北京京客隆
商业集团股份有限公司
BEIJING JINGKELONG COMPANY LIMITED

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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities trade on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid reports in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed companies.

This announcement, for which the directors (the "Directors") of Beijing Jingkelong Company Limited 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *For identification purposes only*

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board of Directors (the "Board") and with great pleasure, I present to you the first annual results of Beijing Jingkelong Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2006 (the "Reporting Period") after the successful listing of the Company's H shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2006 marked an important milestone in the development history of the Group. The Company's H shares were successfully listed on GEM of the Stock Exchange on 25 September 2006. The Company's Global Offering was very well received and the Company raised net proceeds (not including interest income) of approximately HK$584.6 million. The successful listing of the Company's H shares on GEM allows the Group to access the international capital markets and its corporate profile has also been greatly enhanced. The Directors and the management team of the Group will endeavour to carry out our expansion strategies and create value for the shareholders of the Company.

During the Reporting Period, the Group continued to focus on its integrated retail and wholesale businesses in the region covering Beijing City and certain parts of its periphery (the "Greater Beijing Region") of the People's Republic of China (the "PRC"), and has achieved satisfactory results in terms of expansion of network coverage as well as significant growth in sales and net profit.

REVIEW OF RESULTS

During the Reporting Period, the Group continued to leverage on its well-established foundation to further expand its integrated retail and wholesale distribution operations. The Group also attached great emphasis on enhancing its internal management while increasing its scale of operation. Through improving centralized procurement, logistics and distribution functions, systemizing and standardizing its chain store operation format, implementing stringent cost control and budget-based management, the Group has successfully achieved substantial growth in sales and continuous increment in gross profit margin, strengthened its leading position in the Greater Beijing Region and fortified its long-term competitiveness.

During the Reporting Period, the Group accelerated its network coverage by penetrating further in the Greater Beijing Region. Apart from consolidating its regional advantage in the Chaoyang District, the Group has also expanded its coverage to other locations. The Group currently operates its retail network in 13 districts and counties in Beijing. 19 new directly-operated retail outlets were set up during the Reporting Period. The aggregate net operating area of the Group's directly-operated retail outlets was increased by approximately 29,000 square metres in the Reporting Period.

Following the Group's recent investment in Beijing Shou Lian Group Enterprises Company ("Shou Lian"), management of the delegated equity of Shou Lian and implementing our franchise arrangement at its retail distribution network, the Group will gradually further extend its retail distribution network coverage to other districts of Beijing.

During the Reporting Period, the wholesale business of the Group in the Beijing Region continued to thrive with substantial growth while the distribution networks in our Tianjin branch and the subsidiaries located in Shijiazhuang, Hebei Province and Qingdao, Shandong Province have gradually matured. Our Tianjin branch also made top-ranks in terms of sales in its locality. The Group also obtained the wholesale regional sole distributorships of 45 brands which further strengthened its strong competitive position within our regional markets.

The Group achieved the following during the Reporting Period:

- Retail network increased to 171 outlets (including 5 hypermarkets, 39 supermarkets and 127 convenience stores) as compared to 158 in 2005;

- Revenue amounted to approximately RMB4,531 million, representing a 9.9% growth as compared to 2005;

- Gross profit amounted to approximately RMB564.6 million, 12.9% higher than that of 2005;

- Gross profit margin was approximately 12.5%, 0.4% higher than that of 2005;

- Net profit margin was approximately 2.2%, 0.4% higher than that of 2005;

- Same store sales growth increased by approximately 1.8% from 4.8% in 2005 to 6.6% in 2006;

- Profit attributable to equity holders was approximately RMB99.6 million, representing a 32.6% growth as compared to 2005;

- Final dividend per share was RMB15 cents (tax inclusive); and

- Net gearing ratio substantially reduced to approximately 13.8%, 114.8% lower than that of 2005.

PROSPECTS

Looking forward, the Directors believe that the sustained robust growth of the PRC economy will continue to propel domestic consumer demand and the growth of the retail and wholesale distribution market in the PRC. With the 2008 Beijing Olympic Games, we believe that the investments in construction of various infrastructures and residential projects and the increase in the number of tourist visiting Beijing will stimulate economic growth and the consumer products markets in the Greater Beijing Region. In the coming year, the Group, as a leading retail and wholesale operator in the Greater Beijing Region, is well positioned to capture the potential benefits flowing from the upcoming 2008 Beijing Olympic Games. We will continue to focus on increasing operating scale and efficiency so as to maximize the benefit of the integrated and centralized resources of the Group's procurement and distribution systems and retail network. In 2007, the Group will speed up the pace of its expansion through organic growth by various modes such as establishing more ownoperated retail outlets and franchised outlets along with identifying appropriate merger and acquisition opportunities to further extend the reach of our regional network in the Greater Beijing Region. Meanwhile, the Group will continue to leverage on its unique advantage of having an integrated retail and wholesale operation, upgrade its logistics and distribution systems and management information system. We announced on 24 January 2007 that the Company intended to apply for a migration of its listing to the Main Board of the Stock Exchange (the "Mainboard Migration"). At our shareholders' class meetings on 20 March 2007, our shareholders voted in favour of the resolutions put forward to them and thus giving the Directors a mandate to apply to the China Securities and Regulatory Commission for the Mainboard Migration. This is also one of our objectives for 2007.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our sincere appreciation to all shareholders for their trust and support, my gratitude to all the Group's employees for their valuable contribution to the Group during the year. I believe that with our management's in-depth understanding of the local market, together with the Group's strong logistics and distribution systems and advanced management information system, leading market position and stable and experienced management team, we are well positioned to seize opportunities for further business development.

Wei Tingzhan
Chairman

Beijing, PRC
20 March 2007

ANNUAL RESULTS

The Board is pleased to announce the audited consolidated results and financial position of the Group for the year ended 31 December 2006, together with the audited comparative figures for the year ended 31 December 2005, as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
REVENUE	4	**4,530,975**	4,121,748
Cost of sales		**(3,966,385)**	(3,621,667)
Gross profit		**564,590**	500,081
Other income and gains	4	**224,308**	143,668
Selling and distribution costs		**(419,117)**	(369,764)
Administrative expenses		**(107,958)**	(88,924)
Other expenses		**(29,897)**	(20,452)
Finance costs	5	**(26,296)**	(19,073)
Share of losses of associates		**(139)**	(32)
PROFIT BEFORE TAX	6	**205,491**	145,504
Tax	7	**(74,072)**	(47,158)
PROFIT FOR THE YEAR		**131,419**	98,346
Attributable to:			
Equity holders of the parent		**99,577**	75,098
Minority interests		**31,842**	23,248
		131,419	98,346
DIVIDENDS – Final	8	**57,693**	56,367
Dividend per share – RMB	8	**15.0 cents**	22.9 cents
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Basic) – RMB	9	**35.1 cents**	30.5 cents

CONSOLIDATED BALANCE SHEET

31 December 2006

	Notes	**2006** *RMB'000*	2005 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,011,199**	795,642
Investment properties		**16,922**	17,813
Lease prepayments for land used rights		**72,194**	72,946
Interests in associates		**198**	918
Available-for-sale investments		**3,099**	350
Intangible assets		**2,344**	2,080
Other long term lease prepayments		**17,524**	–
Total non-current assets		**1,123,480**	889,749
CURRENT ASSETS			
Inventories		**499,644**	382,164
Trade receivables	*10*	**473,078**	455,072
Prepayments, deposits and other receivables		**163,102**	181,130
Due from related parties		**–**	36
Pledged deposits		**16,919**	13,291
Cash and cash equivalents		**841,691**	220,741
Total current assets		**1,994,434**	1,252,434
CURRENT LIABILITIES			
Trade payables	*11*	**746,690**	642,030
Tax payable		**44,100**	26,553
Other payables and accruals		**223,671**	209,379
Interest-bearing bank and other borrowings		**726,396**	640,604
Due to Chaoyang Auxillary		**–**	11,880
Deferred income-current portion		**267**	267
Dividend payable		**–**	536
Total current liabilities		**1,741,124**	1,531,249
NET CURRENT ASSETS/(LIABILITIES)		**253,310**	(278,815)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,376,790**	610,934

	Notes	**2006** ***RMB'000***	2005 *RMB'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**280,000**	150,000
Other long term payables		**–**	8,750
Deferred income		**3,466**	3,733
Deferred tax liabilities		**18,679**	15,747
Total non-current liabilities		**302,145**	178,230
Net assets		**1,074,645**	432,704
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		**384,620**	246,620
Reserves		**542,660**	55,797
Proposed final dividend		**57,693**	56,367
		984,973	358,784
Minority interests		**89,672**	73,920
Total equity		**1,074,645**	432,704

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	Attributable to equity holders of the parent										
	Issued capital	Share premium account	Capital reserve	Available-for-sale investment revaluation reserve	Statutory surplus reserve	Statutory public welfare fund	Proposed final dividend	Retained profits	Subtotal	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 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)	–	(39,502)
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	(10,715)	(10,715)
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
Change in fair value of available-for-sale investments	–	–	–	2,749	–	–	–	–	2,749	–	2,749
Total income and expense recognized directly in equity	–	–	–	2,749	–	–	–	–	2,749	–	2,749
Profit for the year	–	–	–	–	–	–	–	99,577	99,577	31,842	131,419
Total income and expense for the year	–	–	–	2,749	–	–	–	99,577	102,326	31,842	134,168
2005 dividend declared	–	–	–	–	–	–	(56,367)	–	(56,367)	–	(56,367)
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	(16,090)	(16,090)
Issue of H shares upon listing	120,000	428,597	–	–	–	–	–	–	548,597	–	548,597
Issue of H shares upon exercising of the over-allotment option	18,000	64,501	–	–	–	–	–	–	82,501	–	82,501
Share issue expenses	–	(50,868)	–	–	–	–	–	–	(50,868)	–	(50,868)
Appropriation to reserves	–	–	–	–	15,267	–	–	(15,267)	–	–	–
Transfer of unutilized statutory public welfare fund to statutory surplus reserve	–	–	–	–	9,260	(9,260)	–	–	–	–	–
Proposed final 2006 dividend	–	–	–	–	–	–	57,693	(57,693)	–	–	–
As at 31 December 2006	384,620	442,230*	5,121*	2,749*	43,049*	–	57,693	49,511*	984,973	89,672	1,074,645

* *These reserve accounts comprise the consolidated reserves of RMB542,660,000 (2005: RMB55,797,000).*

NOTES:

1. CORPORATE INFORMATION

The Company was established in 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 place of business in Hong Kong is located at 20th Floor, Alexandra House, 16-20 Chater Road, Hong Kong. The registered office of the Company in China is located at No. 45, Xinyuan Street, Chaoyang District, Beijing, PRC. The Company's H shares were listed on GEM of the Stock Exchange on 25 September 2006.

During the Reporting Period, the Group was principally engaged in the retail and wholesale distribution of daily consumer products in the Greater Beijing Region.

2.1 BASIS OF PREPARATION

The Group's financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared on a historical cost convention, except for the equity investments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the Reporting Period. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretation has had no material effect on the current year's financial statements.

HKAS 21 Amendment	Net Investment in Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

2.3 IMPACT OF ISSUED BUT NOT EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economics*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

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 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosures requirements of HKAS 32.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11, HK(IFRIC)-Int 12 and HKFRS 8 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007, 1 January 2008 and 1 January 2009, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. 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 provided. 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 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 any hypermarkets, supermarkets and/or convenience stores of the Group;

(ii) the wholesaling segment engages in the wholesale supply of daily consumer products to consumers including the Group's hypermarkets, supermarkets and/or convenience stores and other retail operators, and trading companies; and

(iii) the "others" segment comprises, principally, the production of plastic packing materials, and installation and maintenance of commercial equipment.

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 and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Year ended 31 December 2006

	Retailing	Wholesaling	Others	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue					
Sales to external customers	2,297,306	2,228,520	5,149	–	4,530,975
Intersegment sales	147,559	333,227	8,904	(489,690)	–
Other income and gains	191,543	38,247	502	(5,984)	224,308
Total	2,636,408	2,599,994	14,555	(495,674)	4,755,283
Segment results	97,742	133,793	391	–	231,926
Finance costs	(10,397)	(21,883)	–	5,984	(26,296)
Share of losses of associates	–	(139)	–	–	(139)
Profit before tax					205,491
Tax					(74,072)
Profit for the year					131,419
Assets and liabilities					
Segment assets	2,170,050	1,106,226	4,219	(162,779)	3,117,716
Interests in associates	–	198	–	–	198
Total assets					3,117,914
Segment liabilities	(638,477)	(497,078)	(2,217)	162,779	(974,993)
Unallocated corporate liabilities	(675,005)	(393,229)	(42)	–	(1,068,276)
Total liabilities					(2,043,269)
Other segment information					
Capital expenditure	256,856	21,707	63	–	278,626
Depreciation:					
property, plant and equipment	45,384	12,550	102	–	58,036
investment properties	891	–	–	–	891
Amortisation of intangible assets	383	–	–	–	383
Recognition of lease prepayments for land use rights	752	–	–	–	752
Impairment loss on items of property, plant and equipment	2,100	–	–	–	2,100
Foreign exchange difference	6,366	–	–	–	6,366

Year ended 31 December 2005

	Retailing *RMB'000*	Wholesaling *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Segment 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)	–
Other income and gains	134,868	11,468	639	(3,307)	143,668
Total	2,301,548	2,367,152	12,482	(415,766)	4,265,416
Segment results	73,893	90,389	327	–	164,609
Finance costs	(7,121)	(15,225)	(34)	3,307	(19,073)
Share of losses of associates	–	(32)	–	–	(32)
Profit before tax					145,504
Tax					(47,158)
Profit for the year					98,346
Assets and liabilities					
Segment assets	1,365,788	975,996	3,607	(204,126)	2,141,265
Interests in associates	–	918	–	–	918
Total assets					2,142,183
Segment liabilities	(628,191)	(449,826)	(1,619)	204,126	(875,510)
Unallocated corporate liabilities	(497,496)	(336,433)	(40)	–	(833,969)
Total liabilities					(1,709,479)
Other segment information					
Capital expenditure	222,784	22,630	8	–	245,422
Depreciation:					
property, plant and equipment	43,283	9,201	115	–	52,599
investment properties	891	–	–	–	891
Amortisation of intangible assets	312	–	–	–	312
Recognition of lease prepayments for land use rights	752	–	–	–	752

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and discounts. An analysis of revenue, other income and gains is as follows:

	2006	2005
	RMB'000	*RMB'000*
Revenue		
Sales of merchandise and produce		
Retailing	**2,297,306**	2,060,573
Wholesaling	**2,228,520**	2,057,361
	4,525,826	4,117,934
Others	**5,149**	3,814
Total revenue	**4,530,975**	4,121,748
Other income and gains		
Income from suppliers		
Promotion income	**70,700**	42,765
Display space leasing fee	**30,976**	18,332
Others	**16,432**	15,467
	118,108	76,564
Gross rental income	**40,313**	36,950
Net compensation on demolished properties	**17,002**	11,129
Interest income	**37,417**	8,378
Excess over the cost of a business combination	**–**	1,972
Gain on disposal of short term investments	**–**	18
Other	**11,468**	8,657
Total other income and gains	**224,308**	143,668

5. FINANCE COSTS

	2006	2005
	RMB'000	*RMB'000*
Interest on bank loans:		
– Within five years	**28,323**	16,205
– Over five years	**–**	293
	28,323	16,498
Interest on other borrowings	**15,745**	14,175
	44,068	30,673
Less: Interest capitalised	**(17,772)**	(11,600)
	26,296	19,073

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2006	2005
	RMB'000	*RMB'000*
Cost of inventories sold	**3,966,385**	3,621,667
Depreciation:		
Property, plant and equipment	**58,036**	52,599
Investment properties	**891**	891
	58,927	53,490
Amortisation of intangible assets	**383**	312
Recognition of lease prepayments for land use rights	**752**	752
Minimum lease payments under operating lease on properties	**50,015**	39,539
Loss on disposal of items of property, plant and equipment, net	**555**	1,468
Impairment of trade and other receivables	**6,640**	8,818
Write down/(reversal of write down) of inventories to net realisable value	**5**	(569)
Net rental income	**(34,272)**	(31,800)
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	**6,041**	5,150
Impairment loss on items of property, plant and equipment	**2,100**	–
Auditors' remuneration	**1,385**	160
Staff costs:		
Directors' and supervisors' emoluments	**3,072**	1,908
Other staff cost		
Wages, salaries and social security costs	**185,432**	160,495
Retirement benefits contributions	**18,431**	16,417
	203,863	176,912
	206,935	178,820
Foreign exchange difference	**6,366**	–
Excess over the cost of a business combination	**–**	(1,972)
Dividend income from an available-for-sale investment	**–**	(30)

7. 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. Under the prevailing PRC income tax law, the Group and its associates are subject to corporate income tax at a rate of 33% on their respective taxable income.

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

	2006	2005
	RMB'000	*RMB'000*
Current income tax-PRC	**71,140**	43,682
Deferred income tax	**2,932**	3,476
Total tax charge for the year	**74,072**	47,158

A reconciliation of tax expenses applicable to profit before tax at the statutory rate to tax expense at the Group's effective rate, and a reconciliation of the statutory rate to the effective rate, are as follows:

	2006		2005	
	RMB'000	***%***	*RMB'000*	*%*
Profit before tax	**205,491**		145,504	
Income tax at PRC statutory income tax rate	**67,812**	**33.0**	48,016	33.0
Expenses not deductible for tax	**3,570**	**1.7**	5,756	4.0
Tax losses not recognised	**2,857**	**1.4**	24	–
Tax losses utilized from previous periods	**–**	**–**	(89)	–
Income not subject to tax	**–**	**–**	(3,896)	(2.7)
Others	**(167)**	**–**	(2,653)	(1.9)
Tax charged at the Group's effective rate	**74,072**	**36.1**	47,158	32.4

8. DIVIDENDS

	2006	2005
	RMB'000	*RMB'000*
Proposed final – RMB15 cents (2005: RMB22.9 cents) per ordinary share	**57,693**	56,367

The proposed final dividend for 2006 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the year.

	2006	2005
	RMB'000	*RMB'000*
Earnings:		
Profit attributable to ordinary equity holders of the parent	**99,577**	75,098

	Number of shares	
	2006	2005
Shares:		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	**283,672,055**	246,620,000

The Company's weighted average number of shares in issue used in the basic earnings per share calculation during the Reporting Period is determined by adjusting 132,000,000 new H shares issued to the public and listed on GEM of the Stock Exchange on 25 September 2006 and a further 19,800,000 new H shares issued as a result of the full exercise of the over-allotment option on the same date.

Diluted earnings per share for the years ended 31 December 2006 and 2005 have not been presented because no diluting events existed during these two years.

10. TRADE RECEIVABLES

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. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risks. Trade receivables are non-interest bearing.

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

	2006	2005
	RMB'000	*RMB'000*
Within 2 months	**434,941**	400,397
2 to 6 months	**37,108**	50,360
6 months to 1 year	**638**	2,457
1 to 2 years	**391**	1,858
	473,078	455,072

11. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the balance sheet date, based on invoice date, is analysed as follows:

	2006	2005
	RMB'000	*RMB'000*
Within 2 months	**672,826**	581,688
2 to 6 months	**53,577**	46,608
6 months to 1 year	**5,234**	3,576
1 to 2 years	**2,844**	2,976
Over 2 years	**12,209**	7,182
	746,690	642,030

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Reporting Period, the Group continued in using the "京客隆" and 朝批 brand names to extend its retail and wholesale businesses in the Greater Beijing Region in order to cater various demand of a diverse range of customers, ranging from retail operators to end consumers.

RETAIL BUSINESS

1. Accelerate expansion of retail network

As supported by its well-established and modernized logistics and distribution system and management information system, the Group is enabled to speed up expansion in its retail network in the Greater Beijing Region. During the Reporting Period, the Group achieved stable retail network expansion with 19 directly-operated retail outlets being established comprising 1 hypermarket, 14 supermarkets and 4 convenience stores, in particular including the initial foundation of 1 hypermarket in the Daxing District and scale expansion of 8 directly-operated supermarkets and 1 directly-operated convenience store in the Tongzhou District, which strengthened the geographic advantage and increased the brand awareness of the Group in the Greater Beijing Region.

The following table sets out the number and net operating area of the Group's retail outlets as at 31 December 2006:

	Hypermarkets	Supermarkets	Convenience stores	Total
Number of retail outlets				
Directly-operated	5	38	39	82
Franchise-operated	–	1	88	89
	5	39	127	171
Net operating area (square metres)				
Directly-operated	44,938	87,117	8,841	140,896
Franchise-operated	–	880	16,977	17,857
	44,938	87,997	25,818	158,753

2. Reinforcement of logistics and distribution functions

The efficiency and effectiveness of well-established logistic and distribution systems is a core competitiveness of retail chain operators.

During the Reporting Period, the Group's dry product logistics centre aimed at increasing its efficiency, reducing distribution error rate and lowering logistics costs, conducting logistics integration by enhancing the ABC classification management of operation area resulting in the rate of product distribution being improved, renovating storerooms and increasing 1,200 store units for further storing 50,000 cartoons of goods so as to relieve the pressure of stockpiling during peak seasons, and changing mode of transportation by means of outsourcing transportation resulting in improving transportation efficiency.

During the Reporting Period, the live and fresh produce logistics centre continued to enhance distribution function of the Group. In addition to the centralized distribution of pork, vegetables and fruits, the distribution also extended to beef and mutton during 2006. Purchase of live and fresh produce has been established at their places of origin. By selecting superior purchase channels and initial establishment of purchasing network system from nationwide famous and superior brand production origins, the quality and safety of live and fresh produce can be assured.

3. Enhancement of management information system

During the Reporting Period, by adopting data strategy, the retail outlets placed more emphasis in analyzing the operating data statistics based on the real-time operating data collected by the Group's management information system in implementing tailor-made operating plans for different formats and environments in enhancing overall operating efficiency.

4. Establishment for enhancing loyalty of consumers

Consumers' loyalty is crucial to the Group. According to the survey conducted on the consumers of the Group carried out by Beijing Quality and Quantity Association in 2006, the Group was ranked first in Beijing among all the other local and foreign-invested supermarkets in terms of consumers' loyalty, which is attributable to the Group's strategy of long-term focus in establishing its brand and concern on consumers.

The Group is well aware of the customers are becoming more conscious about safety, and not only demand for variety of choices but also the quality of products. During the Reporting Period, further accomplishment was conducted for quality management system, stringent selection of new procuring channels, enhanced investigation and approval for new products, establishment of supplier credit files, optimization of supplier structure and risk reduction of quality at origins were adopted. Meanwhile, the capacity of the Group's product quality inspection centre was adequately exercised, strengthened investigation and testing of live and fresh produce and high-risk commodities operated by the retail outlets and assured quality and safety of food at the retail outlets.

During the Reporting Period, the Group strived in enhancing customer services. By unifying the three levels under the service monitoring systems, namely management, examination and implementation into an unique model plus a seamless multi-channel customer service system, application of creative service model, modification of service standard, optimization of service environment, enhancement of service training and upgrading of staff service techniques to ensure effective enhancement of customers loyalty and satisfaction. Active promotion of membership scheme and related management task were conducted and over 656,000 members were recorded as at 31 December 2006.

5. Operating results for different types of directly-operated retail format

Revenue

	2006		2005	
	Revenue *RMB'000*	**Percentage of retail revenue** *(%)*	Revenue *RMB'000*	Percentage of retail revenue *(%)*
Hypermarket	**700,997**	**30.5**	694,362	33.7
Supermarket	**1,419,103**	**61.8**	1,205,007	58.5
Convenience store	**177,206**	**7.7**	161,204	7.8
Total	**2,297,306**	**100.0**	2,060,573	100.0

Gross profit and gross profit margin of directly-operated retailing business

	2006		2005	
	Gross profit *RMB'000*	**Gross profit margin** *(%)*	Gross profit *RMB'000*	Gross profit margin *(%)*
Hypermarket	**102,261**	**14.6**	92,127	13.3
Supermarket	**205,397**	**14.5**	177,477	14.7
Convenience store	**26,164**	**14.8**	23,823	14.8
Total	**333,822**	**14.5**	293,427	14.2

During the Reporting Period, the revenue and gross profit of retail business increased by approximately 11.5% and 13.8%, respectively.

For the years ended 31 December 2006 and 2005, the revenue generated from the operations of hypermarkets, supermarkets and convenience stores accounted for approximately 30.5%, 61.8% and 7.7%, and 33.7%, 58.5% and 7.8%, respectively of the total retail revenue.

Hypermarkets Operations

Hypermarkets operations are the important part of the Group's retail business which is currently the most competitive business among local chain retail operators. During the Reporting Period, based on prudence sake and the principle of scientific location selection, the Group established one directly-operated hypermarket in the Daxing District which started operation on the last day of 2006. During the Reporting Period, the revenue generated from the hypermarkets operations was approximately RMB701 million, representing approximately 30.5% of the total retail revenue of the Group. The slight increase in 2006 revenue was mainly due to the same store sales growth of approximately 0.7%. Gross profit margin from this business segment increased from approximately 13.3% in 2005 to approximately 14.6% in 2006 mainly because of the higher gross profit margin generated by the self-operated live and fresh produce and continuously optimization of product mix.

Supermarkets Operations

Supermarkets operations are the Group most mature business and major contributor to the Group's retail business. During the Reporting Period, in view of realizing distribution tactic, the Group set up 8 new directly-operated supermarkets in the Tongzhou District which are essential to the Group future development. During the Reporting Period, the revenue generated from the supermarkets operations was approximately RMB1,419.1 million, representing approximately 61.8% of the total retail revenue of the Group. The significant increase in 2006 revenue of approximately 17.8% was mainly attributable to the total revenue generated by the

14 new supermarkets set up in 2006 and the same store sales growth of approximately 10.4%. Gross profit margin from this business segment slightly decreased from approximately 14.7% in 2005 to approximately 14.5% in 2006 was mainly due to the new supermarkets set up in 2006 in aggregate with a comparative lower gross profit margin.

Convenience Stores Operations

The business of the Group's convenience stores upholds the strategy in running both directly-operated and franchise-operated convenience stores at the same time. During the Reporting Period, the Group set up 4 new directly-operated convenience stores. The management of franchised-operated stores has been enforced during the year and of which the termination of franchise agreements with certain franchise-operated convenience stores which did not comply with the Group's franchise provisions in order to ensure the image of the Group's brand would not be impaired. During the Reporting Period, the revenue generated from the convenience stores operations was approximately RMB177.2 million, representing approximately 7.7% of the total retail revenue of the Group. The increase in 2006 revenue of approximately 9.9% was mainly attributable to the same store sales growth of approximately 7% as well as the total revenue generated by the 4 new convenience stores set up in 2006. Gross profit margin from this segment maintained at approximately 14.8% in 2005 and 2006.

WHOLESALE BUSINESS

In respect of its wholesale business, the Group is optimizing brand and classification of merchandise, achieving full-dimensional restructuring of operating entities, insisting on innovation of internal operation and management information system and maintaining appraisal of the performance of managements and staffs in terms of result and efficiency to inspire their motivation and sense of responsibility for persistent development of wholesale business.

During the Reporting Period, while expanding the wholesale business scale in Beijing, the local sales networks of the Tianjin branch and those subsidiaries located in Shijiazhuang, Hebei Province and Qingdao, Shandong Province have gradually established their respective direct and indirect co-operation relationships with over 80% of local customers which enhanced market competitiveness and influential effect along with sound increase in sales.

Operation results

	2006	2005
	RMB'000	*RMB'000*
Revenue	**2,228,520**	2,057,361
Gross profit	**229,375**	205,557
Gross profit margin (%)	**10.3**	10.0

During the Reporting Period, the revenue of wholesale business was approximately RMB2,228.5 million, representing approximately 49.2% of the total revenue, which is approximately 8.3% higher than that of 2005. The increase in 2006 revenue was primarily due to (i) the full year sales contribution in 2006 of three subsidiaries, namely Beijing Chaopi Jinglong Oil Company Limited, Shijiazhuang Chaopi Xinlong Trading Company Limited and Qingdao Chaopi Jinlong Trading Company Limited which were set up during 2005, (ii) the tremendous expansion of wholesale business arising from the rapid expansion of domestic retail business resulting in increase in demand of the Group's products, and (iii) continuously optimization of product mix. Gross profit margin slightly increased from approximately 10% in 2005 to 10.3% in 2006 was mainly because of the increase in total purchase volume with lower costs negotiated with suppliers and continuously optimization of product mix.

FINANCIAL REVIEW

FINANCIAL RESULTS

	2006	2005
	RMB'000	*RMB'000*
Revenue	**4,530,975**	4,121,748
Gross profit	**564,590**	500,081
Gross profit margin (%)	**12.5**	12.1
Other income and gains	**224,308**	143,668
Selling and distribution costs	**(419,117)**	(369,764)
Administrative expenses	**(107,958)**	(88,924)
Other expenses	**(29,897)**	(20,452)
Finance costs	**(26,296)**	(19,073)
Tax	**(74,072)**	(47,158)
Profit for the year	**131,419**	98,346
Profit attributable to equity holders of the parent	**99,577**	75,098
Net profit margin (%)	**2.2**	1.8
Basic earnings per share – RMB	**35.1 cents**	30.5 cents

Revenue

Revenue represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts.

The Group's revenue increased by approximately 9.9%, from approximately RMB4,121.7 million in 2005 to approximately RMB4,531 million was primarily due to the increase in retail and wholesale revenue by approximately 11.5% and 8.3%, respectively. The increase in retail revenue from approximately RMB2,060.6 million to approximately RMB2,297.3 million in current year was mainly attributable to the opening of 14 directly-operated supermarkets during 2006 and the overall same store sales growth of approximately 6.6%. The increase in 2006 wholesale revenue was mainly because of (i) the full year sales contribution in 2006 of three subsidiaries, namely Beijing Chaopi Jinglong Oil Company Limited, Shijiazhuang Chaopi Xinlong Trading Company Limited and Qingdao Chaopi Jinlong Trading Company Limited which were set up during 2005, (ii) the tremendous expansion of wholesale business arising from the rapid expansion of domestic retail business resulting in increase in demand of the Group's products, and (iii) continuously optimization of product mix.

Gross profit and Gross profit margin

During the Reporting Period, the gross profit of the Group was approximately RMB564.6 million, representing an increase of approximately 12.9% compared with approximately RMB500.1 million of last year. The increment was in line with the increase in revenue. The increase in gross profit margin from approximately 12.1% to approximately 12.5% in current year was mainly attributable to increase in total purchase volume with lower costs negotiated with suppliers, higher gross profit margin generated by self-operated live and fresh produce and continuously optimization of product mix.

Other income and gains

Other income and gains mainly represents income from suppliers for display leasing fee, promotion income, internet services income and rebates, rental income from leasing of investment properties and counters, net compensation on demolished premises and interest income.

The Group's other income and gains significantly increased by 56% from approximately RMB143.7 million to approximately RMB224.3 million in the Reporting Period was mainly due to an increase in income from suppliers of approximately RMB41.5 million and bank interest income of approximately RMB29 million. The increase in income from suppliers was mainly due to the combined effect of (i) an increase in average fee standard for store display and promotion income with the continuous increase in purchase and (ii) an increase in about 30 new suppliers joined the Group's supply chain in 2006. The increase in interest income was primarily attributable to the one-off bank interest income of approximately RMB23 million earned from the over-subscription of the Company's H shares (the "Over-subscription").

A total net compensation of approximately RMB17 million was recorded in 2006 for 4 demolished retail outlets. Other income and gains as a percentage of revenue increased from approximately 3.5% to 5%.

Selling and distribution costs

Selling and distribution costs mainly represent salary and welfare, depreciation, energy fee, rental expenses, repair and maintenance, transportation expenses, packaging expenses and advertising expenses.

The Group's selling and distribution costs increased by approximately 13.3% from approximately RMB369.8 million to approximately RMB419.1 million in 2006. The increase was primarily due to the combined effect of (i) an increase in salary and welfare of approximately RMB17.3 million due to a general increase in salary and more staff were recruited for the 19 new retail outlets set up in 2006, (ii) an increase in depreciation of approximately RMB3.5 million was mainly contributed by the fixed assets acquired for the 19 new retail outlets set up in 2006, (iii) an increase in energy fee of approximately RMB6.6 million was because of the 19 new retail outlets set up in 2006 as well as an increase in unit costs of utilities, (iv) an increase in rental expenses of approximately RMB10.5 million was mainly because of the 19 new retail outlets set up in 2006, and (v) an increase in transportation expenses of approximately RMB9.5 million was due to the expansion of wholesale networks and the increase in delivery of merchandises to the Group's retail outlets as well as the increase of gasoline unit price. Selling and distribution costs as a percentage of revenue was approximately 9% in 2005 as compared to approximately 9.3% in 2006.

Administrative expenses

Administrative expenses of the Group mainly represent salary and welfare, social security costs (including contribution to pension fund), depreciation expenses, entertainment expenses, contribution to housing fund and union and education fees.

The Group's administrative expenses increased by approximately 21.4% from approximately RMB88.9 million to approximately RMB108 million in 2006. Such increase was mainly attributable to (i) an increase in salary and welfare of approximately RMB6.3 million due to a general increase in salary and the increase of performance bonus paid to the Group's management in 2006, (ii) an increase in social security costs of approximately RMB4.5 million which was in line with the increase in salary, and (iii) an increase in entertainment, audit fee, office supplies, utilities, etc. of approximately RMB6.5 million. Administrative expenses as a percentage of revenue increased from approximately 2.2% to approximately 2.4% in current year.

Other expenses

Other expenses primarily comprise impairment of trade and other receivables, impairment loss of construction in progress, various taxes and surcharges and foreign exchange loss.

The Group's other expenses increased from approximately RMB20.5 million to approximately RMB30 million in 2006. The increase was mainly because of an increase in various taxes and surcharges of approximately RMB4.2 million as a result of the increase in rental income and income from suppliers, and a foreign exchange loss of approximately RM6.4 million arising from the depreciation of Hong Kong Dollar ("HK$") against RMB in respect of the listing proceeds received from the initial public offering of the Company's H shares.

Finance costs

Finance costs represent interest on bank loans and borrowings from other enterprises.

The Group's finance costs increased from approximately RMB19.1 million to approximately RMB26.3 million in 2006 mainly because of the increase in bank loans and other borrowings and interest rates in 2006. Finance costs as a percentage of revenue increased from approximately 0.5% to 0.6%.

Tax

The Group is not subject to Hong Kong profit tax as the Group had no assessable profit arising in or derived from Hong Kong during the Reporting Period.

The members of the Group are subject to corporate income tax at a rate of 33% on their respective taxable profit pursuant to the relevant PRC tax laws and regulations.

Income tax increased by approximately 57%, from approximately RMB47.2 million to approximately RMB74.1 million in 2006, primarily due to the increase in taxable income. The Group's effective corporate income tax rate increased from 32.4% to 36.1% in 2006.

Profit for the year

Profit for the year increased by approximately 33.6% from approximately RMB98.4 million to approximately RMB131.4 million in the current year. The increase was mainly attributable to an increase in revenue of approximately 9.9% resulting in an increase in gross profit of approximately 12.9% and an increase in other income and gains of approximately 56%.

Excluding the effect of the one-off bank interest income earned from the Over-subscription and the foreign exchange loss as aforementioned, profit for the year was approximately RMB122.3 million for the current year, representing approximately 24.4% increase comparing to last year.

Profit attributable to equity holders of the parent and net profit margin

Profit attributable to equity holders of the parent increased by approximately 32.6% from approximately RMB75.1 million to approximately RMB99.6 million in the current year. Accordingly, the net profit margin increased from approximately 1.8% to approximately 2.2%. Excluding the effect of the one-off bank interest income earned from the Over-subscription and the foreign exchange loss as aforementioned, the profit attributable to equity holders of the parent and net profit margin was approximately RMB90.5 million (representing approximately 20.5% increase comparing to last year) and approximately 2%, respectively for the current year.

Basic earnings per share

The Group recorded basic earnings per share of RMB35.1 cents for 2006, which was calculated on the basis of the Company's weighted average number of approximately 283,672,055 shares, representing approximately 15.1% higher than RMB30.5 cents of last year. Excluding the effect of the one-off bank interest income earned from the Over-subscription and the foreign exchange loss as aforementioned, the basic earnings per share was approximately RMB31.9 cents for the current year, representing approximately 4.6% higher than that of last year.

ANALYSIS OF KEY FINANCIAL RATIO

	2006	2005
Inventory turnover days	**41**	37
Debtor turnover days	**37**	38
Creditor turnover days	**64**	64
Net gearing ratio (%)	**13.8**	128.6

The Group's inventory turnover days increased from 37 days in 2005 to 41 days in 2006, primarily due to the increase in inventories of the retail business because of the self-operation of live and fresh produce and more inventories with purchase prices anticipated to be increased shortly were acquired and stored for the wholesale business.

Both the Group's debtor turnover days and creditor turnover days maintained at the about same level during 2005 and 2006.

The Group's net gearing ratio was approximately 13.8% which was significantly lower than approximately 128.6% of last year. The decrease was primarily due to the listing proceeds received and the enlargement of share capital base.

STRATEGIES AND PLANS

In 2006, the Group focused on profitability, continued to strengthen its regional predominance in the Greater Beijing Region, enhanced overall performance of integrated operation of retail and wholesale businesses and further strengthened the core competitiveness of its leading position in the Greater Beijing Region.

Looking ahead, both the Group's retail and wholesale businesses come with opportunities and challenges. In spite of persistent competition, market rooms and developing potential are still enormous.

Leveraging on its logistics and distribution systems and management information system as well as enhancement of its core competitiveness, the Group will insist on pursuing its strategy of centralized development in the Greater Beijing Region and continue to enlarge its retail and wholesale networks.

In respect of the strategy on outlet expansion, apart from the modes of organic growth such as establishing more owned-operate retail outlets and franchised outlets, the Group will adopt flexible measures in its expansion plan, including striving for opportunities through merger, acquisition and restructuring. Regarding the investment in Shou Lian, the Group will gradually re-brand stores of Shou Lian under the "京客隆" brand name and operate according to the franchise agreement and maximize synergy from the arrangement through linking of the Group's centalised management information system with the retail outlets of Shou Lian so as to integrate Shou Lian's procurement and distribution requirements with the Group's centralized procurement and logistics system, and connect the Company's two retail logistics centres with the retail network of Shou Lian.

The Group will persist in enhancing purchasing level, optimizing product mix, continuing in exploring commodities in order to adapt gradual changing resident consumption concept and pursue adjustment of product mix. The Group will further strengthen the strategic co-operated relationships with suppliers in assuring their support and assistance to the Group development. Meanwhile, the Group will continue to strive for stringent cost control and refinement of financial management in order to monitor all economic activities within budget-based management and to maximize profitability.

In 2007, the Group plans to strengthen its corporate culture and training activities, continue in founding a professional and international management team with hard-working and trustworthy staff team. By enhancing recruitment scheme, adopting design of staff carrer path and staff training programmes to improve overall quality of staff team.

CAPITAL STRUCTURE

On 25 September 2006, the Company undertook an initial public offering on GEM of the Stock Exchange, in aggregate of 151,800,000 H shares, comprising 138,000,000 new H shares and 13,800,000 H shares converted from the Company's domestic shares (held by Beijing Chaoyang Auxillary Food Company and then allocated to The National Social Security Fund Council of the PRC) at an offer price of HK$4.5 per share with a nominal value of RMB1.00 each. Total net proceeds not including interest income, amounted to approximately HK$584.6 million was raised by the Company, resulting in the Company's issued share increased from 246,620,000 shares (all domestic shares) to 384,620,000 shares, representing 232,820,000 domestic shares and 151,800,000 H shares.

LIQUIDITY AND FINANCIAL RESOURCES

The Group mainly financed its operations through internally generated cash flows and borrowings from banks and other enterprises. Following completion of the Company listing, the Group will fund its capital and operating requirements through internally generated cash flows, the net listing proceeds and its cash on hand.

As at 31 December 2006, the Group had non-current assets of approximately RMB1,123.5 million, which mainly comprised property, plant and equipment of approximately RMB1,011.2 million and non-current liabilities of approximately 302.1 million mainly comprised of bank loans and other borrowings of RMB280 million.

As at 31 December 2006, the Group had net current assets of approximately RMB253.3 million. Current assets mainly comprised of cash and cash equivalents of approximately RMB841.7 million, inventories of approximately RMB499.6 million, trade receivables of approximately RMB473.1 million and prepayments, deposits and other receivables of approximately RMB163.1 million. Current liabilities mainly comprised of trade payables of approximately RMB746.7 million, bank loans and other borrowings of approximately RMB726.4 million and other payables and accruals of approximately RMB223.7 million.

FOREIGN CURRENCY RISK

All of the operating revenues and expenses of the Group are principally denominated in RMB.

Under the current PRC foreign exchange control system, the proceeds from the Company's H shares listing which were received in HK$, are only approved to exchange into RMB by the State Administration for Foreign Exchange of the PRC ("SAFE") when it is satisfied that the payments reported by the Company are in accordance with the implementation plan as described in the Company's prospectus dated 12 September 2006.

Due to the recent depreciation of HK$ against RMB, a foreign exchange loss of approximately RMB6.4 million in respect of the listing proceeds received from the initial public offering of the Company's H shares was recorded by the Group in 2006. In addition, the Group had HK$ bank balance amounting to approximately HK$456.6 million as at 31 December 2006. Accordingly, the Group had taken measures to minimize and compensate the foreign exchange losses such as reporting to SAFE at an early stage for obtaining approval to convert the amount of HK$ into RMB and then deposits into a designated bank account for subsequent payments in RMB and also entering into fixed term bank deposit agreements of the unutilized HK$ for earning bank interest after taking into consideration the progress of the implementation plan.

After adopting the aforesaid measures, the Group's HK$ balance has been greatly reduced to HK$100 million as at the date of this announcement. The Directors consider that the fluctuations in exchange rate of HK$ against RMB should not have any further material impact on the Group's results and operations.

EMPLOYEES

As at 31 December 2006, the Group had a total of 4,601 full-time employees in the PRC, deployed in the following capacities:

	Headquarters	Hypermarkets	Supermarkets	Convenience stores	Chaopi Trading	Logistics centres	Xinyang Tongli	Total
Management, administration and finance	144	9	54	3	152	6	2	370
Sales and marketing	215	653	1,884	431	456	222	9	3,870
Others	61	50	66	10	107	31	36	361
Total	420	712	2,004	444	715	259	47	4,601

The total staff costs (including directors' and supervisors' remunerations) of the Group amounted to approximately RMB206.9 million for 2006 (2005: RMB178.8 million). The emoluments of the staff (including directors and supervisors) of the Group are based on duty (position), experience, performance, and market rates, in order to maintain their remunerations at a competitive level. The Group participates in defined contribution retirement benefits schemes organized by the local government authorities in the PRC. The Directors believes that employees are one of the most valuable assets of the Group which contributed significantly to the success of the Group. The Group recognizes the importance of staff training and hence provides regular internal and external training to them to enhance their technical and professional knowledge.

INDEBTEDNESS

As at 31 December 2006, the Group had an aggregate bank loans and other borrowings of approximately RMB1,006.4 million, consisted of secured short term bank loans of approximately RMB368.4 million, unsecured short term bank loans of RMB208 million, secured short term borrowings from Beijing International Trust and Investment Company Limited ("BITIC") of RMB150 million, secured long term bank loans of RMB120 million, secured long term borrowings from BITIC of RMB60 million and unsecured long term borrowings from BITIC of RMB100 million. Some of these bank loans and other borrowings were secured by:

- Pledge of 71.7% equity interest in Beijing Chaopi Trading Company Limited ("Chaopi Trading") owned by the Company;
- Certain of the Company's buildings and construction in progress, investment properties and lease prepayments for land use rights with an aggregate net book value of approximately RMB542.7 million as at 31 December 2006; or

- Certain of the Group's pledged time deposits of approximately RMB16.9 million as at 31 December 2006.

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 an investment proposal 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 the further investments 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 ("Chaoyang Auxillary"). Such guarantee from Chaoyang Auxillary has also covered all subsequent BITIC Loans extended to the Company, whilst other BITIC Loans which were extended to the Company's subsidiary, Chaopi Trading are secured by a corporate guarantee from the Company itself. The guarantee from Chaoyang Auxillary has, upon the Company's listing on GEM of the Stock Exchange on 25 September 2006, 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 31 December 2006 and the date of this announcement, both the total accrued sum of Employee Investments made amounted to RMB310 million. As at the same dates, the total number of participating employees amounted to 2,128 and 1,995, respectively, and both the total sum of BITIC Loans amounted to RMB310 million.

An analysis of the BITIC loans and the Employee Investments incurred during the period from 1 October 2006 to the date of this announcement is as follows:

a. Both the RMB62.3 million Employee Investments and the related BITIC Loans 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 such Employee Investments were renewed.

b. Employee Investments, in aggregate of RMB40 million were received by BITIC on 29 September 2006, and subsequently lent to the Group in October 2006. Both the due date of the Employee Investments and the related BITIC Loans is on 29 June 2008.

c. Both the RMB50 million Employee Investments and the related BITIC Loans with due date on 16 February 2007 have been extended respectively to 31 March 2008. The number of employees participated was reduced to 760 when such Employee Investments were renewed.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

The Company did not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.24 of the GEM Listing Rules.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group had no material contingent liabilities.

SUBSEQUENT EVENTS

1. Proposal to the migration to the Main Board

On 1 February 2007, the Company issued circulars to its shareholders for the approval of the Mainboard Migration and withdrawal of the listing of the Company's H shares from GEM (the "Voluntary Withdrawal"). After reviewing the financial performance of the Group and taking into consideration the potential advantages of the Mainboard Migration and the current favourable market conditions, the Directors have come to a view that a listing of the Company's H shares on the Main Board will enhance the profile of the Group, enable the Company to expand its shareholder base, and facilitate an increase in the liquidity of its H shares. The Directors believe that the listing of the Company's H shares on the Main Board will be beneficial to the Group in terms of future growth, financing flexibility and business development.

At the date of this announcement, preparations relating to the Mainboard Migration and the Voluntary Withdrawal are at a preliminary stage and no applications relating thereto have been made to the China Securities Regulatory Commission ("CSRC") or the Stock Exchange. Upon the issuance of the notice of acceptance of application by the CSRC, the Company will then make a formal application to the Stock Exchange in relation to the Mainboard Migration and the Voluntary Withdrawal.

2. Investment in Shou Lian

On 10 February 2007, the Company and Shou Lian entered into a capital increase agreement in relation to the issue by Shou Lian of RMB50 million of its new equity capital (representing approximately 11.04% of the enlarged equity of Shou Lian) to the Company at a consideration of RMB50 million. On the same date, in conjunction with the capital increase agreement, the Company also entered into a co-operation agreement with Beijing Xi Dan You Yi Group ("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" brand name;

(ii) The Company has been granted the right of first refusal exercisable during the period from 28 February 2007 to 28 February 2010 (both days inclusive) (the "Delegation Period") to purchase, at the Company's option, the RMB205.2 million in the total equity of Shou Lian owned by Xi You (the "Delegation Equity") and the purchase right, exercisable during the Delegation Period, to purchase, at the Company's option, the Delegation Equity; and

(iii) The Company will lend an interest-bearing designated loan of RMB50 million to Shou Lian through a bank in the PRC.

3. Change in enterprise income tax rate

On 16 March 2007, the National People's Congress of the PRC passed a legislation to unify the enterprise income tax rates of mainland enterprises at 25% on taxable income with effect from 1 January 2008. Currently, the Group is subject to enterprise income tax rate of 33% on its taxable income.

REVIEW OF BUSINESS OBJECTIVES

The prospectus dated 12 September 2006 in respect of the initial public offering of the Company's H shares (the "Prospectus") has described the schedule of the implementation plan of the Group from 5 September 2006, being the latest practicable date as defined in the Prospectus up to 31 December 2006 (the "Period"). During the Period, the actual progress of the implementation plan was as follows:

EXPANSION OF RETAIL DISTRIBUTION NETWORK IN THE PRC

	Implementation plan during the Period	Actual progress
Hypermarkets	Open not less than 1 hypermarket in the Greater Beijing Region	Opened 1 hypermarket in Daxing District, Beijing with net operating area of approximately 6,300 square metres.
Supermarkets	Open not less than 3 supermarkets in the Greater Beijing Region	Opened 3 supermarkets each in Chaoyang District, Tongzhou District and Haidian District of Beijing, respectively with total net operating area of approximately 4,200 square metres.
Convenience stores	Open not less than 3 convenience stores in the Greater Beijing Region	Opened 3 convenience stores in Chaoyang District, Beijing with total net operating area of approximately 650 square metres.

	Implementation plan during the Period	Actual progress
	Open not less than 5 convenience stores in the Greater Beijing Region through franchise arrangements	Opened 9 convenience stores through franchise arrangements, of which 5 in Chaoyang District, Beijing, 2 in Fengtai District, Beijing and 2 in Chongwen District, Beijing with total net operating area of approximately 2,200 square metres.

INCREASE OPERATING EFFICIENCY

	Implementation plan during the Period	Actual progress
Logistics centre	Continue to upgrade the live and fresh produce logistics centre	• Acquired fixed assets; • Expanded scope of centralized distribution and replenishment to all directly-operated retail outlets of pork, beef, mutton, vegetables and fruits; • Passed and recognized as ISO9000 quality management system; and • Passed and recognised as food safety management system and ISO14001 environmental management system.
Management information systems	Develop internet purchase system	Conducted in-depth feasibility study on development of internet purchase system.

	Implementation plan during the Period	Actual progress
Operating system	Continue to promote and improve uniform operating	• Adjusted layout of retail outlets and commodity display; • Organized commodity of vegetable and fruits and pork display competitions; and • Enhanced monitoring and checking of service, hygiene and quality of commodity in retail outlets.
Staff training	Offer training courses to store managers and staff for new retail outlets	• Conducted 4 training seminars for about 200 staff for preparing new store opening; and • Conducted 8 training seminars for about 700 store managers, assistants to store managers and regional managers.

FURTHER BRAND-BUILDING

	Implementation plan during the Period	Actual progress
Existing retail outlets	Renovating and upgrading existing retail outlets	Renovated and upgraded 4 supermarkets.
Enhancing customer services quality	Establish e-platform for sharing of information among customers	• Established internet communication channel and provided assistance to customers through customer postbox; • Established internet service for enquiring customer points under the membership scheme; and • Established reconciliation of balances with and notification services to suppliers through internet.
	Provide delivery services to elderly and disable customers	Provided free delivery services to elderly and disable customers according to their requests for nearby retail outlets.
Introducing in-house branded products	Introduce other in-house branded products	Introduced 31 types of in-house branded products with a total up to 216 types.

USE OF PROCEEDS FROM LISTING

The intended application of proceeds listed in the Prospectus during the period from 25 September 2006 (date of listing of the Company's H shares on GEM of the Stock Exchange) to 31 December 2008 as compared with the actual application from 25 September 2006 to 31 December 2006, and the unutilized balance as at 31 December 2006 were as follows:

	Intended application from 25 September 2006 to 31 December 2008	**Actual application from 25 September 2006 to 31 December 2006**	**Unutilized balance as at 31 December 2006**
	HK$'000	*HK$'000*	*HK$'000*
Expansion of retail distribution network in the PRC			
Open not less than 5 hypermarkets, 19 supermarkets and 19 convenience stores in the Greater Beijing Region	356,600	82,704	273,896
Increase operating efficiency			
Logistics centre/Management information system	175,400	26,145	149,255
Working Capital			
Working capital including but not limited to brand building	52,600	43,508	9,092
Total	**584,600**	**152,357**	**432,243**

OTHER INFORMATION

CORPORATE GOVERNANCE

The Group puts strong emphasis in achieving high standard of corporate governance as it believes that an effective corporate governance practices not only monitor and regulate its business activities, but also can attract more investors to invest in the Company.

The Company has complied with all the code provisions as set out in Appendix 15 of the GEM Listing Rules in protecting and maximizing the interests of shareholders during the Reporting Period.

AUDIT COMMITTEE

Pursuant to the Rule 5.28 of the GEM Listing Rules, the Company has set up an audit committee on 29 July 2005. In compliance with the Rule of 5.29 of the GEM Listing Rules, the authority and responsibility of the audit committee has been properly written out. The audit committee provides an important link between the Board and the Company's auditors in matters falling within the scope of the audit of the Company and the Group. It reviews the effectiveness of external audit, internal controls and risk evaluation. It also provides comments and advice to the Board. 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.

On 10 November 2006, all the members of the audit committee, together with the senior management of the Company and the external auditors, reviewed the Group's 2006 third quarterly report prepared in accordance with the accounting principles generally accepted in Hong Kong as well as the Group's internal control procedures. Relevant questions and recommendations have been made.

On 20 March 2007, all the members of the audit committee, together with the senior management of the Company and the external auditors, reviewed the 2006 audited results adopted by the Company and the Group.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Reporting Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or its subsidiaries granted to any Director and Supervisors or their respective associates (as defined under the GEM Listing Rules), or were any such rights exercised by them.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold 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 of the Stock Exchange) to the date of this announcement.

COMPETITION AND CONFLICT OF INTEREST

None of the Directors, supervisors, 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 business of the Group, as defined in the GEM Listing Rules, or had any other conflict of interests with the Group during the Reporting Period.

COMPLIANCE ADVISER'S INTEREST

Based on the latest information and notices from DBS Asia Capital Limited ("DBS Asia"), the Company's compliance advisor, 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 31 December 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 advisor 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.

DISTRIBUTION OF DIVIDEND

The Directors have proposed a dividend of RMB15 cents per share (tax inclusive) payable to the shareholders whose name appear on the register of members of the Company on the date of the annual general meeting 2006 (the "AGM"), subject to the approval of the shareholders at the AGM by way of an ordinary resolution. The register of members of the Company will be closed from 28 April 2007 to 18 May 2007, both days inclusive, during which no transfer of shares of the Company will be effected. Dividends will be payable on 21 June 2007. Payment to domestic shareholders of the Company will be made in RMB, while payment to the H shareholders will be made in HK$.

By order of the Board
Wei Tingzhan
Chairman

Beijing, PRC
20 March 2007

As at the date of this announcement, the executive directors of the Company 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.

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.