periods:

Group

	Notes	As at 31 December		As at 30 June	
		2003 RMB'000	2004 RMB'000	2005 RMB'000	2006 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	(a)	594,090	619,391	813,455	909,348
Lease prepayments for land use rights	(b)	2,501	73,698	72,946	72,570
Interests in associates	(d)	92,478	887	918	645
Available-for-sale equity investments	(e)	1,938	350	350	350
Intangible assets	(f)	571	1,360	2,080	2,529
Other long term lease prepayments	(g)	–	4,667	–	17,910
Other long term assets	(h)	22,414	–	–	–
		<u>713,992</u>	<u>700,353</u>	<u>889,749</u>	<u>1,003,352</u>
Current assets					
Inventories	(i)	389,626	348,690	382,164	339,615
Trade receivables, net	(j)	230,024	399,245	455,072	325,179
Prepayments, deposits and other receivables	(k)	121,336	145,831	181,130	154,335
Short term investments		–	1,200	–	–
Due from related parties	(l)	–	3,497	36	–
Due from Chaoyang Auxillary	(l)	–	7,602	–	–
Pledged deposits	(m)	16,407	–	13,291	3,000
Cash and cash equivalents	(m)	194,717	176,865	220,741	239,068
		<u>952,110</u>	<u>1,082,930</u>	<u>1,252,434</u>	<u>1,061,197</u>
TOTAL ASSETS		<u><u>1,666,102</u></u>	<u><u>1,783,283</u></u>	<u><u>2,142,183</u></u>	<u><u>2,064,549</u></u>

	Notes	As at 31 December			As at 30 June
		2003 RMB'000	2004 RMB'000	2005 RMB'000	2006 RMB'000
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the parent					
Capital		236,660	246,620	246,620	246,620
Reserves		12,308	36,371	55,797	103,102
Proposed final dividend		29,133	39,502	56,367	–
		<u>278,101</u>	<u>322,493</u>	<u>358,784</u>	<u>349,722</u>
Minority interests		<u>45,903</u>	<u>57,097</u>	<u>73,920</u>	<u>69,646</u>
Total equity		<u>324,004</u>	<u>379,590</u>	<u>432,704</u>	<u>419,368</u>
Non-current liabilities					
Bank loans and other borrowings	(n)	5,000	130,000	150,000	244,500
Other long term payables	(o)	56,835	19,705	8,750	8,750
Deferred income	(s)	–	–	3,733	3,600
Deferred tax liabilities	(p)	1,155	12,271	15,747	17,732
		<u>62,990</u>	<u>161,976</u>	<u>178,230</u>	<u>274,582</u>
Current liabilities					
Trade payables	(q)	506,557	635,375	642,030	617,291
Bills payable	(r)	37,100	–	–	–
Tax payable		17,782	25,800	26,553	23,886
Other payables and accruals	(o)	102,441	142,198	209,379	214,453
Bank loans and other borrowings	(n)	523,942	432,000	640,604	512,800
Due to Chaoyang Auxillary	(l)	71,389	5,811	11,880	642
Due to related parties	(l)	13,000	–	–	–
Deferred income – current portion	(s)	–	–	267	267
Dividend payable		6,897	533	536	1,260
		<u>1,279,108</u>	<u>1,241,717</u>	<u>1,531,249</u>	<u>1,370,599</u>
Total liabilities		<u>1,342,098</u>	<u>1,403,693</u>	<u>1,709,479</u>	<u>1,645,181</u>
TOTAL EQUITY AND LIABILITIES		<u>1,666,102</u>	<u>1,783,283</u>	<u>2,142,183</u>	<u>2,064,549</u>

Company

	Notes	As at 31 December			As at 30 June
		2003 RMB'000	2004 RMB'000	2005 RMB'000	2006 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	(a)	533,446	566,164	750,550	847,081
Lease prepayments for land use rights	(b)	2,501	73,698	72,946	72,570
Interests in subsidiaries	(c)	81,368	117,218	178,768	144,640
Interests in associates	(d)	30,291	–	–	–
Available-for-sale equity investments	(e)	100	–	–	–
Intangible assets	(f)	571	1,360	2,080	2,529
Other long term lease prepayments	(g)	–	4,667	–	17,910
Other long term assets	(h)	22,414	–	–	–
		<u>670,691</u>	<u>763,107</u>	<u>1,004,344</u>	<u>1,084,730</u>
Current assets					
Inventories	(i)	176,800	121,779	135,019	104,047
Trade receivables, net	(j)	2,877	3,792	10,818	9,274
Prepayments, deposits and other receivables	(k)	57,767	63,223	89,015	91,525
Due from related parties	(l)	–	3,497	36	–
Due from Chaoyang Auxillary	(l)	–	7,602	–	–
Cash and cash equivalents	(m)	122,637	143,514	143,755	127,471
		<u>360,081</u>	<u>343,407</u>	<u>378,643</u>	<u>332,317</u>
TOTAL ASSETS		<u>1,030,772</u>	<u>1,106,514</u>	<u>1,382,987</u>	<u>1,417,047</u>
EQUITY AND LIABILITIES					
Equity					
Capital		236,660	246,620	246,620	246,620
Reserves		9,323	30,139	34,858	82,236
Proposed final dividend		29,133	39,502	56,367	–
Total equity		<u>275,116</u>	<u>316,261</u>	<u>337,845</u>	<u>328,856</u>
Non-current liabilities					
Bank loans and other borrowings	(n)	2,000	130,000	150,000	244,500
Other long term payables	(o)	37,026	17,500	8,750	8,750
Deferred income	(s)	–	–	3,733	3,600
Deferred tax liabilities	(p)	1,155	12,271	15,747	17,732
		<u>40,181</u>	<u>159,771</u>	<u>178,230</u>	<u>274,582</u>
Current liabilities					
Trade payables	(q)	309,720	330,144	356,641	383,445
Tax payable		10,016	7,532	4,741	4,027
Other payables and accruals	(o)	65,960	86,273	176,357	181,070
Bank loans and other borrowings	(n)	256,872	206,000	326,300	244,800
Due to Chaoyang Auxillary	(l)	66,010	–	2,070	–
Deferred income – current portion	(s)	–	–	267	267
Dividend payable		6,897	533	536	–
		<u>715,475</u>	<u>630,482</u>	<u>866,912</u>	<u>813,609</u>
Total liabilities		<u>755,656</u>	<u>790,253</u>	<u>1,045,142</u>	<u>1,088,191</u>
TOTAL EQUITY AND LIABILITIES		<u>1,030,772</u>	<u>1,106,514</u>	<u>1,382,987</u>	<u>1,417,047</u>

Notes:

(a) Property, plant and equipment*Group*

	Buildings	Leasehold	Machinery	Office	Motor	Construction	Total
	RMB'000	improvements	RMB'000	equipment	vehicles	in progress	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
At 1 January 2003	278,724	43,143	171,351	69,918	33,958	28,250	625,344
Additions	4,954	14,268	14,796	12,508	11,635	121,536	179,697
Transfers	4,172	22,835	10,439	965	-	(38,411)	-
Disposals	(3,783)	-	(12,112)	(5,909)	(5,053)	-	(26,857)
Disposal of discontinued operations	(23,054)	-	(1,842)	(3,534)	(2,428)	-	(30,858)
At 31 December 2003	261,013	80,246	182,632	73,948	38,112	111,375	747,326
Additions	50,315	2,717	29,841	8,370	5,897	55,979	153,119
Transfers	782	5,493	1,532	3,739	-	(11,546)	-
Acquisition of a subsidiary	-	-	923	413	3,326	-	4,662
Take-back by Chaoyang Auxillary (note (b) to Section 6)	(63,639)	-	-	-	-	-	(63,639)
Disposals	(911)	(1,070)	(428)	(3,065)	(1,677)	-	(7,151)
Disposal of discontinued operations	(5,378)	(1,530)	(3,009)	(1,377)	(16,984)	(9,049)	(37,327)
At 31 December 2004	242,182	85,856	211,491	82,028	28,674	146,759	796,990
Additions	5,794	10,890	39,552	1,744	1,996	184,414	244,390
Transfers	2,370	23,639	14,562	638	-	(41,209)	-
Acquisition from Chaoyang Auxillary	-	6,830	1,448	139	105	-	8,522
Disposals	-	-	(9,957)	(3,145)	(3,170)	-	(16,272)
At 31 December 2005	250,346	127,215	257,096	81,404	27,605	289,964	1,033,630
Additions	45	6,336	15,869	3,641	651	99,648	126,190
Transfers	6,980	290	7,947	1,181	-	(16,398)	-
Disposals	-	-	(8,055)	(114)	(2,202)	-	(10,371)
At 30 June 2006	257,371	133,841	272,857	86,112	26,054	373,214	1,149,449
Accumulated depreciation:							
At 1 January 2003	25,780	5,164	54,514	27,258	13,991	-	126,707
Provided during the year	12,137	5,575	16,488	11,620	5,229	-	51,049
Disposals	(32)	-	(7,678)	(4,950)	(4,308)	-	(16,968)
Disposal of discontinued operations	(3,391)	-	(694)	(1,575)	(1,892)	-	(7,552)
At 31 December 2003	34,494	10,739	62,630	32,353	13,020	-	153,236
Acquisition of a subsidiary	-	-	170	201	1,142	-	1,513
Provided during the year	8,741	2,703	17,613	12,638	3,921	-	45,616
Take-back by Chaoyang Auxillary (note (b) to Section 6)	(11,019)	-	-	-	-	-	(11,019)
Disposals	(911)	-	(299)	(2,053)	(1,397)	-	(4,660)
Disposal of discontinued operations	(1,035)	(120)	(1,258)	(560)	(4,114)	-	(7,087)
At 31 December 2004	30,270	13,322	78,856	42,579	12,572	-	177,599
Provided during the year	9,145	5,524	21,821	13,972	3,028	-	53,490
Acquisition from Chaoyang Auxillary	-	-	1,140	64	75	-	1,279
Disposals	-	-	(6,603)	(2,954)	(2,636)	-	(12,193)
At 31 December 2005	39,415	18,846	95,214	53,661	13,039	-	220,175
Provided during the period	5,356	2,893	12,707	5,502	1,938	-	28,396
Disposals	-	-	(6,509)	(108)	(1,853)	-	(8,470)
At 30 June 2006	44,771	21,739	101,412	59,055	13,124	-	240,101
Net book value:							
At 30 June 2006	<u>212,600</u>	<u>112,102</u>	<u>171,445</u>	<u>27,057</u>	<u>12,930</u>	<u>373,214</u>	<u>909,348</u>
At 31 December 2005	<u>210,931</u>	<u>108,369</u>	<u>161,882</u>	<u>27,743</u>	<u>14,566</u>	<u>289,964</u>	<u>813,455</u>
At 31 December 2004	<u>211,912</u>	<u>72,534</u>	<u>132,635</u>	<u>39,449</u>	<u>16,102</u>	<u>146,759</u>	<u>619,391</u>
At 31 December 2003	<u>226,519</u>	<u>69,507</u>	<u>120,002</u>	<u>41,595</u>	<u>25,092</u>	<u>111,375</u>	<u>594,090</u>

Certain of the Group's bank loans and bills payable were secured by the Company's buildings with an aggregate net book value of approximately RMB33 million and RMB32 million, respectively, as at 31 December 2003 and 31 December 2004. As at 31 December 2003, certain of the Group's motor vehicles with an aggregate net book value of RMB7.8 million were pledged for securing bank loans to employees. As a result of disposal of Tengyuan in June 2004, the Group has had no such assets pledged since then.

As at 31 December 2005, a secured bank loan of RMB100 million was secured by the Company's buildings with an aggregate net book value of approximately RMB103 million.

As at 30 June 2006, secured bank loans of RMB277 million were secured by the Company's buildings and construction in progress with book values of RMB124 million and RMB319 million, respectively.

Except the properties under construction, all the properties have obtained the building ownership certificates.

Company

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2003	252,745	41,773	162,304	53,764	9,690	21,482	541,758
Additions	2,123	7,599	9,998	7,980	1,642	115,678	145,020
Transfers	3,405	21,179	10,379	966	-	(35,929)	-
Disposals	(3,734)	-	(11,941)	(5,049)	(859)	-	(21,583)
At 31 December 2003	254,539	70,551	170,740	57,661	10,473	101,231	665,195
Additions	50,314	1,897	13,172	4,985	1,665	52,001	124,034
Transfers	782	4,072	1,519	100	-	(6,473)	-
Take-back by Chaoyang Auxillary (note (b) to Section 6)	(63,639)	-	-	-	-	-	(63,639)
Disposals	-	-	(428)	(1,930)	(1,125)	-	(3,483)
At 31 December 2004	241,996	76,520	185,003	60,816	11,013	146,759	722,107
Additions	5,794	9,105	13,018	7,080	1,996	184,414	221,407
Transfers	2,370	23,639	14,562	638	-	(41,209)	-
Acquisition from Chaoyang Auxillary	-	6,830	1,448	139	105	-	8,522
Acquisition from a subsidiary	-	-	2,187	251	-	-	2,438
Disposals	-	-	(9,944)	(3,131)	(1,401)	-	(14,476)
At 31 December 2005	250,160	116,094	206,274	65,793	11,713	289,964	939,998
Additions	45	6,336	13,495	1,647	221	98,148	119,892
Transfers	6,980	290	7,947	1,181	-	(16,398)	-
Acquisition from a subsidiary	-	-	497	-	-	-	497
Disposals	-	-	(8,055)	(77)	(2,127)	-	(10,259)
At 30 June 2006	257,185	122,720	220,158	68,544	9,807	371,714	1,050,128
Accumulated depreciation:							
At 1 January 2003	21,729	5,146	51,104	22,356	5,469	-	105,804
Provided during the year	10,893	1,662	15,650	9,125	1,657	-	38,987
Disposals	-	-	(7,589)	(4,609)	(844)	-	(13,042)
At 31 December 2003	32,622	6,808	59,165	26,872	6,282	-	131,749
Provided during the year	8,625	2,029	15,946	10,348	1,123	-	38,071
Take-back by Chaoyang Auxillary (note (b) to Section 6)	(11,019)	-	-	-	-	-	(11,019)
Disposals	-	-	(299)	(1,635)	(924)	-	(2,858)
At 31 December 2004	30,228	8,837	74,812	35,585	6,481	-	155,943
Provided during the year	9,102	4,246	18,332	9,701	1,214	-	42,595
Acquisition from Chaoyang Auxillary	-	-	1,140	64	75	-	1,279
Acquisition from a subsidiary	-	-	335	105	-	-	440
Disposals	-	-	(6,601)	(2,951)	(1,257)	-	(10,809)
At 31 December 2005	39,330	13,083	88,018	42,504	6,513	-	189,448
Provided during the period	5,356	2,073	9,935	3,672	996	-	22,032
Disposals	-	-	(6,509)	(74)	(1,850)	-	(8,433)
At 30 June 2006	44,686	15,156	91,444	46,102	5,659	-	203,047
Net book value:							
At 30 June 2006	<u>212,499</u>	<u>107,564</u>	<u>128,714</u>	<u>22,442</u>	<u>4,148</u>	<u>371,714</u>	<u>847,081</u>
At 31 December 2005	<u>210,830</u>	<u>103,011</u>	<u>118,256</u>	<u>23,289</u>	<u>5,200</u>	<u>289,964</u>	<u>750,550</u>
At 31 December 2004	<u>211,768</u>	<u>67,683</u>	<u>110,191</u>	<u>25,231</u>	<u>4,532</u>	<u>146,759</u>	<u>566,164</u>
At 31 December 2003	<u>221,917</u>	<u>63,743</u>	<u>111,575</u>	<u>30,789</u>	<u>4,191</u>	<u>101,231</u>	<u>533,446</u>

The Group's and the Company's investment properties, included in the item buildings, are situated in the PRC and are stated at cost less accumulated depreciation as follows:

	2003	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost:				
As at 1 January	22,616	22,625	22,963	22,963
Additions	9	338	–	–
	<u>22,625</u>	<u>22,963</u>	<u>22,963</u>	<u>22,963</u>
As at 31 December/30 June	<u>22,625</u>	<u>22,963</u>	<u>22,963</u>	<u>22,963</u>
Accumulated depreciation:				
As at 1 January	2,441	3,319	4,259	5,150
Provided during the year/period	878	940	891	446
	<u>3,319</u>	<u>4,259</u>	<u>5,150</u>	<u>5,596</u>
As at 31 December/30 June	<u>3,319</u>	<u>4,259</u>	<u>5,150</u>	<u>5,596</u>
Net book value	<u>19,306</u>	<u>18,704</u>	<u>17,813</u>	<u>17,367</u>
Fair value	<u>25,812</u>	<u>26,114</u>	<u>26,732</u>	<u>27,044</u>

The investment properties are leased to third parties under operating leases, further summary details of which are included in note (v) to Section 3 below.

The fair values of the investment properties as at the end of each of the Relevant Periods were determined based on the valuations performed by Vigers Appraisal & Consulting Limited ("Vigers"), an independent firm of professional valuers. The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation. As at 31 December 2003 and 2004, as the Group was in the process of obtaining the relevant building ownership certificates, the fair values then were provided by Vigers for indicative purpose.

(b) Lease prepayments for land use rights

Group and Company

	2003	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost:				
As at 1 January	–	2,501	73,823	73,823
Additions	2,501	71,322	–	–
	<u>2,501</u>	<u>73,823</u>	<u>73,823</u>	<u>73,823</u>
As at 31 December/30 June	<u>2,501</u>	<u>73,823</u>	<u>73,823</u>	<u>73,823</u>
Accumulated amortisation:				
As at 1 January	–	–	125	877
Provided during the year/period	–	125	752	376
	<u>–</u>	<u>125</u>	<u>877</u>	<u>1,253</u>
As at 31 December/30 June	<u>–</u>	<u>125</u>	<u>877</u>	<u>1,253</u>
Net book value	<u>2,501</u>	<u>73,698</u>	<u>72,946</u>	<u>72,570</u>

(c) Interests in subsidiaries

Details of the interests in subsidiaries of the Company are set out below:

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
Unlisted investments, at cost	75,175	66,269	84,352	84,352
Amounts due from subsidiaries	79,762	108,158	151,931	110,167
Amounts due to subsidiaries	(73,569)	(57,209)	(57,515)	(49,879)
	<u>81,368</u>	<u>117,218</u>	<u>178,768</u>	<u>144,640</u>

Particulars of the subsidiaries held by the Company are set out in Section 1.

Included in the amounts due from subsidiaries as at 31 December 2005 and 30 June 2006 were consignment loans lent by the Company (the "Lender") to Chaopi Trading, Chaopi Flavourings, Chaopi Huaqing, Chaopi Jinglong (collectively the "Borrowers") amounting to RMB30 million, RMB20 million, RMB29.5 million and RMB20 million, respectively, to finance the Borrowers' working capital. The consignment loans were arranged via Beijing Bank Jiulongshan Branch (the "Bank"). However, the Bank has no liability to either the Lender or the Borrowers in case of default. These consignment loans were unsecured, bearing an annual interest rate of 5.58%. Except the loan to Chaopi Trading maturing on 31 December 2006, all the loans will mature on 9 December 2006.

Except for the aforementioned consignment loans, all the amounts due from/to subsidiaries are unsecured, interest-free and have no fixed repayment terms.

(d) Interests in associates*Group*

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
Share of net assets	26,114	369	337	327
Amounts due from associates	66,364	518	581	318
	<u>92,478</u>	<u>887</u>	<u>918</u>	<u>645</u>

Company

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
Unlisted equity investments, at cost	13,580	–	–	–
Less: Impairment loss of investments	(353)	–	–	–
	13,227	–	–	–
Amounts due from associates	17,064	–	–	–
	<u>30,291</u>	<u>–</u>	<u>–</u>	<u>–</u>

Particulars of the associates held by the Company are set out in Section 1.

Amounts due from associates are unsecured, interest-free and have no fixed repayment terms.

(e) Available-for-sale equity investments*Group*

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Unlisted equity investments	1,938	1,538	1,538	1,538
Less: Impairment loss of investments	–	(1,188)	(1,188)	(1,188)
	<u>1,938</u>	<u>350</u>	<u>350</u>	<u>350</u>

Company

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Unlisted equity investments	<u>100</u>	<u>–</u>	<u>–</u>	<u>–</u>

(f) Intangible assets

The intangible assets of the Group and the Company represented the carrying amount of software acquired.

	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
As at 1 January	1,770	2,587	4,439	5,471
Additions	<u>817</u>	<u>1,852</u>	<u>1,032</u>	<u>609</u>
As at 31 December/30 June	<u>2,587</u>	<u>4,439</u>	<u>5,471</u>	<u>6,080</u>
Accumulated amortisation:				
As at 1 January	1,399	2,016	3,079	3,391
Provided during the year/period	<u>617</u>	<u>1,063</u>	<u>312</u>	<u>160</u>
As at 31 December/30 June	<u>2,016</u>	<u>3,079</u>	<u>3,391</u>	<u>3,551</u>
Net book value	<u>571</u>	<u>1,360</u>	<u>2,080</u>	<u>2,529</u>

(g) Other long term lease prepayments

Other long term lease prepayments of the Group and the Company as at 31 December 2004 represented rental expenses prepaid for two years commencing from January 2006. In 2005, the commencement of the rental period has been postponed to an uncertain date due to the ongoing negotiation between the lessor who sublet the premise to the Company and the original landlord of the premise. The prepaid balance was then transferred out into other receivables as at 31 December 2005.

Other long term lease prepayments of the Group and the Company as at 30 June 2006 represented rental deposits for leasing eight premises for five to eighteen years commencing from the mid of 2006.

(h) Other long term assets

Other long term assets of the Group and the Company as at 31 December 2003 represented a property, with a then carrying amount of approximately RMB22.4 million, relinquished by the Company in 2002. Pursuant to an agreement entered into with an unrelated property developer in June 2002, the Company agreed to relinquish one of its properties for re-development purpose, in exchange for a property located in a similar area from the property developer upon completing the re-development. Upon relinquishment, the carrying amount of the property was approximately RMB22.4 million. The re-development was completed in December 2004 and a property located in a similar area was transferred to and taken possession by the Company.

Based on the valuation in August 2005 by Vigers, which was prepared based on an open market, existing use basis, the property transferred to the Company by the developer was approximately valued at RMB49.9 million as at 31 December 2004. Accordingly, approximately RMB27.5 million, representing an excess of the fair value of the exchange property of approximately RMB49.9 million transferred to the Company over the then carrying amount of the property relinquished by the Company of approximately RMB22.4 million, was credited to the consolidated income statement.

(i) Inventories*Group*

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Merchandise and produce for resale	387,451	349,863	382,345	339,205
Less: Provision	(2,630)	(3,257)	(2,469)	(1,986)
	<u>384,821</u>	<u>346,606</u>	<u>379,876</u>	<u>337,219</u>
Low value consumables	<u>4,805</u>	<u>2,084</u>	<u>2,288</u>	<u>2,396</u>
	<u><u>389,626</u></u>	<u><u>348,690</u></u>	<u><u>382,164</u></u>	<u><u>339,615</u></u>

Company

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Merchandise and produce for resale	176,307	122,126	135,307	104,362
Less: Provision	(861)	(611)	(416)	(416)
	<u>175,446</u>	<u>121,515</u>	<u>134,891</u>	<u>103,946</u>
Low value consumables	<u>1,354</u>	<u>264</u>	<u>128</u>	<u>101</u>
	<u><u>176,800</u></u>	<u><u>121,779</u></u>	<u><u>135,019</u></u>	<u><u>104,047</u></u>

(j) Trade receivables, net

The Group normally allows a credit period of not more than 60 days to its customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables of the Group and the Company, based on invoice date, and net of provision, is analysed as follows:

Group

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Within 2 months	201,718	339,745	400,397	273,724
2 to 6 months	23,523	54,500	50,360	44,055
6 months to 1 year	4,157	4,774	2,457	4,891
1 to 2 years	626	226	1,858	2,509
	<u>230,024</u>	<u>399,245</u>	<u>455,072</u>	<u>325,179</u>

Company

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Within 2 months	288	3,114	10,751	4,792
2 to 6 months	768	464	47	407
6 to 1 year	1,199	166	–	4,055
1 to 2 years	622	48	20	20
	<u>2,877</u>	<u>3,792</u>	<u>10,818</u>	<u>9,274</u>

(k) Prepayments, deposits and other receivables*Group*

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Prepayments to suppliers	37,544	61,766	86,177	50,542
Other receivables and prepaid expenses	16,172	21,341	35,167	48,006
Input value-added tax receivables	67,620	62,724	59,786	55,787
	<u>121,336</u>	<u>145,831</u>	<u>181,130</u>	<u>154,335</u>

Company

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
Prepayments to suppliers	1,247	3,407	5,122	4,772
Other receivables and prepaid expenses	9,790	18,450	41,985	48,848
Input value-added tax receivables	46,730	41,366	41,908	37,905
	<u>57,767</u>	<u>63,223</u>	<u>89,015</u>	<u>91,525</u>

Included in other receivables and prepaid expenses were dividend receivables from Chaopi Trading amounting to Nil, approximately RMB6.9 million, RMB16.9 million and RMB15.8 million as at 31 December 2003, 2004 and 2005 and 30 June 2006, respectively.

(I) Amounts due from/to Chaoyang Auxillary and related parties

Amounts due from/to Chaoyang Auxillary and related parties included borrowings, lendings and current account with Chaoyang Auxillary and related parties, respectively. All the amounts due from/to Chaoyang Auxillary and related parties are unsecured. Apart from the following amounts with Chaoyang Auxillary and related parties, all the amounts due from/to Chaoyang Auxillary and related parties are interest-free and have no fixed repayment terms:

Maturity date	Interest rate per annum	As at 31 December			As at
		2003	2004	2005	30 June
		RMB'000	RMB'000	RMB'000	2006
Amounts due to Chaoyang					
Auxillary:					
March 2004	5.31%	4,000	–	–	–
December 2004	4.425%	3,610	–	–	–
June 2006	5.58%	–	600	600	–
*	5.31%	56,198	–	–	–
*	5.58%	–	4,000	4,000	–
*	4.72%	–	–	4,000	–
Amounts due to related parties:					
March 2004	5.31%	4,000	–	–	–
April 2004	5.31%	3,000	–	–	–
August 2004	5.31%	6,000	–	–	–
Amounts due from Chaoyang					
Auxillary:					
June 2005	5.58%	–	11,000	–	–

* *No fixed repayment date*

(m) Cash and cash equivalents and pledged deposits*Group*

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	194,717	176,865	220,741	239,068
Pledged time deposits	16,407	–	13,291	3,000
	<u>211,124</u>	<u>176,865</u>	<u>234,032</u>	<u>242,068</u>
Less: Pledged time deposits –				
Pledged for automobile consumption				
loans granted to customers	(2,586)	–	–	–
Pledged for bills payable				
(Section 3, note (r))	(13,821)	–	–	–
Pledged for short term bank loans				
(Section 3, note (n))	–	–	(13,291)	(3,000)
	<u>194,717</u>	<u>176,865</u>	<u>220,741</u>	<u>239,068</u>

Company

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	<u>122,637</u>	<u>143,514</u>	<u>143,755</u>	<u>127,471</u>

The amounts of the Group's bank balances and cash, including pledged bank deposits, are not freely convertible and are subject to exchange control as at each of the respective balance sheet dates.

Cash at banks earns interest at floating rates based on daily bank deposits rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

(n) Bank loans and other borrowings*Group*

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Bank loans:				
Secured	6,000	3,000	144,304	287,000
Unsecured	314,170	290,000	320,000	198,000
	<u>320,170</u>	<u>293,000</u>	<u>464,304</u>	<u>485,000</u>
Other borrowings:				
Unsecured	208,772	269,000	326,300	272,300
	<u>528,942</u>	<u>562,000</u>	<u>790,604</u>	<u>757,300</u>
Bank loans repayable:				
Within one year or on demand	317,170	293,000	364,304	340,500
In the second year	3,000	–	–	9,125
In the third to fifth years, inclusive	–	–	–	135,375
Over five years	–	–	100,000	–
Other borrowings repayable:				
Within one year or on demand	206,772	89,000	176,300	172,300
In the second year	2,000	180,000	150,000	100,000
Total bank loans and other borrowings	528,942	562,000	790,604	757,300
Less: Portion classified as current liabilities	(523,942)	(432,000)	(640,604)	(512,800)
Long term portion	<u>5,000</u>	<u>130,000</u>	<u>150,000</u>	<u>244,500</u>

Company

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Bank loans:				
Secured	–	–	100,000	277,000
Unsecured	100,000	120,000	110,000	–
	<u>100,000</u>	<u>120,000</u>	<u>210,000</u>	<u>277,000</u>
Other borrowings:				
Unsecured	158,872	216,000	266,300	212,300
	<u>258,872</u>	<u>336,000</u>	<u>476,300</u>	<u>489,300</u>
Bank loans repayable:				
Within one year or on demand	100,000	120,000	110,000	132,500
In the second year	–	–	–	9,125
In the third to fifth years, inclusive	–	–	–	135,375
Over five years	–	–	100,000	–
Other borrowings repayable:				
Within one year or on demand	156,872	86,000	216,300	112,300
In the second year	2,000	130,000	50,000	100,000
Total bank and other borrowings	258,872	336,000	476,300	489,300
Less: Portion classified as current liabilities	(256,872)	(206,000)	(326,300)	(244,800)
Long term portion	<u>2,000</u>	<u>130,000</u>	<u>150,000</u>	<u>244,500</u>

(A) Bank loans

All of the Group's and the Company's bank loans, which are denominated in RMB, bear annual interest rates ranging from 5.025% to 6.160%, 5.025% to 6.138%, 3.60% to 6.138% and 4.0% to 6.12% as at 31 December 2003, 2004 and 2005 and 30 June 2006, respectively.

(i) Secured bank loans

As at 31 December 2003 and 2004, the secured bank loans of the Group are secured by certain of the Group's buildings, which had an aggregate net book value of approximately RMB33 million and RMB32 million, respectively. These secured bank loans were also guaranteed by the Company and a minority shareholder of a subsidiary.

As at 31 December 2005, the secured bank loans of the Group and the Company amounting to RMB100 million were secured by certain of the Company's buildings with an aggregate net book value of approximately RMB103 million (Section 3, note (a)). In addition, as at 31 December 2005, the secured bank loan of the Group amounting to RMB44.3 million were secured by certain of the Group's pledged time deposits (Section 3, note (m)).

As at 30 June 2006, the secured bank loans of the Group and the Company amounting to RMB277 million were secured by certain of the Company's buildings and construction in progress with an aggregate net book value of approximately RMB443 million (Section 3, note (a)). In addition, as at 30 June 2006, the secured bank loan of the Group amounting to RMB10 million were secured by certain of the Group's pledged time deposits (Section 3, note (m)).

(ii) Unsecured bank loans

As at 31 December 2003, the unsecured bank loans of the Group and the Company amounting to RMB100 million (the Company: RMB100 million) was guaranteed by Beijing Blue Island Tower, an unrelated third party, amounting to RMB4.17 million (the Company: Nil) was guaranteed by Chaoyang Auxillary and amounting to RMB210 million (the Company: Nil) was guaranteed by the Company.

As at 31 December 2004, the unsecured bank loans of the Group and the Company amounting to RMB100 million (the Company: RMB100 million) was guaranteed by Beijing Blue Island Tower, amounting to RMB20 million (the Company: RMB20 million) was guaranteed by Chaoyang Auxillary and amounting to RMB170 (the Company: Nil) million was guaranteed by the Company.

As at 31 December 2005, the unsecured bank loans of the Group and the Company amounting to RMB100 million (the Company: RMB100 million) was guaranteed by Beijing Blue Island Tower and amounting to RMB200 million (the Company: Nil) was guaranteed by the Company. In addition, there were consignment loans from third parties amounting to RMB20 million (the Company: RMB10 million) as at 31 December 2005.

As at 30 June 2006, the unsecured bank loans of the Group amounting to RMB180 million was guaranteed by the Company. In addition, there were consignment loans from a third party amounting to RMB18 million as at 30 June 2006.

Consignment loans are tri-partite arrangements, under which banks, as entrusted by certain non-financial institutions, lend the Group the funds sourced from such non-financial institutions at a management fee. Such non-financial institutions are considered the providers of the consignment loans. Consignment loans generally bear interest rates higher than those of normal bank borrowings. As advised by the Company's PRC counsel, Zhong Lun Wen De Law Firm, that such consignment loan arrangements are in compliance with applicable laws and regulations in Mainland China.

(B) Other borrowings

Except for interest-free borrowings of RMB2 million, RMB22 million, RMB20 million and nil as at 31 December 2003, 2004 and 2005 and 30 June 2006, respectively, all of the Group's and the Company's other borrowings, which are denominated in RMB, bear annual interest rates ranging from 3.00% to 6.24%, 3.60% to 5.31%, 3.60% to 5.25% and 4.72% to 5.25% as at 31 December 2003, 2004 and 2005 and 30 June 2006, respectively.

Included in unsecured other borrowings of the Group and the Company as at 31 December 2003 were borrowings from employees amounting to RMB181 million (the Company: RMB142 million) and other loans amounting to RMB27.8 million (the Company: RMB16.9 million). The Company obtained a one-day bridging loan of RMB90 million from BITIC (as further defined below) through Chaoyang Auxillary. The Company used such bridging loan together with its internal resources to fully repay the borrowings from employees before 30 June 2004 (Section 2, note (g)). Please also refer to "Further Information on the Employee Loans, the BITIC Loans and the Employee Investments" under the Financial Information of the Prospectus for information.

Included in unsecured other borrowings of the Group and the Company as at 31 December 2004 were borrowings from Beijing International Trust and Investment Company Limited ("BITIC"), a non-bank financial institution, amounting to RMB220 million (the Company: RMB180 million) and other loans amounting to RMB49 million (the Company: RMB36 million). The BITIC borrowing of RMB180 million was guaranteed by Chaoyang Auxillary and the remaining BITIC borrowing of RMB40 million was guaranteed by the Company.

Included in unsecured other borrowings of the Group and the Company as at 31 December 2005 were borrowings from BITIC amounting to RMB302.3 million (the Company: RMB242.3 million) and other loans amounting to RMB24 million (the Company: RMB24 million). The BITIC borrowing of RMB242.3 million was guaranteed by Chaoyang Auxillary and the remaining BITIC borrowing of RMB60 million was guaranteed by the Company.

Unsecured other borrowings of the Group and the Company as at 30 June 2006 were borrowings from BITIC amounting to RMB272.3 million (the Company: RMB212.3 million). The BITIC borrowing of RMB212.3 million was guaranteed by Chaoyang Auxillary and the remaining BITIC borrowing of RMB60 million was guaranteed by the Company.

(o) Other payables and accruals

Group

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Accrued salaries, wages and benefits	104,327	111,637	93,989	79,969
Deposit from suppliers/lessees	9,932	13,550	91,794	108,063
Interest expense payable	8,678	4,159	6,037	2,851
Rental expense payable	1,994	1,025	3,862	6,402
Accrued operating expenses	6,611	3,566	1,014	1,157
Others	27,734	27,966	21,433	24,761
Total	<u>159,276</u>	<u>161,903</u>	<u>218,129</u>	<u>223,203</u>
	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Other payables and accruals:				
Within one year or on demand	102,441	142,198	209,379	214,453
In the second year, accrued salaries, wages and benefits	39,335	10,955	8,750	8,750
In the third to fifth years, inclusive accrued salaries, wages and benefits	17,500	8,750	–	–
Total other payables and accruals	159,276	161,903	218,129	223,203
Less: Portion classified as current liabilities	(102,441)	(142,198)	(209,379)	(214,453)
Long term portion – accrued salaries, wages and benefits	<u>56,835</u>	<u>19,705</u>	<u>8,750</u>	<u>8,750</u>

Company

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Accrued salaries, wages and benefits	74,518	78,400	73,374	65,624
Deposit from suppliers/lessees	7,577	10,212	86,691	101,794
Interest expense payable	5,244	3,969	5,726	2,668
Rental expense payable	1,032	423	2,525	5,089
Accrued operating expenses	2,899	225	923	1,093
Others	11,716	10,544	15,868	13,552
Total	<u>102,986</u>	<u>103,773</u>	<u>185,107</u>	<u>189,820</u>
	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Other payables and accruals:				
Within one year or on demand	65,960	86,273	176,357	181,070
In the second year, accrued salaries, wages and benefits	19,526	8,750	8,750	8,750
In the third to fifth years, inclusive accrued salaries, wages and benefits	17,500	8,750	—	—
Total other payables and accruals	102,986	103,773	185,107	189,820
Less: Portion classified as current liabilities	<u>(65,960)</u>	<u>(86,273)</u>	<u>(176,357)</u>	<u>(181,070)</u>
Long term portion – accrued salaries, wages and benefits	<u>37,026</u>	<u>17,500</u>	<u>8,750</u>	<u>8,750</u>

(p) Deferred tax liabilities

The movements in deferred tax liabilities of the Group and the Company during the Relevant Period are as follows:

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
At beginning of year/period	—	1,155	12,271	15,747
Additions during the year/period	1,155	11,116	3,476	1,985
At end of year/period	<u>1,155</u>	<u>12,271</u>	<u>15,747</u>	<u>17,732</u>
Provision in respect of:				
Temporary difference arising from capitalised interest expenses into construction in progress	1,155	3,201	7,029	9,190
Temporary differences arising from gain on exchange of property, plant and equipment	—	9,070	8,718	8,542
	<u>1,155</u>	<u>12,271</u>	<u>15,747</u>	<u>17,732</u>

(q) Trade payables

An aged analysis of the trade payables of the Group and the Company, based on invoice date, is analysed as follows:

Group

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Within 2 months	429,615	569,473	581,688	550,094
2 to 6 months	57,952	53,264	46,608	57,516
6 months to 1 year	5,872	4,358	3,576	2,669
1 to 2 years	4,967	4,306	2,976	2,215
Over 2 years	8,151	3,974	7,182	4,797
	<u>506,557</u>	<u>635,375</u>	<u>642,030</u>	<u>617,291</u>

Included in trade payables were the balances of cash advances made by customers into the Jingkelong cards of Nil, RMB62 million, RMB94 million and RMB105 million as at 31 December 2003, 2004 and 2005 and 30 June 2006, respectively.

Company

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Within 2 months	239,164	277,078	304,629	328,094
2 to 6 months	54,219	43,613	43,026	49,028
6 months to 1 year	4,164	2,754	2,151	1,561
1 to 2 years	4,851	3,244	1,163	1,034
Over 2 years	7,322	3,455	5,672	3,728
	<u>309,720</u>	<u>330,144</u>	<u>356,641</u>	<u>383,445</u>

Included in trade payables were the balances of cash advances made by customers into the Jingkelong cards of Nil, RMB53 million, RMB81 million and RMB89 million as at 31 December 2003, 2004 and 2005 and 30 June 2006, respectively.

(r) Bills payable*Group*

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Within 90 days	<u>37,100</u>	<u>—</u>	<u>—</u>	<u>—</u>

Included in the Group's balances were bills payable to unrelated parties amounting to RMB24.6 million as at 31 December 2003. The remaining bills payable of RMB12.5 million were discounted by the Group with banks prior to 31 December 2003.

In addition to a guarantee of RMB9 million by Chaoyang Auxillary, the Group's bills payable as at 31 December 2003 were secured by certain of the Group's buildings (Section 3, note (a)) and the pledged time deposits (Section 3, note (m)).

(s) Deferred income*Group and Company*

	2003	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount as at 1 January	–	–	–	4,000
Received during the year/period	–	–	4,000	–
Released to the income statement	–	–	–	(133)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(133)</u>
Carrying amount as at 31 December/30 June	–	–	4,000	3,867
Current portion	–	–	(267)	(267)
	<u>–</u>	<u>–</u>	<u>(267)</u>	<u>(267)</u>
Non-current portion	–	–	3,733	3,600
	<u>–</u>	<u>–</u>	<u>3,733</u>	<u>3,600</u>

In 2005, Beijing Municipal Commission of Development and Reform and Beijing Municipal Chao Yang District Finance Bureau granted RMB3 million and RMB1 million to the Company for the construction of a fresh produce logistics centre and a logistics system, respectively. The constructions have been completed as at 31 December 2005. Therefore, the amounts are recorded in government grants and amortised over the useful lives of the corresponding assets commencing from 1 January 2006.

(t) Contingent liabilities

As at 31 December 2003, 2004 and 2005, and 30 June 2006, the Group and the Company had the following contingent liabilities:

Group

	As at 31 December			As at
	2003	2004	2005	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2006</i>
				<i>RMB'000</i>
Guarantee given to banks in connection with facilities granted to associates	10,000	–	–	–
Guarantee given to banks in connection with automobile consumption loans granted to employees of a then subsidiary	6,112	–	–	–
Guarantee given to banks in connection with automobile consumption loan granted to customers who purchased automobiles from a then subsidiary	41,862	–	–	–
	<u>57,974</u>	<u>–</u>	<u>–</u>	<u>–</u>

Company

	As at 31 December			As at
	2003	2004	2005	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2006
				<i>RMB'000</i>
Guarantee given to banks in connection with facilities granted to subsidiaries	228,500	173,000	200,000	180,000
Guarantee given to other financial institutions in connection with facilities granted to subsidiaries	–	40,000	60,000	60,000
Guarantee given to banks in connection with facilities granted to associates	10,000	–	–	–
	<u>238,500</u>	<u>213,000</u>	<u>260,000</u>	<u>240,000</u>

(u) Pledge of assets

Details of the Group's and the Company's assets for securing bank loans and bills payable, and the automobile consumption loans granted to employees and customers during the Relevant Periods are included in notes (a), (m), (n) and (r) to Section 3 above, respectively.

(v) Commitments*(1) Capital commitments*

As at 31 December 2003, 2004 and 2005 and 30 June 2006, the Group and the Company had the following capital commitments, principally for the construction and acquisition of property, plant and equipment:

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Contracted, but not provided for	<u>85,976</u>	<u>65,403</u>	<u>38,788</u>	<u>104,881</u>

*(2) Operating lease commitments**(a) As lessor*

The Group and the Company lease its properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 15 years.

As at the end of each of the Relevant Periods, the Group and the Company had the following total future minimum lease receivables under non-cancellable operating leases in respect of buildings with its tenants falling due as follows:

Group

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Within one year	19,847	21,686	23,988	19,230
In the second to fifth years, inclusive	67,914	73,860	74,898	53,433
After five years	<u>33,771</u>	<u>22,255</u>	<u>22,901</u>	<u>18,299</u>
	<u>121,532</u>	<u>117,801</u>	<u>121,787</u>	<u>90,962</u>

Company

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Within one year	19,346	21,011	19,788	14,242
In the second to fifth years, inclusive	66,903	73,115	58,098	38,493
After five years	<u>31,611</u>	<u>20,275</u>	<u>21,101</u>	<u>16,499</u>
	<u>117,860</u>	<u>114,401</u>	<u>98,987</u>	<u>69,234</u>

(b) As lessee

The Group and the Company lease certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 5 to 20 years.

As at the end of the Relevant Periods, the Group and the Company had the following total future minimum lease payments under non-cancellable operating leases falling due as follows:

Group

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Within one year	15,263	40,227	43,574	50,006
In the second to fifth years, inclusive	58,635	165,743	178,404	207,306
After five years	158,315	501,215	446,073	489,228
	<u>232,213</u>	<u>707,185</u>	<u>668,051</u>	<u>746,540</u>

Company

	As at 31 December			As at
	2003	2004	2005	30 June
	RMB'000	RMB'000	RMB'000	2006
				RMB'000
Within one year	8,173	27,207	27,988	33,912
In the second to fifth years, inclusive	34,634	116,181	125,828	150,984
After five years	115,638	424,503	381,675	409,368
	<u>158,445</u>	<u>567,891</u>	<u>535,491</u>	<u>594,264</u>

4. FINANCIAL INSTRUMENTS

Financial assets of the Group mainly include cash and cash equivalents, pledged time deposits, trade receivables, other receivables and long term investments. Financial liabilities of the Group mainly include trade payables, other payables, bank loans and other borrowings.

The carrying amounts of the Group's financial instruments approximated to their fair values as at balance sheet date. Fair value estimates are made at a specific point in time and all based on the relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise bank loans, other interest-bearing loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year/period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and commodity price risk. The board of directors reviews and approves policies for managing each of these risks and they are summarised below:

(i) Interest rate risk

The Group's income statement is affected by changes in interest rates due to the impact of such changes on interest income and expenses from bank balances and bank loans and other borrowings. The Group's policy is to obtain the most favourable interest rates available.

(ii) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing borrowings. The Group's financing activities are managed centrally by maintaining an adequate level of cash and cash equivalents to finance the Group's operations. The Group also ensures the availability of bank credit facilities to address any short term funding requirements.

The Group's surplus funds are also managed centrally by placing them with reputable financial institutions.

(iii) Credit risk

Credit risk arises mainly from the risk that counterparties defaulting on the terms of their agreements. The carrying amounts of cash and cash equivalents, pledged time deposits, trade receivables, other receivables and available-for-sale equity investments represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group monitors the exposure to credit risk on an ongoing basis and credit evaluations are performed on customers requiring credit over a certain amount. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The credit risk on balances of cash and cash equivalents is low as these balances are placed with reputable financial institutions.

As at 31 December 2003, 2004 and 2005 and 30 June 2006, there was no significant concentration of credit risk.

(iv) Commodity price risk

The Group's exposure to price risk is minimal.

6. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The changes in the consolidated shareholders' equity of the Group for the Relevant Periods and the six months ended 30 June 2005 are as follows:

	Attributable to equity holders of the parent									Total RMB'000
	Paid-in capital RMB'000	Issued share capital RMB'000	Capital reserve RMB'000	Statutory			Retained profits RMB'000	Minority interests RMB'000	Subtotal RMB'000	
				Statutory surplus reserve RMB'000	public welfare fund RMB'000	Proposed final dividend RMB'000				
As at 1 January 2003	236,660	-	-	1,198	599	9,142	777	248,376	52,503	300,879
2002 dividend declared	-	-	-	-	-	(9,142)	-	(9,142)	(2,188)	(11,330)
Net profit for the year	-	-	-	-	-	-	38,867	38,867	7,157	46,024
Appropriation to reserves	-	-	-	4,578	2,289	-	(6,867)	-	-	-
Equity interest disposal	-	-	-	-	-	-	-	-	(11,569)	(11,569)
Proposed final 2003 dividend	-	-	-	-	-	29,133	(29,133)	-	-	-
As at 31 December 2003 and 1 January 2004	236,660	-	-	5,776	2,888	29,133	3,644	278,101	45,903	324,004
2003 dividend declared	-	-	-	-	-	(29,133)	-	(29,133)	(6,400)	(35,533)
Capitalisation of reserves upon transformation into a joint stock company (a)	(236,660)	246,620	-	(3,997)	(1,999)	-	(3,964)	-	-	-
Net profit for the year	-	-	-	-	-	-	73,528	73,528	10,641	84,169
Transfer to capital reserves (b)	-	-	4,426	-	-	-	(4,426)	-	-	-
Appropriation to reserves	-	-	-	6,532	3,266	-	(9,798)	-	-	-
Equity interest acquisition	-	-	-	-	-	-	-	-	15,307	15,307
Equity interest disposal	-	-	-	-	-	-	-	-	(6,654)	(6,654)
Equity interest transfer	-	-	-	-	-	-	-	-	(1,700)	(1,700)
Proposed final 2004 dividend	-	-	-	-	-	39,502	(39,502)	-	-	-
Special 2004 dividend declared	-	-	-	-	-	-	(3)	(3)	-	(3)
As at 31 December 2004 and 1 January 2005	-	246,620	4,426	8,311	4,155	39,502	19,479	322,493	57,097	379,590
2004 dividend declared	-	-	-	-	-	(39,502)	-	(39,502)	(10,715)	(50,217)
Net profit for the year	-	-	-	-	-	-	75,098	75,098	23,248	98,346
Release of unpaid liability	-	-	695	-	-	-	-	695	-	695
Appropriation to reserves	-	-	-	10,211	5,105	-	(15,316)	-	-	-
Equity interest injection	-	-	-	-	-	-	-	-	7,132	7,132
Equity interest transfer	-	-	-	-	-	-	-	-	(1,972)	(1,972)
Equity interest acquisition	-	-	-	-	-	-	-	-	(870)	(870)
Proposed final 2005 dividend	-	-	-	-	-	56,367	(56,367)	-	-	-
As at 31 December 2005 and 1 January 2006	-	246,620	5,121	18,522	9,260	56,367	22,894	358,784	73,920	432,704
2005 dividend declared	-	-	-	-	-	(56,367)	-	(56,367)	(16,090)	(72,457)
Net profit for the period	-	-	-	-	-	-	47,305	47,305	11,816	59,121
As at 30 June 2006	-	246,620	5,121	18,522	9,260	-	70,199	349,722	69,646	419,368

Attributable to equity holders of the parent

(Unaudited)	Attributable to equity holders of the parent									
	Paid-in capital	Issued share capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Proposed final dividend	Retained profits	Minority interests	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
As at 31 December 2004 and 1 January 2005	-	246,620	4,426	8,311	4,155	39,502	19,479	322,493	57,097	379,590
2004 dividend declared	-	-	-	-	-	(39,502)	-	(39,502)	(10,715)	(50,217)
Net profit for the period	-	-	-	-	-	-	38,422	38,422	13,515	51,937
Equity interest injection	-	-	-	-	-	-	-	-	5,492	5,492
As at 30 June 2005	-	246,620	4,426	8,311	4,155	-	57,901	321,413	65,389	386,802

The changes in the shareholders' equity of the Company for the Relevant Periods and the six months ended 30 June 2005 are as follows:

	Attributable to equity holders of the parent								
	Paid-in capital	Issued share capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Proposed final dividend	Retained profits	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2003	236,660	-	-	570	285	9,142	2,024	-	248,681
2002 dividend declared	-	-	-	-	-	(9,142)	-	-	(9,142)
Net profit for the year	-	-	-	-	-	-	35,577	-	35,577
Appropriation to reserves	-	-	-	3,427	1,714	-	(5,141)	-	-
Proposed final 2003 dividend	-	-	-	-	-	29,133	(29,133)	-	-
As at 31 December 2003 and 1 January 2004	236,660	-	-	3,997	1,999	29,133	3,327	-	275,116
2003 dividend declared	-	-	-	-	-	(29,133)	-	-	(29,133)
Capitalisation of reserves upon transformation into a joint stock company (a)	(236,660)	246,620	-	(3,997)	(1,999)	-	(3,964)	-	-
Net profit for the year	-	-	-	-	-	-	70,281	-	70,281
Transfer to capital reserves (b)	-	-	4,426	-	-	-	(4,426)	-	-
Appropriation to reserves	-	-	-	4,647	2,324	-	(6,971)	-	-
Proposed final 2004 dividend	-	-	-	-	-	39,502	(39,502)	-	-
Special 2004 dividend declared	-	-	-	-	-	-	(3)	-	(3)
As at 31 December 2004 and 1 January 2005	-	246,620	4,426	4,647	2,324	39,502	18,742	-	316,261
2004 dividend declared	-	-	-	-	-	(39,502)	-	-	(39,502)
Release of unpaid liability	-	-	695	-	-	-	-	-	695
Net profit for the year	-	-	-	-	-	-	60,391	-	60,391
Appropriation to reserves	-	-	-	6,631	3,316	-	(9,947)	-	-
Proposed final 2005 dividend	-	-	-	-	-	56,367	(56,367)	-	-
As at 31 December 2005 and 1 January 2006	-	246,620	5,121	11,278	5,640	56,367	12,819	-	337,845
2005 dividend declared	-	-	-	-	-	(56,367)	-	-	(56,367)
Net profit for the period	-	-	-	-	-	-	47,378	-	47,378
As at 30 June 2006	-	246,620	5,121	11,278	5,640	-	60,197	-	328,856

(Unaudited)	Paid-in capital RMB'000	Issued share capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Proposed final dividend RMB'000	Retained profits RMB'000	Total RMB'000
As at 31 December 2004 and 1 January 2005	-	246,620	4,426	4,647	2,324	39,502	18,742	316,261
2004 dividend declared	-	-	-	-	-	(39,502)	-	(39,502)
Net profit for the period	-	-	-	-	-	-	34,051	34,051
As at 30 June 2005	<u>-</u>	<u>246,620</u>	<u>4,426</u>	<u>4,647</u>	<u>2,324</u>	<u>-</u>	<u>52,793</u>	<u>310,810</u>

- (a) On 1 November 2004, the Company was transformed from a limited liability company into a joint stock company with limited liability by converting its net assets as at 31 December 2003, as determined in accordance with the PRC GAAP into 246,620,000 domestic shares of RMB1.00 each. As at 31 December 2004, the Company's authorised and issued share capital is RMB246,620,000, divided into 246,620,000 domestic shares of RMB1.00 each.
- (b) On 11 June 2004, the equity owners of the Company entered into an agreement whereby the mode of capital contribution by Chaoyang Auxillary in May 2002 was approved to change from buildings to cash.

In May 2002, when the Company converted from a state-owned enterprise into a limited liability company, Chaoyang Auxillary pledged to increase its investment in the Company to RMB176.5 million which included, among others, contributing buildings of approximately RMB57 million into the Company. Since taking possession of the property in April 2002, the Company had not been able to register the property ownership with the relevant authorities for the aforesaid buildings so contributed by Chaoyang Auxillary under its name. To comply with the relevant rules governing capital contribution stipulated by the State Administration of Industry and Commerce, the PRC, under which an investor is required to contribute other assets to substitute the original contributed assets when the title of which is not transferred to and is registered under the name of the investee within the time limit specified in the rules, all the shareholders of the Company agreed on 11 June 2004 to have Chaoyang Auxillary change its mode of capital contribution to cash of approximately RMB57 million, equivalent to the amount of the buildings originally contributed in May 2002, and take back the above-mentioned buildings upon cash contribution. The shareholders of the Company further agreed that there should be no change to the registered capital and the respective equity interests of each of the shareholders immediately after the completion of the agreement. Chaoyang Auxillary contributed cash of approximately RMB57 million and took back the above-mentioned buildings in June 2004.

An amount of approximately RMB4.4 million, representing an excess of the above cash contribution of approximately RMB57 million over the then carrying amount of the above-mentioned buildings of approximately RMB52.6 million on the date of completion of the agreement, was credited to the income statement and then appropriated to the capital reserve account as additional paid-in capital arising from the change of capital contribution mode by Chaoyang Auxillary.

- (c) As set out in note (i) to Section 2, for dividend purposes, the amount for which the Company can legally distribute by way of a dividend is determined by reference to its profit as reflected in its PRC statutory financial statements prepared in accordance with the PRC GAAP. These profits differ from those that are reflected in this report, which are prepared in accordance with the HKFRSs.

Upon listing of the Company's shares on the Growth Enterprise Market of the Stock Exchange, the Company may not distribute dividends exceeding the lower of the Group's distributable reserves as determined under the PRC GAAP and the HKFRSs. In accordance with the Company Law of the PRC, profit after tax can be distributed as dividends after appropriation to the statutory surplus reserve as set out in note (i) to Section 2.

The Company's maximum distributable reserves as at 30 June 2006, which represent the Company's reserves as determined in accordance with the PRC GAAP after deduction of the minimum transfers to the statutory surplus reserve as set out in note (i) to Section 2, amounted to approximately RMB38.2 million.

7. CONSOLIDATED CASH FLOW STATEMENTS

The consolidated cash flow statements of the Group for the Relevant Periods and the six months ended 30 June 2005 are as follows:

	Notes	Year ended 31 December			Six months ended 30 June	
		2003 RMB'000	2004 RMB'000	2005 RMB'000	2005 RMB'000 (Unaudited)	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		67,201	128,402	145,504	78,731	92,398
Adjustments for:						
Finance costs		22,944	21,118	19,073	10,547	8,687
Interest income		(6,174)	(8,987)	(8,378)	(6,740)	(7,200)
Dividend income from an available-for-sale equity investment		-	-	(30)	-	-
Excess over the cost of a business combination		-	(169)	(1,972)	-	-
Goodwill written off		-	186	-	-	-
Amortisation		617	1,188	1,064	519	536
Impairment loss of investments		-	1,188	-	-	-
(Gain)/loss on disposal of subsidiaries	(b)	(887)	1,410	-	-	-
Gain on disposal of an associate		-	(1,248)	-	-	-
Gain on exchange of property, plant and equipment		-	(27,486)	-	-	-
Share of net profits and losses of associates		(3,391)	(2,685)	32	60	10
Gain on disposal of a short term investments		-	-	(18)	(18)	-
(Gain)/loss on disposal of property, plant and equipment, net		(4,090)	(2,710)	1,468	823	2
Government grants		-	(50)	-	-	(133)
Depreciation		51,049	45,616	53,490	26,986	28,396
Provision for bad and doubtful debts		4,405	909	8,818	3,510	3,738
Provision/(write-back of provision) against inventories		3,750	2,067	(569)	(549)	-
Operating profit before working capital changes		135,424	158,749	218,482	113,869	126,434
(Increase)/decrease in inventories		(98,883)	40,830	(32,905)	70,278	42,549
(Increase)/decrease in trade receivables		(68,315)	(82,679)	(65,389)	115,943	128,380
(Increase)/decrease in prepayments, deposits and other receivables		9,514	(17,730)	(32,021)	57,307	30,467
(Increase)/decrease in a net amount due from related parties		4,953	(10,497)	3,461	3,244	36
(Increase)/decrease in amounts due from associates		(29,481)	65,846	(63)	218	263
(Increase)/decrease in other long term lease prepayments		-	(4,667)	4,667	-	(17,910)
Increase/(decrease) in trade payables		56,331	45,552	(7,763)	(138,555)	(18,618)
Increase/(decrease) in bills payable		17,100	(23,440)	-	-	-
Increase/(decrease) in other payables and accruals		1,998	35,872	67,105	(640)	5,074
Increase/(decrease) in other long term payables		2,838	(37,128)	(10,955)	(10,955)	-
Increase/(decrease) in a net amount due from/to Chaoyang Auxillary		6,016	(77,314)	13,671	9,697	(11,238)
Cash generated from operations		37,495	93,394	158,290	220,406	285,437
Interest paid		(17,433)	(24,029)	(18,802)	(10,796)	(11,036)
PRC corporate income tax paid		(11,763)	(27,122)	(42,929)	(34,963)	(33,959)
Net cash inflow from operating activities		8,299	42,243	96,559	174,647	240,442

	Notes	Year ended 31 December			Six months ended 30 June	
		2003 RMB'000	2004 RMB'000	2005 RMB'000	2005 RMB'000 (Unaudited)	2006 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received		6,174	8,987	8,378	6,740	7,200
Dividend received		835	2,735	30	-	-
Proceeds of disposal of short term investments		-	-	1,218	1,218	-
Purchases of property, plant and equipment		(161,862)	(85,384)	(236,520)	(40,199)	(132,312)
Purchases of lease prepayments for land use rights		(2,501)	(71,322)	-	-	-
Purchases of intangible assets		(817)	(1,851)	(1,034)	-	(609)
Proceeds from disposal of property, plant and equipment		13,979	777	2,612	2,440	1,899
Acquisition of subsidiaries	(a)	-	12,515	-	-	-
Additional investment in subsidiaries		-	(1,628)	(880)	-	-
Investment in associates		(1,700)	-	-	-	-
Disposal of subsidiaries	(b)	(2,388)	(1,448)	-	-	-
Disposal of an associate		-	14,984	-	-	-
Increase in short term investments		-	(1,200)	-	-	-
Increase/(decrease) in pledged time deposits		(8,082)	2,085	(13,291)	-	10,291
Net cash outflow from investing activities		(156,362)	(120,750)	(239,487)	(29,801)	(113,531)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from change of capital contribution		-	57,046	-	-	-
Cash contribution of minority shareholders		-	2,150	7,132	5,492	-
Proceeds from government grants		-	50	4,076	4,000	-
New bank loans and other borrowings		377,260	643,000	696,604	242,300	365,000
Repayment of bank loans and other borrowings		(222,670)	(595,772)	(468,000)	(216,000)	(398,304)
Prepayment of listing expenses		-	(3,876)	(2,800)	(1,014)	(3,547)
Dividends paid to shareholders		-	(28,552)	(29,466)	(29,466)	(42,047)
Dividends paid to minority shareholders		(4,356)	(13,391)	(20,742)	(10,141)	(29,686)
Net cash inflow/(outflow) from financing activities		150,234	60,655	186,804	(4,829)	(108,584)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS						
Cash and cash equivalents at beginning of year/period		192,546	194,717	176,865	176,865	220,741
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		194,717	176,865	220,741	316,882	239,068

Notes:

(a) **Acquisition of subsidiaries**

In June 2004, the Company's subsidiary, Chaopi Trading entered into two equity transfer agreements with Chaoyang Auxillary to acquire additional 11.11% and 12.50% equity interests in Chaopi Huaqing and Chaopi Flavourings, respectively. Upon the completion of the equity transfer, Chaopi Trading owned total equity interest of 52.22% and 56.25% in Chaopi Huaqing and Chaopi Flavourings, respectively. Chaopi Huaqing and Chaopi Flavourings became the subsidiaries of Chaopi Trading from then onwards.

The acquisition of additional interests in Chaopi Huaqing and Chaopi Flavourings is accounted for under the purchase method of accounting. On the effective date of the acquisition, the assets and liabilities of Chaopi Huaqing and Chaopi Flavourings were as follows:

	Chaopi Huaqing <i>RMB'000</i>	Chaopi Flavourings <i>RMB'000</i>	Total <i>RMB'000</i>
Property, plant and equipment	1,116	2,033	3,149
Trade receivables	32,536	60,851	93,387
Cash and bank balances	2,135	13,839	15,974
Prepayments, deposits and other receivables	11,001	3,779	14,780
Inventories	8,786	22,112	30,898
Trade payables	(14,931)	(51,532)	(66,463)
CIT payable	(293)	(1,782)	(2,075)
Other payables and accruals	(27,928)	(32,972)	(60,900)
	<u>12,422</u>	<u>16,328</u>	<u>28,750</u>
Less: Minority interest	(6,226)	(7,144)	(13,370)
Less: Carrying amounts of investments in associates before the acquisition	(4,816)	(7,143)	(11,959)
Net assets acquired arising from increase in equity interests attributable to the Group	1,380	2,041	3,421
Goodwill/(Excess over the cost of a business combination) on acquisition	(74)	112	38
	<u>1,306</u>	<u>2,153</u>	<u>3,459</u>
Satisfied by:			
Cash	<u>1,306</u>	<u>2,153</u>	<u>3,459</u>

An analysis of the inflow of cash and cash equivalents in respect of the acquisition of additional equity interests in Chaopi Huaqing and Chaopi Flavourings is as follows:

	<i>RMB'000</i>
Total cash consideration	(3,459)
Cash and bank balances acquired	<u>15,974</u>
Net inflow of cash and cash equivalents in respect of the acquisition of additional equity interests in Chaopi Hauqing and Chaopi Flavourings	<u><u>12,515</u></u>

Since their acquisition, Chaopi Huaqing and Chaopi Flavourings contributed approximately RMB99.4 million and RMB268.2 million, respectively, to the Group's turnover, and approximately a net loss of RMB0.26 million and a net profit of RMB3 million, respectively, to the consolidated profit after tax and before minority interests for the year ended 31 December 2004.

(b) Disposal of subsidiaries

(i) Disposal of Yiyuantang in 2003

Pursuant to an equity transfer agreement entered into between the Company and BITIC on 8 July 2003, the Company disposed of its 35.065% equity interests in Yiyuantang for a cash consideration of RMB14,467,000. Immediately after the disposal, the Company had only 35.065% equity interests in Yiyuantang.

On the effective date of disposal on 23 June 2003, the assets and liabilities of Yiyuantang were as follows:

	<i>RMB'000</i>
Property, plant and equipment	23,306
Interests in associates	2,363
Trade receivables	23,298
Amounts due from related parties	1,198
Cash and bank balances	16,855
Prepayments, deposits and other receivables	10,582
Inventories	36,787
Short term bank loan	(5,000)
Trade payables	(51,525)
CIT payable	733
Other payables and accruals	(13,717)
Amounts due to related parties	<u>(6,151)</u>
	38,729
Less: Minority interests	(11,569)
Less: Carrying amounts of investments in associates held after the disposal	<u>(13,580)</u>
Net assets disposed of arising from the partial disposition of equity interests attributable to the Group	13,580
Gain on disposal of a subsidiary	<u>887</u>
	<u><u>14,467</u></u>
Satisfied by:	
Cash	<u><u>14,467</u></u>

An analysis of the outflow of cash and cash equivalents in respect of the disposal of Yiyuantang is as follows:

	<i>RMB'000</i>
Cash consideration	14,467
Cash and bank balances disposed of	<u>(16,855)</u>
Net outflow of cash and cash equivalents in respect of the disposal of Yiyuantang	<u><u>(2,388)</u></u>

Prior to its disposition, Yiyuantang contributed approximately RMB96.1 million to the Group's turnover and approximately a net loss of RMB1.4 million to the consolidated profit after tax and before minority interests for the year ended 31 December 2003.

(ii) *Disposal of Tengyuan in 2004*

Pursuant to an equity transfer agreement entered into between the Company and Chaoyang Auxillary on 21 June 2004, the Company transferred all its equity interests of 62.73% in Tengyuan.

On the effective date of disposal on 21 June 2004, the assets and liabilities of Tengyuan were as follows:

	<i>RMB'000</i>
Property, plant and equipment	30,240
Trade receivables	6,192
Cash and bank balances	10,486
Pledged deposits	14,322
Prepayments, deposits and other receivables	11,632
Inventories	28,939
Short term bank loan	(9,170)
Trade payables	(1,032)
Bills payable	(13,660)
CIT payable	(52)
Other payables and accruals	(60,795)
Minority interest	<u>(447)</u>
	16,655
Less: Minority interests	<u>(6,207)</u>
Net assets disposed of arising from the disposition of equity interests attributable to the Group	10,448
Loss on disposal of a subsidiary	<u>(1,410)</u>
Cash consideration	<u><u>9,038</u></u>
Satisfied by:	
Cash	<u><u>9,038</u></u>

An analysis of the outflow of cash and cash equivalents in respect of the disposal of Tengyuan is as follows:

	<i>RMB'000</i>
Cash consideration	9,038
Cash and bank balances disposed of	<u>(10,486)</u>
Net outflow of cash and cash equivalents in respect of the disposal of Tengyuan	<u><u>(1,448)</u></u>

Prior to its disposition, Tengyuan contributed approximately RMB98.2 million to the Group's turnover and approximately RMB20,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2004.

(c) **The net cash flow attributable to discontinued operations**

	Year ended 31 December			Six months ended 30 June	
	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2005 <i>RMB'000</i>	2005 <i>RMB'000</i>	2006 <i>RMB'000</i>
Operating	10,311	1,391	–	–	–
Investing	(20,492)	(10,498)	–	–	–
Financing	16,624	141	–	–	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash inflow/(outflow)	<u><u>6,443</u></u>	<u><u>(8,966)</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>

8. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of assets. No further geographical segment information is presented as the Group's customers and operations are located in the PRC.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments during the Relevant Periods and the six months ended 30 June 2005 are as follows:

- (i) the retailing segment engages in the distribution of live and fresh produce, dry products, beverages, processed food and daily necessities through Retail Outlets;
- (ii) the wholesaling segment engages in the wholesale supply of daily consumer products to consumers including the Retail Outlets and other retail operators, and trading companies;
- (iii) the pharmaceuticals segment engages in the retailing and wholesaling of prescribed and over-the-counter pharmaceuticals; and
- (iv) the automobile segment engages in the trading of motor vehicles and the provision of related repair services.

Segment assets and liabilities mainly comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Year ended 31 December 2003	Continuing operations			Discontinued operations		Eliminations RMB'000	Consolidated RMB'000
	Retailing RMB'000	Wholesaling RMB'000	Others* RMB'000	Pharmaceuticals RMB'000	Automobile RMB'000		
Revenue							
Sales to external customers	1,864,672	1,026,615	2,821	95,889	269,037	-	3,259,034
Intersegment sales	105,950	149,773	7,913	-	1,311	(264,947)	-
Interest income	3,118	2,802	14	65	175	-	6,174
Other income	102,865	1,862	530	821	197	-	106,275
	<u>2,076,605</u>	<u>1,181,052</u>	<u>11,278</u>	<u>96,775</u>	<u>270,720</u>	<u>(264,947)</u>	<u>3,371,483</u>
Results							
Segment results	57,382	24,584	260	(806)	4,447	-	85,867
Gain on disposal of a subsidiary							<u>887</u>
Profit from operating activities							86,754
Finance costs	(13,107)	(7,076)	-	(299)	(2,462)	-	(22,944)
Share of net profits and losses of associates	-	3,725	-	(334)	-	-	3,391
Profit before tax							67,201
Tax							<u>(21,177)</u>
Profit for the year							<u>46,024</u>
Assets and liabilities							
Segment assets	972,342	536,029	4,164	-	107,278	(46,189)	1,573,624
Interests in associates	-	62,187	-	30,291	-	-	92,478
Total assets	<u>972,342</u>	<u>598,216</u>	<u>4,164</u>	<u>30,291</u>	<u>107,278</u>	<u>(46,189)</u>	<u>1,666,102</u>
Segment liabilities	(802,998)	(492,712)	(2,368)	-	(90,209)	46,189	(1,342,098)
Total liabilities	<u>(802,998)</u>	<u>(492,712)</u>	<u>(2,368)</u>	<u>-</u>	<u>(90,209)</u>	<u>46,189</u>	<u>(1,342,098)</u>
Other segment information:							
Capital expenditure	153,264	10,935	136	2,123	13,239	-	179,697
Depreciation	40,641	5,480	118	1,072	3,738	-	51,049
Amortisation - intangible assets	617	-	-	-	-	-	617

Year ended 31 December 2004	Continuing operations			Discontinued operations			Consolidated RMB'000
	Retailing RMB'000	Wholesaling RMB'000	Others* RMB'000	Pharmaceuticals RMB'000	Automobile RMB'000	Eliminations RMB'000	
Revenue							
Sales to external customers	2,009,270	1,555,895	3,700	-	97,893	-	3,666,758
Intersegment sales	97,725	255,649	8,026	-	-	(361,400)	-
Interest income	6,762	2,105	8	-	112	-	8,987
Other income	139,809	5,350	666	-	2	-	145,827
	<u>2,253,566</u>	<u>1,818,999</u>	<u>12,400</u>	<u>-</u>	<u>98,007</u>	<u>(361,400)</u>	<u>3,821,572</u>
Results							
Segment results	97,738	48,719	272	-	268	-	146,997
Gain on disposal of an associate							1,248
Loss on disposal of subsidiary							(1,410)
Profit from operating activities							146,835
Finance costs	(9,027)	(11,961)	-	-	(130)	-	(21,118)
Share of net profits and losses of associates	-	2,177	-	508	-	-	2,685
Profit before tax							128,402
Tax							(44,233)
Profit for the year							<u>84,169</u>
Assets and liabilities							
Segment assets	1,067,356	769,103	3,802	-	-	(57,865)	1,782,396
Interests in associates	-	887	-	-	-	-	887
Total assets	<u>1,067,356</u>	<u>769,990</u>	<u>3,802</u>	<u>-</u>	<u>-</u>	<u>(57,865)</u>	<u>1,783,283</u>
Segment liabilities	(816,734)	(642,850)	(1,974)	-	-	57,865	(1,403,693)
Total liabilities	<u>(816,734)</u>	<u>(642,850)</u>	<u>(1,974)</u>	<u>-</u>	<u>-</u>	<u>57,865</u>	<u>(1,403,693)</u>
Other segment information							
Capital expenditure	124,655	22,640	129	-	5,695	-	153,119
Depreciation	40,075	3,691	106	-	1,744	-	45,616
Amortisation – lease prepayments for land use rights	125	-	-	-	-	-	125
Amortisation – intangible assets	1,063	-	-	-	-	-	1,063
Impairment loss of investments	-	1,188	-	-	-	-	1,188

Year ended 31 December 2005	Continuing operations			Discontinued operations			Consolidated RMB'000
	Retailing RMB'000	Wholesaling RMB'000	Others* RMB'000	Pharmaceuticals RMB'000	Automobile RMB'000	Eliminations RMB'000	
Revenue							
Sales to external customers	2,060,573	2,057,361	3,814	-	-	-	4,121,748
Intersegment sales	106,107	298,323	8,029	-	-	(412,459)	-
Interest income	7,463	911	4	-	-	-	8,378
Other income	124,098	10,557	635	-	-	-	135,290
	<u>2,298,241</u>	<u>2,367,152</u>	<u>12,482</u>	<u>-</u>	<u>-</u>	<u>(412,459)</u>	<u>4,265,416</u>
Results							
Segment results	<u>73,893</u>	<u>90,389</u>	<u>327</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>164,609</u>
Profit from operating activities							164,609
Finance costs	(7,121)	(15,225)	(34)	-	-	3,307	(19,073)
Share of net profits and losses of associates	<u>-</u>	<u>(32)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(32)</u>
Profit before tax							145,504
Tax							<u>(47,158)</u>
Profit for the year							<u>98,346</u>
Assets and liabilities							
Segment assets	1,365,788	975,996	3,607	-	-	(204,126)	2,141,265
Interests in associates	<u>-</u>	<u>918</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>918</u>
Total assets	<u>1,365,788</u>	<u>976,914</u>	<u>3,607</u>	<u>-</u>	<u>-</u>	<u>(204,126)</u>	<u>2,142,183</u>
Segment liabilities	(1,125,687)	(786,259)	(1,659)	-	-	204,126	(1,709,479)
Total liabilities	<u>(1,125,687)</u>	<u>(786,259)</u>	<u>(1,659)</u>	<u>-</u>	<u>-</u>	<u>204,126</u>	<u>(1,709,479)</u>
Other segment information							
Capital expenditure	221,752	22,630	8	-	-	-	244,390
Depreciation	44,174	9,201	115	-	-	-	53,490
Amortisation – lease prepayments for land use rights	752	-	-	-	-	-	752
Amortisation – intangible assets	<u>312</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>312</u>

Six month ended 30 June 2005 (Unaudited)	Continuing operations			Discontinued operations			Consolidated RMB'000
	Retailing RMB'000	Wholesaling RMB'000	Others* RMB'000	Pharmaceuticals RMB'000	Automobile RMB'000	Eliminations RMB'000	
Revenue							
Sales to external customers	1,052,799	998,077	2,923	-	-	-	2,053,799
Intersegment sales	52,502	147,274	3,049	-	-	(202,825)	-
Interest income	5,943	797	-	-	-	-	6,740
Other income	70,446	5,878	311	-	-	-	76,635
	<u>1,181,690</u>	<u>1,152,026</u>	<u>6,283</u>	<u>-</u>	<u>-</u>	<u>(202,825)</u>	<u>2,137,174</u>
Results							
Segment results	<u>43,238</u>	<u>45,944</u>	<u>156</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,338</u>
Profit from operating activities							89,338
Finance costs	(3,464)	(8,995)	(15)	-	-	1,927	(10,547)
Share of net profits and losses of associates	<u>-</u>	<u>(60)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(60)</u>
Profit before tax							78,731
Tax							<u>(26,794)</u>
Profit for the period							<u>51,937</u>
Other segment information:							
Depreciation	22,276	4,653	57	-	-	-	26,986
Amortisation – lease prepayments for land use rights	376	-	-	-	-	-	376
Amortisation – intangible assets	<u>143</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>143</u>

Six month ended 30 June 2006	Continuing operations			Discontinued operations			Consolidated RMB'000
	Retailing RMB'000	Wholesaling RMB'000	Others* RMB'000	Pharmaceuticals RMB'000	Automobile RMB'000	Eliminations RMB'000	
Revenue							
Sales to external customers	1,121,636	1,037,148	2,321	-	-	-	2,161,105
Intersegment sales	54,205	159,431	3,990	-	-	(217,626)	-
Interest income	1,861	5,337	2	-	-	-	7,200
Other income	69,519	16,650	197	-	-	-	86,366
	<u>1,247,221</u>	<u>1,218,566</u>	<u>6,510</u>	<u>-</u>	<u>-</u>	<u>(217,626)</u>	<u>2,254,671</u>
Results							
Segment results	<u>47,519</u>	<u>53,401</u>	<u>175</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>101,095</u>
Profit from operating activities							101,095
Finance costs	(2,327)	(9,506)	-	-	-	3,146	(8,687)
Share of net profits and losses of associates	<u>-</u>	<u>(10)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10)</u>
Profit before tax							92,398
Tax							<u>(33,277)</u>
Profit for the period							<u>59,121</u>
Assets and liabilities							
Segment assets	1,357,419	777,259	4,410	-	-	(75,184)	2,063,904
Interests in associates	<u>-</u>	<u>645</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>645</u>
Total assets	<u>1,357,419</u>	<u>777,904</u>	<u>4,410</u>	<u>-</u>	<u>-</u>	<u>(75,184)</u>	<u>2,064,549</u>
Segment liabilities	<u>(1,108,716)</u>	<u>(609,055)</u>	<u>(2,594)</u>	<u>-</u>	<u>-</u>	<u>75,184</u>	<u>(1,645,181)</u>
Total liabilities	<u>(1,108,716)</u>	<u>(609,055)</u>	<u>(2,594)</u>	<u>-</u>	<u>-</u>	<u>75,184</u>	<u>(1,645,181)</u>
Other segment information:							
Capital expenditure	120,166	5,960	64	-	-	-	126,190
Depreciation	22,794	5,549	53	-	-	-	28,396
Amortisation – lease prepayments							
for land use rights	376	-	-	-	-	-	376
Amortisation – intangible assets	<u>160</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>160</u>

* Represents primarily the production of plastic packing materials and the production, installation and maintenance of commercial equipments, which is not material enough to be reported separately.

9. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

(i) Transactions with the Group's holding companies, subsidiaries and associate companies

Apart from those disclosed under Section 3, note (l) and note (n), the Group had the following material transactions with the following related parties during the Relevant Periods and the six months ended 30 June 2005. The terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. The transactions were made on terms agreed between the parties.

Continuing transactions:

Name of Related parties	Relationship with the Company	Nature of transaction	Year ended 31 December			Six months ended 30 June	
			2003 RMB'000	2004 RMB'000	2005 RMB'000	2005 RMB'000	2006 RMB'000
Chaoyang Auxillary	Holding company of the Company	Expenses on property leasing	5,016	9,916	9,056	4,958	4,033

(Unaudited)

In the opinion of the directors, the above transactions and relevant pricing policy were conducted in the ordinary course of business. The transactions will be continued after the listing of shares of the Company on the Stock Exchange.

Pursuant to three property lease agreements and supplementary agreements signed between the Company and Chaoyang Auxillary, between Chaopi Trading and Chaoyang Auxillary dated 30 April 2004 and between Xinyang Tongli and Chaoyang Auxillary dated 1 July 2004, and the supplementary agreements, with the commencement and expiry dates on 1 January 2004 and 31 December 2023, respectively, the Company, Chaopi Trading and Xinyang Tongli rent properties from Chaoyang Auxillary for operation purpose at a basic annual rental expense, inclusive of related business taxes and property taxes of approximately RMB7,340,000, RMB1,099,000 and RMB16,000, respectively, with a term of increase of rental expense including related business taxes by 5% or 20% after each aforesaid fixed rental period. Pursuant to a supplementary agreement dated 24 March 2006 signed between the Company and Chaoyang Auxillary, the Company ceased the rental of one of the leased properties from Chaoyang Auxillary with effective from 1 January 2006. The aggregate annual rental to be paid to Chaoyang Auxillary by the Company since 1 January 2006 was reduced from RMB7,340,000 to RMB6,952,000. In addition to the above, the Company and Chaoyang Auxillary entered into a lease agreement dated 4 April 2006, pursuant to which the Company leases one more property from Chaoyang Auxillary for ten years commencing from 1 July 2006. The annual rental is RMB183,000 and RMB219,000 for the first four years and the remaining six years, respectively.

Pursuant to a deed of indemnity dated 1 March 2006 and a supplementary agreement dated 10 August 2006, Chaoyang Auxillary has undertaken to indemnify the Company against the following:

1. any costs, expenses, losses and claims that the Company and Chaopi Trading may suffer as a result of relocation or eviction from certain premises rented from outside parties in the event of that any of the corresponding tenancy agreements is determined to be void due to a lack of building ownership certificates or proper property title deeds by the lessors;
2. any costs and penalties that the Group may suffer due to the non-compliance with the relevant PRC Laws in respect of borrowings from the employees, the fact that the relevant loan agreements were not enforceable, and that the Group may be subject to a maximum penalty of 5% of the amount of the total borrowings; and
3. any costs and penalties that the Group may suffer due to any breach of the applicable PRC laws and regulations on the use of the Jingkelong cards and the membership reward cards which were issued by the Company as part of the Group's marketing strategy for its retail operations.

Discontinued transactions:

Name of Related parties	Relationship with the Company	Nature of transactions	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)							
Chaoyang Auxillary	Holding company of the Company	Sale of property, plant and equipment	12,398	-	-	-	-
		Acquisition of a subsidiary	-	3,459	-	-	-
		Disposal of subsidiary	-	9,038	-	-	-
		Disposal of an associated company	-	14,984	-	-	-
		Disposal of long term investments	-	400	-	-	-
		Transfer out of property, plant and equipment	-	52,620	-	-	-
		Purchases of property, plant and equipment	-	-	7,243	-	-
		Interest expenses	2,973	1,458	257	128	74
		Interest income	-	51	307	307	-
		Compensation income (note)	-	-	13,880	13,880	5,426
Chaopi Huaqing	Associate (before becoming a subsidiary of the Company in June 2004)	Purchases of merchandise	42,957	25,597	-	-	-
		Transfer of equity interest	-	1,000	-	-	-
		Interest income	910	566	-	-	-

Name of Related parties	Relationship with the Company	Nature of transactions	Year ended 31 December			Six months ended 30 June		
			2003	2004	2005	2005	2006	
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
							(Unaudited)	
Chaopi Flavourings	Associate (before becoming a subsidiary of the Company in June 2004)	Purchases of merchandise	64,698	32,659	-	-	-	
		Transfer of equity interest	-	628	-	-	-	
		Interest income	1,606	1,012	-	-	-	
Tengyuan	Related party (after being fully disposed of by the Company in June 2004)	Automobile repair and maintenance expenses	-	500	250	250	-	

The directors are of the opinion that the above transactions and relevant pricing policy were conducted in the ordinary course of business and such transactions will not be continued after the listing of the shares of the Company on the Stock Exchange.

Note:

For the year ended 31 December 2005, the gross compensation income received from Chaoyang Auxillary for the Company's loss of business and the related property, plant and equipment, primarily leasehold improvements and machinery and equipment of a demolished retail outlet and a warehouse originally rented from Chaoyang Auxillary. The net compensation of RMB11.13 million, representing the gross compensation of RMB13.88 million received from Chaoyang Auxillary in excess of the carrying amounts of the related property, plant and equipment upon the demolition of RMB2.75 million, was recorded in the other income account.

During the six months ended 30 June 2006, the net compensation of RMB5.06 million, representing the gross compensation of RMB5.43 million received from Chaoyang Auxillary in excess of the carrying amounts of the related property, plant and equipment upon the demolition of a retail outlet of RMB0.37 million, was recorded in the other income account.

(ii) Transactions with other state-owned enterprises in Mainland China

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-owned Enterprises"). During the Relevant Periods and the six months ended 30 June 2005, the Group had transactions with State-owned Enterprises including, but not limited to, sales and purchases of merchandise. It is impracticable to identify the transactions with the other State-owned Enterprises due to the nature of business of the Group, however, the directors consider that transactions with other State-owned Enterprises are activities conducted in the ordinary course of the Group's business at terms that are consistently applied to all customers, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and other State-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

10. FIRST TIME ADOPTION OF HKFRSs*Reconciliation of equity at 1 January 2003 (date of transition to the HKFRSs):*

	<i>RMB'000</i>
Equity attributable to shareholders of the Company reported in the PRC GAAP Consolidated Financial Statements	248,376
Equity attributable to shareholders of the Company under the HKFRSs	<u>248,376</u>

Reconciliation of equity at 31 December 2005 (end of the latest period presented in the most recent annual financial statements under the PRC GAAP):

	<i>RMB'000</i>
Equity attributable to shareholders of the Company reported in the PRC GAAP Consolidated Financial Statements	330,931
Positive goodwill amortisation	(119)
Capitalisation of interest expenses	21,300
Gain on exchange of fixed assets	26,419
Recognition of deferred tax liabilities	(15,747)
Recognition of government grants	(4,000)
Equity attributable to shareholders of the Company under the HKFRSs	<u>358,784</u>

Reconciliation of profit for the year ended 31 December 2005:

	<i>RMB'000</i>
Profit attributable to shareholders of the Company reported in the PRC GAAP Consolidated Financial Statements	66,314
Positive goodwill amortisation	15
Recognition of excess over the cost of a business combination into income statement	1,712
Capitalisation of interest expenses	11,600
Depreciation arisen from gain on exchange of property, plant and equipment	(1,067)
Recognition of deferred tax liabilities	(3,476)
Profit attributable to shareholders of the Company under the HKFRSs	<u>75,098</u>

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Save as disclosed in Section 2 note (f), no emoluments have been paid or are payable to the directors or supervisors of the Company in respect of the Relevant Periods referred to in this report by the Company or any of its subsidiaries. Under the arrangements currently in force, the amount of directors' and supervisors' fees and other emoluments payable to the directors and supervisors of the Company for the year ending 31 December 2006 is estimated to be approximately RMB3,200,000, excluding discretionary bonuses payable under directors' and supervisors' service contracts, a summary of the terms of which is set out in the paragraph headed "Further Information about Our Directors and Supervisors" in Appendix V to the Prospectus.

12. SUBSEQUENT EVENTS

Saved as disclosed in note (i) to Section 9, the Group and the Company did not have any significant subsequent events taking place subsequent to 30 June 2006.

13. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 30 June 2006.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong