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北京京客隆商業集團股份有限公司

BEIJING JINGKELONG COMPANY LIMITED*

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

(Stock Code: 8245)

Announcement pursuant to Rule 17.10

The Board is pleased to announce that the Company and Shou Lian have entered into the Capital Increase Agreement on 10 February 2007 in relation to the issue by Shou Lian of RMB 50 million (equivalent to approximately HK\$49.85 million) of its new equity capital (representing approximately 11.04% of the Enlarged Total Equity of Shou Lian) to the Company.

Shou Lian is a daily consumer products retail chain operator. As at the date of this announcement, Shou Lian operates three hypermarkets, 21 supermarkets, one discount store and 16 convenience stores in Beijing.

In conjunction with the entering into of the Capital Increase Agreement, on the same date, the Company has also entered into a Co-operation Agreement with Xi You and Shou Lian, pursuant to which, amongst other things:

- (i) Shou Lian's network of hypermarkets, supermarkets and convenience stores will be operated, on terms of the Group's franchise arrangements, under the Group's "京客隆" brandname; and
- (ii) the Company has been granted the Right of First Refusal and the Purchase Right by Xi You in respect of its equity interests in Shou Lian.

The Group is a leading integrated retail and wholesale distributor of daily consumer products in the Greater Beijing Region with a network of 171 retail outlets (comprising five hypermarkets, 38 supermarkets and 39 convenience stores under direct management and one supermarket and 88 convenience stores under franchise arrangement), which are supported by two specially designed retail logistics centres.

The Directors believe that with the addition of Shou Lian's network of hypermarkets, supermarkets, discount store and convenience stores (i) the Group can further expand its retail distribution network to cover other parts of the Greater Beijing Region and increase its revenue through the distribution of its products to Shou Lian, (ii) the cost benefit of the Group's distribution systems can be more effectively realised with the incorporation of Shou Lian's retail network into that of the Group's, and (iii) the economies of scale of the Group can be further upgraded in terms of, for example, sourcing capability and bargaining power.

INTRODUCTION

The Board is pleased to announce that the Company and Shou Lian have entered into the Capital Increase Agreement on 10 February 2007 in relation to the issue by Shou Lian of RMB 50 million (equivalent to approximately HK\$49.85 million) of its new equity capital (representing approximately 11.04% of the Enlarged Total Equity of Shou Lian) to the Company. In conjunction with the entering into of the Capital Increase Agreement, on the same date, the Company has also entered into a Co-operation Agreement with Xi You and Shou Lian. A summary of the principal terms of each of the Capital Increase Agreement and the Co-operation Agreement are set out below.

THE CAPITAL INCREASE AGREEMENT

Date: 10 February 2007

Parties: (1) Shou Lian (as issuer)
(2) The Company (as subscriber)

Equity to be issued: RMB 50 million (equivalent to approximately HK\$49.85 million) of new equity capital to be issued by Shou Lian (representing approximately 11.04% of its Enlarged Total Equity)

Conditions: Completion is conditional upon the satisfaction of certain conditions, of which only the following is yet to be fulfilled, namely, the completion of the capital verification in respect of Xi You's RMB50 million capital contribution to Shou Lian (which amount has been received by Shou Lian), and the completion of the administrative procedures with the Beijing Administration of Industry and Commerce in respect of Shou Lian's increase of registered capital from RMB353 million to RMB403 million.

THE CO-OPERATION AGREEMENT

Date: 10 February 2007

Parties: (1) Xi You
(2) Shou Lian
(3) The Company

Other terms: (i) During the Delegation Period, Shou Lian's network of hypermarkets, supermarkets and convenience stores will be operated, on terms of the Group's franchise arrangements, under the Group's "京客隆" brandname. The sourcing and logistics requirements of Shou Lian's network of hypermarkets, supermarkets and convenience stores will be supported by the Group's retail logistics centres.

(ii) The Company is granted a right of first refusal (the "**Right of First Refusal**"), exercisable during the Delegation Period, for the purchase of the Xi You Delegated Equity at a price, which shall not be more than its par value, to be agreed between the Company and Xi You (Provided That since Xi You is a state owned enterprise, unless at the time the Company exercises its right to purchase the Xi You Delegated Equity, Beijing SASAC approves the purchase to be effected by agreement, based on the PRC law and regulations currently in force, the purchase of the Xi You Delegated Equity is required to be subject to auction procedure).

(iii) The Company is granted a purchase right (the "**Purchase Right**"), exercisable during the Delegation Period, to purchase, at the Company's option, the Xi You Delegated Equity at a price, which shall not be more than its par value, to be agreed between the Company and Xi You (subject to the proviso referred to in paragraph (ii) above in this section). The Purchase Right is exercisable on 28 February of 2008, 2009 and 2010.

(iv) During the Delegation Period, the Company shall exercise the voting rights attached to the Xi You Delegated Equity in accordance with Xi You's direction.

(v) The Company will make a cash deposit in the sum of RMB 50 million with a bank in the PRC, and the same bank will make a loan (the "**Designated Loan**") to Shou Lian for the purpose of financing the working capital of Shou Lian. Shou Lian will pay interest and handling charge to the bank such that the Company will receive interest from its cash deposit at a rate equal to its average cost of borrowings at the time of the Designated Loan.

REASONS FOR THE ENTERING INTO THE CAPITAL INCREASE AGREEMENT AND THE CO-OPERATION AGREEMENT

The Directors believe that having a network of strategically located retail outlets supported by a centralised distribution system is vital to the success of a daily consumer products retail chain operator.

The Group is already a leading integrated retail and wholesale distributor of daily consumer products in the Greater Beijing Region with a network of 171 retail outlets (comprising five hypermarkets, 38 supermarkets and 39 convenience stores under direct management and one supermarket and 88 convenience stores under franchise arrangement), which are supported by two specially designed retail logistics centres for live and fresh produce and dry food stuff, respectively.

The Company is the only daily consumer products retail chain operator in Beijing which has invested in its own live and fresh produce retail logistics centre. From construction, it required more than two years to roll out the three functions (namely, the processing and distribution of vegetables, fruit and meat) of this live and fresh produce retail logistics centre in phases. Therefore, this capital investment requires a long lead time and has a high entry barrier. Its ability to coordinate and centralise the procurement and distribution of live and fresh produce has substantially improved the efficiency of the quality control process and has made possible daily replenishment of such produce at all the Group's outlets distributing live and fresh produce, and hence, assuring the quality and freshness of the Group's live and fresh produce.

The Directors believe that with the addition of Shou Lian's network of three hypermarkets, 21 supermarkets, one discount store and 16 convenience stores in Beijing, (i) the Group can further expand its retail distribution network to cover other parts of the Greater Beijing Region and increase its revenue through the distribution of its products to Shou Lian, (ii) the cost benefit of the Group's distribution systems can be more effectively realised with the incorporation of Shou Lian's retail network into that of the Group's, and (iii) the economies of scale of the Group can be further upgraded in terms of, for example, sourcing capability and bargaining power.

The Company will operate Shou Lian's network under the Group's franchise arrangements. As Shou Lian currently manages its network of retail outlets through separate and different management information, distribution and procurement systems, and this mode of operation, in the Directors' opinion, has not maximised synergy in procurement and distribution, the Company intends to implement the Group's centralised management information system (through the Group's intranet system) at Shou Lian so as to integrate Shou Lian's procurement and distribution requirements with those of the Group's and connect the Company's two retail logistics centres with Shou Lian's network of outlets.

The Directors therefore consider the terms of the Capital Increase Agreement and the Co-operation Agreement to be fair and reasonable and in the interest of the Group.

INFORMATION ON THE GROUP

The Group is principally engaged in the business of distribution of daily consumer products in the Greater Beijing Region. The distribution network of the Company spans across retail and wholesale distribution channels. The Group operates its retail distribution business under its well-known “京客隆” brand and its wholesale distribution business under its well known “朝批” brand.

INFORMATION ON SHOU LIAN

Shou Lian is a daily consumer products retail chain operator. As at the date of this announcement, Shou Lian operates three hypermarkets, 21 supermarkets, one discount store and 16 convenience stores in Beijing. For each of the two years ended 31 December 2005, Shou Lian recorded a loss of RMB56.07 million (equivalent to approximately HK\$55.90 million) and RMB98.82 million (equivalent to approximately HK\$98.52 million), respectively.

The Directors believe that the Group can leverage on its above core competencies and competitive advantages to improve the operating efficiency and reduce the operating costs of Shou Lian.

DEFINITIONS

“Beijing SASAC”	北京市人民政府國有資產監督管理委員會 (Beijing Municipal Government State-owned Assets Supervision and Administration Commission)
“Board”	the board of Directors of the Company
“Capital Increase Agreement”	the capital increase agreement dated 10 February 2007 and entered into between the Company and Shou Lian in relation to the issue by Shou Lian of RMB 50 million new equity capital to the Company
“Company”	北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited), a joint stock limited company incorporated in the PRC, the H shares of which are listed on GEM
“Co-operation Agreement”	the co-operation agreement dated 10 February 2007 and entered into between Xi You, Shou Lian and the Company
“Delegation Period”	the period from 28 February 2007 to 28 February 2010 (both days inclusive)
“Director(s)”	the director(s) of the Company

“Enlarged Total Equity”	the amount of RMB453 million comprising (i) the RMB353 million registered capital of Shou Lian, (ii) the amount of Xi You’s RMB50 million capital contribution (pending capital verification) to Shou Lian, and (iii) the New Capital to be issued
“GEM”	the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
“Greater Beijing Region”	the region covering the whole Beijing city and certain parts of its northern peripheral
“Group”	the Company and its subsidiaries
“HK Dollar” or “HK\$”	Hong Kong dollars
“New Capital”	RMB 50 million (equivalent to approximately HK\$49.85 million) new equity capital to be issued by Shou Lian (representing approximately 11.04% of its Enlarged Total Equity) pursuant to the Capital Increase Agreement
“Purchase Right”	as defined in the section headed “The Co-operation Agreement” in this announcement
“Right of First Refusal”	as defined in the section headed “The Co-operation Agreement” in this announcement
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“Shou Lian”	北京首聯商業集團有限公司 (Beijing Shou Lian Group Enterprises Company Limited), a limited liability company established in the PRC
“Total Equity”	the amount of RMB403 million comprising (i) the RMB353 million registered capital of Shou Lian and (ii) the amount of Xi You’s RMB50 million capital contribution (pending capital verification) to Shou Lian
“Xi You”	北京西單友誼集團 (Beijing Xi Shan You Yi Group), a PRC state-owned enterprise
“Xi You Delegated Equity”	RMB 205.20 million in the Total Equity of Shou Lian, representing approximately 50.92% of Shou Lian’s Total Equity as at the date of this announcement and approximately 45.30% of Shou Lian’s Enlarged Total Equity

This announcement contains translations of RMB into HK Dollar at the rate of HK\$1.00 to RMB1.003 solely for reference. No representation or assurance is made or given that the RMB amounts set out in this announcement have been, could have been, could be, may be or will be converted into HK\$ as such rate or any other rates.

By Order of the Board
Beijing Jingkelong Company Limited
Wei Tingzhan
Chairman

Hong Kong, 10 February 2007

This announcement, for which the Directors of the Company (namely, Executive Directors: Wei Tingzhan, Li Jianwen, Li Chunyan and Liu Yuejin; the Non-Executive Directors: Gu Hanlin and Li Shunxiang; and the Independent Non-executive Directors are Fan Faming, Huang Jiangming and Chung Chi Kong.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least seven days from its date of publication.