



北京京客隆
商业集团股份有限公司
BEIJING JINGKELONG COMPANY LIMITED
(a joint stock limited company incorporated in the
People's Republic of China)



Third Quarterly Report 2006

(Stock Code: 8245)

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the "Directors") of Beijing Jingkelong Company Limited (the "Company") collectively and individually accept full responsibilities, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

SUMMARY

- The Company's H shares were listed on GEM of the Stock Exchange on 25 September 2006 with a total net proceeds excluding interest income of approximately HK\$584.6 million.
- Revenue of the Group for the three months and the nine months ended 30 September 2006 amounted to approximately RMB1,112.3 million (Corresponding period of 2005: RMB1,033.5 million) and approximately RMB3,273.4 million (Corresponding period of 2005: RMB3,087.3 million), representing an increase of approximately 7.6% and approximately 6%, respectively as compared with the same periods last year.
- Profit attributable to shareholders of the Company for the three months and the nine months ended 30 September 2006 amounted to approximately RMB41.3 million (Corresponding period of 2005: RMB21.4 million) and approximately RMB88.6 million (Corresponding period of 2005: RMB59.8 million), representing an increase of approximately 93% and approximately 48.1%, respectively as compared with last corresponding periods.
- Basic earnings per share for the three months and the nine months ended 30 September 2006 amounted to approximately RMB16.1 cents (Corresponding period of 2005: RMB8.7 cents) and approximately RMB35.5 cents (Corresponding period of 2005: RMB24.3 cents), respectively.
- During the period from 1 July 2006 to 30 September 2006, 10 directly-operated supermarkets and 1 directly-operated convenience store were opened.
- Total number of retail outlets increased to 170 (including 4 hypermarkets, 40 supermarkets and 126 convenience stores, of which 1 supermarket and 90 convenience stores were operating under the franchise arrangement) with a total net operating area more than 154,000 square metres as at 30 September 2006.
- As at 30 September 2006, total borrowings stood at approximately RMB876.4 million, comprising bank loans of approximately RMB606.4 million and the loans from Beijing International Trust and Investment Company Limited at RMB270 million.

QUARTERLY RESULTS

The board of Directors (the "Board") of the Company is pleased to announce the following unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months and the nine months ended 30 September 2006 together with the unaudited comparative figures for the corresponding periods ended 30 September 2005:

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Revenue	3	1,112,283	1,033,522	3,273,388	3,087,321
Cost of sales		(967,698)	(915,819)	(2,865,717)	(2,724,339)
Gross profit		144,585	117,703	407,671	362,982
Other income	4	71,489	36,535	165,055	119,910
Selling and distribution costs		(101,243)	(87,984)	(283,855)	(267,564)
Administrative expenses		(29,050)	(20,783)	(90,971)	(71,120)
Other expenses		(5,607)	(4,179)	(16,631)	(13,578)
Profit from operating activities		80,174	41,292	181,269	130,630
Finance costs		(6,505)	(4,738)	(15,192)	(15,285)
Share of net profits and losses of associates		(66)	5	(76)	(55)
Profit before tax		73,603	36,559	166,001	115,290
Tax	5	(21,859)	(10,065)	(55,136)	(36,859)
Profit for the period		51,744	26,494	110,865	78,431
Attributable to: Shareholders of the Company		41,279	21,393	88,584	59,815
Minority interests		10,465	5,101	22,281	18,616
Earnings per share (Basic) – RMB	7	16.1 cents	8.7 cents	35.5 cents	24.3 cents

Notes:

1. CORPORATE INFORMATION

The Company was incorporated in the People's Republic of China (the "PRC") as a limited liability company on 20 May 2002 and was transformed into a joint stock limited company in accordance with the PRC Company Law on 1 November 2004. The Company's H shares were listed on GEM of the Stock Exchange on 25 September 2006.

The Group was principally engaged in the retail and wholesale distribution of daily consumer products in the region covering Beijing city and certain parts of its periphery (the "Greater Beijing Region").

2. BASIS OF PRESENTATION

The Group's unaudited quarterly results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Statements issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The accounting policies and methods of computation used in the preparation of the Group's unaudited quarterly results are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2005. The Group has not applied "HKAS 1 Amendment – Capital Disclosures" and "HKFRS 7 – Financial Instruments: Disclosures" that have been issued but are effective for annual periods beginning on or after 1 January 2007. The adoption of these pronouncements will not have significant impact on the Group's financial statements.

3. REVENUE

Revenue represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and discounts. An analysis of the Group's revenue for the three months and the nine months ended 30 September 2006 and the last corresponding periods is as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Sales of merchandise and produce				
– Retailing	526,155	502,056	1,647,791	1,554,855
– Wholesaling	585,786	530,816	1,622,934	1,528,893
Others	342	650	2,663	3,573
Total	1,112,283	1,033,522	3,273,388	3,087,321

4. OTHER INCOME

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Income from suppliers	a	29,747	17,233	86,719	61,840
Rental income	b	10,333	14,596	29,974	31,676
Net compensation on demolished properties		4,400	13	10,067	11,142
Interest income	c	24,698	894	31,898	7,634
Gain on sale of wastes		714	738	2,300	2,214
Franchise fee		363	91	1,431	1,681
Others		1,234	2,970	2,666	3,723
Total		71,489	36,535	165,055	119,910

Notes:

- a. the increase in income from suppliers during the nine months ended 30 September 2006 (the "Nine-month Period") was mainly due to an increase in purchase volume and promotional activities.
- b. the decrease of rental income during the Nine-month Period was mainly because of termination of the relevant lease agreements of Shuguang Supermarket which has been demolished by the end of 2005.
- c. the significant increase in interest income was attributable to the bank interest of approximately RMB23 million earned from the over-subscription of the Company's H share listing.

5. 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 period. Under the prevailing PRC income tax law, 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 period. An analysis of the Group's CIT for the three months and the nine months ended 30 September 2006 and the last corresponding periods is as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Current CIT – the PRC	20,996	8,932	52,288	34,252
Deferred CIT	863	1,133	2,848	2,607
CIT reported for the period	21,859	10,065	55,136	36,859

A reconciliation of the CIT reported for the Nine-month Period and last corresponding period to the statutory CIT rate on the unaudited consolidated profit is as follows:

	For the nine months ended 30 September	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Profit before tax	166,001	115,290
CIT at 33%	54,780	38,046
Expenses not deductible for tax	1,626	1,868
Non-taxable income	(883)	(3,257)
Others	(387)	202
CIT reported for the period	55,136	36,859

6. DIVIDENDS

The Board does not recommend the payment of any dividend for the Nine-month Period (Corresponding period of 2005: Nil).

7. EARNINGS PER SHARE

The basic earnings per share for the three months and the nine months ended 30 September 2005 are calculated by dividing the unaudited consolidated profit attributable to shareholders of the Company of approximately RMB21,393,000 and approximately RMB59,815,000, respectively by the number of 246,620,000 shares in issue.

The basic earnings per share for the three months and the nine months ended 30 September 2006 are calculated by dividing the unaudited consolidated profit attributable to shareholders of the Company of approximately RMB41,279,000 and approximately RMB88,584,000 by the weighed average of approximately 255,620,000 shares and approximately 249,652,967 shares, respectively.

No diluted earnings per share information is presented, as the Company did not have any potential dilutive shares issued during the Nine-month Period and last corresponding period.

8. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The changes in consolidated shareholders' equity during the three months and the nine months ended 30 September 2006 are as follows:

	For the three months ended 30 September									
	Statutory									
	Issued		Capital	Statutory		public				
	share	Share	common	common	welfare	Retained			Minority	
	capital	premium	reserve	reserve	fund	profits	Subtotal	interests	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 July	246,620	-	5,121	18,522	9,260	70,199	349,722	69,646	419,368	386,802
Issue of H shares	138,000	493,100	-	-	-	-	631,100	-	631,100	-
Listing costs	-	(50,868)	-	-	-	-	(50,868)	-	(50,868)	-
Net profit for the period	-	-	-	-	-	41,279	41,279	10,465	51,744	26,494
Equity interest transfer	-	-	-	-	-	-	-	-	-	(1,972)
Equity interest acquisition	-	-	-	-	-	-	-	-	-	(870)
	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
At 30 September	<u>384,620</u>	<u>442,232</u>	<u>5,121</u>	<u>18,522</u>	<u>9,260</u>	<u>111,478</u>	<u>971,233</u>	<u>80,111</u>	<u>1,051,344</u>	<u>410,454</u>

For the nine
months ended
30 September
2006 2005

	Statutory											
	Issued		Capital		Statutory		public		Proposed			
	share	Share	common	common	welfare	fund	final	Retained	Subtotal	Minority	Total	Total
	capital	premium	reserve	reserve			dividend	profits	RMB'000	RMB'000	RMB'000	RMB'000
	RMB'000											
	(Unaudited)											
At 1 January	246,620	-	5,121	18,522	9,260	56,367	22,894	358,784	73,920	432,704	379,590	
Issue of H shares	138,000	493,100	-	-	-	-	-	-	631,100	-	631,100	-
Listing costs	-	(50,868)	-	-	-	-	-	-	(50,868)	-	(50,868)	-
Dividend declared	-	-	-	-	-	(56,367)	-	(56,367)	(16,090)	(72,457)	(50,217)	
Net profit for the period	-	-	-	-	-	-	88,584	88,584	22,281	110,865	78,431	
Equity interest injection	-	-	-	-	-	-	-	-	-	-	-	5,492
Equity interest transfer	-	-	-	-	-	-	-	-	-	-	-	(1,972)
Equity interest acquisition	-	-	-	-	-	-	-	-	-	-	-	(870)
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At 30 September	384,620	442,232	5,121	18,522	9,260	-	111,478	971,233	80,111	1,051,344	410,454	

9. BORROWINGS

As at 30 September 2006, the Group had outstanding borrowings of approximately RMB876.4 million, comprising bank loans of approximately RMB606.4 million and borrowings from Beijing International Trust and Investment Company Limited ("BITIC") of RMB270 million.

BITIC Loans and Employee Investments

To rationalize the Group's financing arrangements, in June 2004, the Company obtained a loan of RMB130 million (the "First BITIC Loan") from BITIC (the First BITIC Loan and the further loans from BITIC shall together be referred to as the "BITIC Loans").

BITIC has offered and may continue to offer investment proposals to those interested employees of the Group to invest in its trust loan programme for the Group. The investments made by the said employees have been used to fund the BITIC Loans provided by BITIC to the Group from time to time (such investment and any further investments that may be made by employees of the Group under this programme shall together be referred to as the "Employee Investments").

The Directors confirm that, any participation in the Employee Investments has always been and will continue to be entirely voluntary and personal, and any decision of an employee to participate in or withdraw from the Employee Investments will not affect his/her employment with the Group.

The First BITIC Loan was secured by a guarantee from the Company's controlling shareholder, Beijing Chaoyang Auxillary Food Company. Such guarantee from the Company's controlling shareholder also covered all subsequent BITIC Loans extended to the Company, whilst other BITIC Loans which were extended to the Company's subsidiary, Beijing Chaopi Trading Company Limited ("Chaopi Trading") are secured by a corporate guarantee from the Company itself. The guarantee from the Company's controlling shareholder has upon the Company's listing on GEM of the Stock Exchange, been replaced by a corporate guarantee from the Company and the pledge of the Company's 71.7% equity interest in Chaopi Trading.

As at 30 June 2006, 30 September 2006, and the date of this report, the total accrued sum of Employee Investments made amounted to RMB272.3 million, RMB312.3 million and RMB310 million, respectively. As at the same dates, the total number of participating employees amounted to approximately 2,191 employees, 2,286 employees and 2,128 employees, respectively, and the total sum of BITIC Loans amounted to RMB272.3 million, RMB270 million and RMB310 million, respectively.

An analysis of the BITIC Loans and Employee Investments incurred during the period from 1 July 2006 to the date of this report is as follows:

Both the RMB62.3 million Employee Investment and the related BITIC Loan with due date on 1 October 2006 have been extended respectively to 31 March 2008, and each balance was reduced to RMB60 million. The number of employees participated was reduced to 676 when this Employee Investment was renewed.

An Employee Investment of RMB40 million was received by BITIC on 29 September 2006, and subsequently lent to the Group in October 2006. Both the due date of the Employee Investment and the related BITIC Loan is on 29 June 2008.

On 29 September 2006, both the RMB40 million Employee Investment and the related BITIC Loan with due date on 29 December 2006 have been extended respectively to 29 June 2008.

On 29 September 2006, both the RMB20 million Employee Investment and the related BITIC Loan with due date on 29 December 2006 have been extended respectively to 29 June 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is one of the leading retail and wholesale distributors of daily consumer products in the Greater Beijing Region, and has an extensive retail and wholesale distribution network.

Retail Business

1. DEVELOPMENT OF RETAIL NETWORK

In order to excel within the daily consumer product distribution industry in the Greater Beijing Region, the Group plans to speed up the development of its retail network, leveraging on its well established and modernized logistics systems and management information systems. During the three months ended 30 September 2006, the Group sustained robust development in its retail outlets, as it set up 10 directly-operated supermarkets and one directly-operated convenience store, in particular including scaled expansion of 8 directly-operated supermarkets and one directly-operated convenience store located in the Tongzhou District, a district proximate to the east of Chaoyang District in Beijing, forming a business circle covering with Chaoyang District and Tongzhou District.

The number of retail outlets of the Group increased to 170 as at 30 September 2006, including 79 directly-operated outlets and 91 franchise-operated outlets.

The following table shows the number and net operating area of the retail outlets of the Group as at 30 September 2006.

	Hypermarkets	Supermarkets	Convenience Stores	Total
Number of retail outlets				
- directly-operated	4	39	36	79
- franchise-operated	-	1	90	91
	4	40	126	170
Net operating area (square metres)				
- directly-operated	38,638	89,175	8,189	136,002
- franchise-operated	-	880	17,592	18,472
	38,638	90,055	25,781	154,474

2. RENOVATING AND UPGRADING EXISTING RETAIL OUTLETS

During the Nine-month Period, the Group renovated 3 supermarkets to provide a more comfortable shopping environment.

3. ENHANCING OPERATION CAPABILITY OF LIVE AND FRESH PRODUCE

With rising income level and changing lifestyle of the consumers in the Greater Beijing Region, the consumers are becoming more conscious about product safety than cleanliness, as they demand not only a variety of choice but also high quality products, and choose to purchase live and fresh produce at hypermarkets, supermarkets and/or convenience stores over the traditional markets. Riding on its live and fresh produce logistics centre, the Group was able to achieve centralized purchase and distribution of pork, vegetable and fruit, attracting customers to visit its retail outlets and enhancing the retail profitability.

4. OPERATING RESULTS FOR THE DIFFERENT TYPES OF RETAIL FORMAT

Revenue (Unaudited)

	For the three months ended 30 September				For the nine months ended 30 September			
	2006		2005		2006		2005	
	Revenue RMB'000	Percentage of retail revenue (%)	Revenue RMB'000	Percentage of retail revenue (%)	Revenue RMB'000	Percentage of retail revenue (%)	Revenue RMB'000	Percentage of retail revenue (%)
Hypermarket	152,150	28.9	165,792	33.0	512,835	31.1	520,063	33.4
Supermarket	331,565	63.0	295,062	58.8	1,007,105	61.1	916,779	59.0
Convenience store	42,440	8.1	41,202	8.2	127,851	7.8	118,013	7.6
Total	526,155	100.0	502,056	100.0	1,647,791	100.0	1,554,855	100.0

Gross profit and gross profit margin (Unaudited)

	For the three months ended 30 September				For the nine months ended 30 September			
	2006		2005		2006		2005	
	Gross profit RMB'000	Gross profit margin (%)	Gross profit RMB'000	Gross profit margin (%)	Gross profit RMB'000	Gross profit margin (%)	Gross profit RMB'000	Gross profit margin (%)
Hypermarket	26,444	17.4	24,987	15.1	74,823	14.6	73,249	14.1
Supermarket	47,035	14.2	39,029	13.2	147,288	14.6	121,729	13.3
Convenience store	6,184	14.6	4,371	10.6	18,776	14.7	15,585	13.2
Total	79,663	15.1	68,387	13.6	240,887	14.6	210,563	13.5

Hypermarkets Operations

Hypermarkets operations are the important part of the Group's retail business. For the Nine-month Period, the revenue generated from the hypermarkets operations was approximately RMB512.8 million, representing approximately 31.1% of the total retail revenue of the Group. Gross profit margin from this business segment increased from approximately 14.1% to approximately 14.6% during the Nine-month Period.

Supermarkets Operations

Supermarkets operations are the major contributor of the Group's retail business. For the Nine-month Period, the revenue generated from the supermarkets operations was approximately RMB1,007.1 million, representing approximately 61.1% of the total retail revenue of the Group. Gross profit margin from this business segment increased from approximately 13.3% to approximately 14.6% during the Nine-month Period.

Convenience Store Operations

For the Nine-month Period, the revenue generated from the convenience stores operations was approximately RMB127.9 million, representing approximately 7.8% of the total retail revenue of the Group. Gross profit margin from this business segment increased from approximately 13.2% to approximately 14.7% during the Nine-month Period.

Wholesale Business

The Group strives to include more sole distributorships to further expand this business segment, and also explores opportunities for geographical expansion of wholesale distribution network.

Operation results (Unaudited)

	For the three months ended 30 September		For the nine months ended 30 September	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Revenue	585,786	530,816	1,622,934	1,528,893
Gross profit	64,760	49,085	165,948	151,419
Gross profit margin (%)	11.1	9.2	10.2	9.9

For the Nine-month Period, the revenue of the wholesale business was approximately RMB1,622.9 million, representing approximately 49.6% of the total revenue, which is approximately 6.2% higher than that of last corresponding period. Gross profit margin increased from approximately 9.9% to approximately 10.2% during the Nine-month Period.

FINANCIAL REVIEW

Financial Results (Unaudited)

	For the three months ended 30 September		For the nine months ended 30 September	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Revenue	1,112,283	1,033,522	3,273,388	3,087,321
Gross profit	144,585	117,703	407,671	362,982
Gross profit margin (%)	13.0	11.4	12.5	11.8
Profit after tax	51,744	26,494	110,865	78,431
Profit attributable to shareholders of the Company	41,279	21,393	88,584	59,815
Net profit margin (%)	3.7	2.1	2.7	1.9
Earning per share (basic) – RMB	16.1 cents	8.7 cents	35.5 cents	24.3 cents

For the Nine-month Period, the revenue of the Group was approximately RMB3,273.4 million, increased by approximately 6% comparing with the revenue of approximately RMB3,087.3 million of last corresponding period. The increase in retail revenue by approximately 6% from approximately RMB1,554.9 million to approximately RMB1,647.8 million in the Nine-month Period was mainly attributable to the opening of 13 directly-operated supermarkets during the Nine-month Period. For the wholesale distribution business, the Group's revenue increased by approximately 6.2% was mainly due to the increase in demand of the Group's products and continuously optimizing product mix.

For the Nine-month Period, the gross profit of the Group was approximately RMB407.7 million, representing an increase of approximately 12.3% compared with the gross profit of approximately RMB363 million of last corresponding period. The increment was in line with the increase in revenue. The increase in gross profit margin from approximately 11.8% to approximately 12.5% for the Nine-month Period was mainly attributable to lower prices with increased purchase volume and continuously optimizing product mix.

Profit after tax increased by approximately 41.4% from approximately RMB78.4 million to approximately RMB110.9 million during the Nine-month Period. Excluding the effect of the one-off bank interest income of approximately RMB23 million and related tax obtained from the over-subscription, profit after tax was approximately RMB95.4 million for the Nine-month Period, representing approximately 21.6% increase comparing to last corresponding period. The increase was mainly attributable to an increase in gross profit by approximately 12.3% and an increase in other income by approximately 18.4%.

As a result, the profit attributable to shareholders of the Company increased by approximately 48.1% from approximately RMB59.8 million to approximately RMB88.6 million during the Nine-month Period. Accordingly, the net profit margin increased from approximately 1.9% to approximately 2.7%. Excluding the effect of the one-off bank interest income of approximately RMB23 million and related tax obtained from the over-subscription, the profit attributable to shareholders of the Company and net profit margin was approximately RMB73.1 million (representing approximately 22.2% increase comparing to last corresponding period) and approximately 2.2%, respectively for the Nine-month Period.

For the Nine-month Period, the Group recorded a basic earnings per share of approximately RMB35.5 cents, which was calculated on the basis of the weighted average number of approximately 249,652,967 shares, representing approximately 46.1% higher than approximately RMB24.3 cents for last corresponding period. Excluding the effect of the one-off bank interest income of approximately RMB23 million and related tax obtained from the over-subscription, the basic earnings per share was approximately RMB29.3 cents for the Nine-month Period, representing approximately 20.6% higher than that of the same period last year.

As at 30 September 2006, the Group's net gearing ratio was approximately 0.1% which was significantly lower than approximately 79.9% of last period. The decrease was primarily due to the initial listing proceeds received and the enlargement of share capital base.

PROSPECTS

The Group is a leading retail and wholesale distribution operator in the Greater Beijing Region. The Group's mission is to further strengthen its foothold in the Greater Beijing Region and to expand into other parts of northern and eastern China. In order to achieve this goal, the Group will:

- Further expand its retail and wholesale distribution network in the Greater Beijing Region;
- Upgrade its logistics and distribution centres to further improve distribution capability;
- Strategically improve and renovate the retail outlets to improve shopping environment and attract more customers;
- Continue to invest in management information systems to achieve better cost control; and
- Keep on strengthening internal control, rationalizing the allocation of resources, reducing costs and expenses in order to further enhance operation efficiency and profitability.

CORPORATE GOVERNANCE

For the Nine-month Period, the Company complied with the provisions set out in Appendix 15 of the Code on Corporate Governance Practices of the GEM Listing Rules.

Board of Directors

The first session of the board of directors of the Company is currently comprised of nine directors and their term of office will end on 31 October 2007. The board of directors comprises three independent non-executive directors who are independent of the management and in possession of solid experience in business operation and financial management.

As at 30 September 2006, the board of directors fulfilled the requirement of having at least three independent non-executive directors as required by the GEM Listing Rules and the number of independent non-executive directors being at least one-third of the members of the board of directors, and it also met the requirement of having one independent non-executive director qualified as a professional accountant or having the professional accounting and financial management expertise.

Board Practices and Procedures

During the Nine-month Period, the Company complied with the requirements set out in Rule 5.34 of the GEM Listing Rules in relation to board practices and procedures.

Chairman of the Board and General Manager

Mr. Wei Tingzhan and Mr. Li Jianwen are the chairman of the board of directors and the general manager of the Company, respectively, which are two clearly defined positions. The chairman is responsible for the operation of the Board while the general manager is in charge of ordinary business management. The Articles of Association of the Company sets out the respective duties and power of the chairman and the general manager in detail.

AUDIT COMMITTEE

Pursuant to the Rule 5.28 of the GEM Listing Rules, the Company has set up an audit committee. In compliance with the Rules 5.29 of the GEM Listing Rules, the authority and responsibility of the audit committee have been properly written out. The primary duties of the audit committee are to review and supervise the Company's financial reporting process and internal control system. The audit committee comprises three independent non-executive directors, namely Mr. Chung Chi Kong, Mr. Huang Jiangming and Mr. Fan Faming. Mr. Chung Chi Kong is the chairman of the audit committee.

The Group's unaudited results for the three months and the nine months ended 30 September 2006 and those of the last corresponding periods prepared in accordance with the accounting principles generally accepted in Hong Kong have been reviewed by the audit committee.

OTHER INFORMATION

1. DISCLOSURE OF INTERESTS

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

As at 30 September 2006, the interests and short positions of the directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long positions in the domestic shares of the Company

Name	Capacity	Total number of domestic shares held	Approximate percentage of total issued domestic shares (%)	Approximate percentage of total issued shares (%)
Wei Tingzhan	Personal	1,417,237	0.61	0.37
Li Jianwen	Personal	1,354,712	0.58	0.35
Li Chunyan	Personal Beneficiary (Note 1)	208,417 187,575	0.09 0.08	0.05 0.05
Liu Yuejin	Beneficiary (Note 2)	375,151	0.16	0.10
Gu Hanlin	Personal	1,417,237	0.61	0.37
Li Shunxiang	Personal	5,210,428	2.24	1.35
Yang Baoqun	Personal	1,042,086	0.45	0.27
Qu Xinhua	Personal	833,669	0.36	0.22
Wang Shuying	Beneficiary (Note 3)	375,151	0.16	0.10
Chen Limin	Personal	833,669	0.36	0.22
Zhao Weili	Personal	917,035	0.39	0.24
Gao Jingsheng	Personal	833,669	0.36	0.22

Notes:

1. These 187,575 domestic shares were held by Shanxi Trust Investment Company Limited ("Shanxi Trust") as trust property, the beneficiary of which was Ms. Li Chunyan.
2. These 375,151 domestic shares were held by Shanxi Trust as trust property, the beneficiary of which was Mr. Liu Yuejin.
3. These 375,151 domestic shares were held by Shanxi Trust as trust property, the beneficiary of which was Ms. Wang Shuying.

Save as disclosed above, to the best knowledge of the Directors, as at 30 September 2006, none of the directors, supervisors and chief executives of the Company or their respective associates had any interest or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2006, the persons (other than a director, supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in the domestic shares of the Company

Name	Capacity	Total number of domestic shares held	Approximate percentage of total issued domestic shares (%)	Approximate percentage of total issued shares (%)
Beijing Chaoyang Auxillary Food Company	Beneficial owner	170,169,808	73.09	44.24
Shanxi Trust	Trustee (Note)	26,635,710	11.44	6.93

Note: These 26,635,710 domestic shares were trust property, the beneficiaries of which were 122 employees and officers of the Company.

Long positions in the H shares of the Company

Name	Total number of H shares held	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued shares (%)
Fidelity International Limited (Note)	13,006,000	8.57	3.38

Note: These 13,006,000 H shares were held by Fidelity International Limited in its capacity as an investment manager.

Save as disclosed above, to the best knowledge of the Directors, as at 30 September 2006, no other persons (other than a director, supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

2. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, or sold or redeemed any of the Company's listed securities during the period from 25 September 2006 (date of listing of the Company's H shares on GEM) to 30 September 2006.

3. COMPETITION AND CONFLICT OF INTEREST

None of the directors, the management shareholders, the significant shareholders or the substantial shareholders of the Company or any of their respective associates had engaged in any business that competed or might compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or had any other conflict of interests with the Group, during the Nine-month Period.

4. COMPLIANCE ADVISER'S INTEREST

Based on the latest information and notices from DBS Asia Capital Limited ("DBS Asia"), the Company's compliance adviser, pursuant to Rules 6.36 and 18.75 of the GEM Listing Rules, neither DBS Asia nor its directors, employees or associates had any interests in the securities of the Company or any other companies in the Group (including options or rights to subscribe for such securities) as at 30 September 2006. Pursuant to an agreement dated 30 March 2006 entered into between DBS Asia and the Company (the "Agreement"), DBS Asia received and will receive fees for acting as the Company's compliance adviser for a term expiring on the date on which the Company distributes the annual report for the second full financial year after listing of the Company's H shares on GEM of the Stock Exchange on 25 September 2006, or for the period until termination of the Agreement as stipulated therein.

By order of the Board

Wei Tingzhan

Chairman

Beijing, PRC

10 November 2006

As at the date of this report, the executive directors of the Company (the "Directors") are Wei Tingzhan, Li Jianwen, Li Chunyan and Liu Yuejin; the non-executive Directors are Gu Hanlin and Li Shunxiang; and the independent non-executive Directors are Fan Faming, Huang Jiangming and Chung Chi Kong.