



# 北京京客隆

商业集团股份有限公司

BEIJING JINGKELONG COMPANY LIMITED

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

(Stock Code: 8245)



## First Quarterly Report 2007



## **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.**

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**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 announcements 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.**

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

## SUMMARY

The Group achieved the follows for the three months ended 31 March 2007:

- Revenue amounted to approximately RMB1,565.6 million (first quarter of 2006: RMB1,272.5 million), representing an increase of approximately 23.0% as compared with the same period last year.
- Gross profit amounted to approximately RMB198.1 million (first quarter of 2006: RMB151.4 million), representing an increase of approximately 30.8% as compared with the same period last year.
- Gross profit margin was approximately 12.7%, approximately 0.8% higher than that of the last corresponding period.
- Profit attributable to equity holders amounted to approximately RMB43.3 million (first quarter of 2006: RMB36.3 million), representing an increase of approximately 19.3% as compared with last corresponding period.
- Same store sales growth increased from approximately 7.2% during the first quarter of 2006 to approximately 13.1%.
- 2 directly-operated supermarkets and 2 convenience stores operated under the franchise agreements were opened.
- Total number of retail outlets was 170 (including 5 hypermarkets, 41 supermarkets and 124 convenience stores).
- As at 31 March 2007, total borrowings stood at approximately RMB894.9 million, comprising bank loans of approximately RMB584.9 million and the borrowings from Beijing International Trust and Investment Company Limited of RMB310 million.

## QUARTERLY RESULTS

The board of Directors of the Company (the “Board”) is pleased to announce the following unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 31 March 2007 (the “Reporting Period”) together with the comparative unaudited consolidated figures for the three months ended 31 March 2006:

		<b>For the three months ended 31 March</b>	
	<i>Notes</i>	<b>2007</b>	2006
		<b>RMB'000</b>	RMB'000
		<b>(Unaudited)</b>	(Unaudited)
<b>Revenue</b>	3	<b>1,565,590</b>	1,272,496
Cost of sales		<b>(1,367,524)</b>	(1,121,057)
<b>Gross profit</b>		<b>198,066</b>	151,439
Other income and gains	3	<b>72,919</b>	57,026
Selling and distribution costs		<b>(127,883)</b>	(99,640)
Administrative expenses		<b>(39,103)</b>	(30,633)
Other expenses		<b>(11,203)</b>	(3,838)
Finance costs		<b>(7,595)</b>	(3,478)
<b>Profit before tax</b>		<b>85,201</b>	70,876
Tax	4	<b>(30,360)</b>	(26,188)
<b>Profit for the period</b>		<b>54,841</b>	44,688
Attributable to:			
Equity holders of the parent		<b>43,298</b>	36,308
Minority interests		<b>11,543</b>	8,380
		<b>54,841</b>	44,688
<b>Earnings per share-basic</b>	6	<b>RMB11.3 cents</b>	RMB14.7 cents

## NOTES:

### 1. CORPORATE INFORMATION

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

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

### 2. BASIS OF PRESENTATION

The Group's unaudited financial statements have been prepared in accordance with 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 set out in Chapter 18 of the GEM Listing Rules. They have been prepared on a historical cost convention, except for the available-for-sale investments, which have been measured at fair value. These unaudited financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and methods of computation used in the preparation of the Group's unaudited financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2006, except in relation to the following new and revised HKFRSs that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economics</i>
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

The adoption of these new and revised HKFRSs, has had no material impact on the accounting policies and methods of computation in the Group's unaudited financial statements.

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

HKFRS 8	Operating Segments
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

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

### 3. 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 trade discounts. An analysis of the Group's revenue, other income and gains for the Reporting Period is as follows:

	<b>For the three months ended 31 March</b>	
	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Revenue</b>		
Sales of merchandise and produce		
Retailing	<b>782,488</b>	655,628
Wholesaling	<b>782,367</b>	615,850
	<b>1,564,855</b>	1,271,478
Others	<b>735</b>	1,018
Total revenue	<b>1,565,590</b>	1,272,496
<b>Other income and gains</b>		
Income from suppliers	<b>57,740</b>	42,698
Gross rental income	<b>9,408</b>	10,897
Net compensation on demolished properties	-	15
Interest income	<b>2,594</b>	1,501
Gain on sale of wastes	<b>942</b>	779
Others	<b>2,235</b>	1,136
Total other income and gains	<b>72,919</b>	57,026

#### 4. 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 ("CIT") at a rate of 33% on their respective taxable income. The determination of the CIT in the consolidated income statement of the Group for the Reporting Period is as follows:

	<b>For the three months ended 31 March</b>	
	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Current CIT – PRC	<b>29,758</b>	25,468
Deferred CIT	<b>602</b>	720
Total CIT charged for the period	<b>30,360</b>	26,188

A reconciliation of the CIT applicable to the unaudited profit before tax at the statutory rate to the CIT charged at the Group's effective rate for the Reporting Period is as follows:

	<b>For the three months ended 31 March</b>	
	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Profit before tax	<b>85,201</b>	70,876
CIT at statutory CIT rate (33%)	<b>28,116</b>	23,389
Expenses not deductible for tax	<b>2,244</b>	2,799
CIT charged at the Group's effective rate for the period	<b>30,360</b>	26,188

#### 5. DIVIDENDS

The Board does not recommend the payment of any dividend for the Reporting Period (first quarter of 2006: Nil).

The Board has recommended the payment of a final dividend of RMB0.15 per share (inclusive of tax) for the financial year ended 31 December 2006, pending approval at the annual general meeting.

## 6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the unaudited profit attributable to ordinary equity holders of the parent for the Reporting Period of approximately RMB43,298,000 (first quarter of 2006: RMB36,308,000) and on the weighted average number of 384,620,000 ordinary shares in issue during the Reporting Period (first quarter of 2006: 246,620,000 ordinary shares).

Diluted earnings per share for the Reporting Period and the last corresponding period have not been presented because no diluting events existed during these two periods.

## 7. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The changes in consolidated equity during the Reporting Period are as follows:

	For the three months ended									
	31 March									
			Available- for-sale						2007	2006
	Issued capital	Share premium account	Capital reserve	investment revaluation reserve	Statutory surplus reserve	Proposed final dividend	Retained profits	Subtotal	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January	384,620	442,230	5,121	2,749	43,049	57,693	49,511	984,973	89,672	1,074,645
Profit for the period	-	-	-	-	-	-	43,298	43,298	11,543	54,841
At 31 March	384,620	442,230	5,121	2,749	43,049	57,693	92,809	1,028,271	101,215	1,129,486

## 8. BORROWINGS

As at 31 March 2007, the Group had outstanding borrowings of approximately RMB894.9 million, comprising bank loans of approximately RMB584.9 million and borrowings from Beijing International Trust and Investment Company Limited (“BITIC”) of RMB310 million (the “BITIC Loans”).

### **BITIC Loans and Employee Investments**

To rationalize the Group’s financing arrangement, the Company obtains BITIC Loans from June 2004.

BITIC has offered and may continue to offer 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 (the “Employee Investments”) have been used to fund the BITIC Loans provided by BITIC to the Group from time to time.

As at 31 March 2007 and the date of this report, both the total accrued Employee Investments and total sum of BITIC Loans amounted to RMB310 million. As at the same dates, both the total number of participating employees was 1,995.

### **An analysis of the BITIC Loans and Employee Investments incurred during the period from 1 January 2007 to the date of this report is as follows:**

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.

## 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. EXPANSION OF RETAIL NETWORK

The Group set up two directly-operated supermarkets and two franchise-operated convenience stores during the Reporting Period in accordance with its designated development plan for steady pursuit of retail network expansion.

The total number of the Group's retail outlets was 170 as at 31 March 2007, including 84 directly-operated outlets and 86 franchise-operated outlets. The following table sets out the number and net operating areas of the Group's retail outlets as at 31 March 2007:

	Hypermarkets	Supermarkets	Convenience stores	Total
Number of retail outlets:				
Directly-operated	5	40	39	84
Franchise-operated	–	1	85	86
	<u>5</u>	<u>41</u>	<u>124</u>	<u>170</u>
Net operating area (square metres):				
Directly-operated	44,938	92,317	8,841	146,096
Franchise-operated	–	880	16,428	17,308
	<u>44,938</u>	<u>93,197</u>	<u>25,269</u>	<u>163,404</u>

### ***Franchise arrangement of Shou Lian's retail network***

On 10 February 2007, the Company and Beijing Shou Lian Group Company Limited ("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 capital of Shou Lian) to the Company. 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 the Company will operate Shou Lian's retail network under the franchise agreement.

The Company has entered into franchise agreement with Shou Lian. As Shou Lian currently adopts multi-disparate information management systems, sourcing systems and distribution systems in managing its retail network, the Directors consider that such operating model has not adequately achieved the synergy advantage of centralized sourcing and logistics, the Company will integrate Shou Lian's retail network into the Group's centralized information management system (through the Group's intranet system) by way of information system switching. The Company will integrate the sourcing and logistics of Shou Lian with its centralized sourcing and logistics systems and connect the Shou Lian's retail outlets to the Group's logistics centres. Those Shou Lian's retail outlets which have completed system switching will operate as the Group's franchise retail outlets under the Group's "京客隆" brandname.

## **2. *ENHANCEMENT OF LOGISTICS AND DISTRIBUTION FUNCTION***

The Group continues to improve its logistics and distribution systems in enhancing efficiency and effectiveness for supporting the rapid expansion of its retail business.

During the Reporting Period, the Group's dry product logistics centre was redesigned in respect of the operational procedures of pass-through products and distribution systems of convenience stores for adequate preparing the implementation of the semi-automatic logistics classifying and picking equipment in enhancing the distribution function.

The live and fresh produce logistics centre continues strengthening the establishment of raw materials supply base at their places of origin. As at 31 March 2007, direct supply bases have been established in 54 counties and districts within 16 provinces and cities in the PRC. The procurement system of live and fresh produce has been initial formed with orders placed at agriculturists, sourcing at origins and entities accredited with national standard. Accordingly, the quality and safety of live and fresh produce are assured at the fundamental stage.

### 3. *ENHANCEMENT OF INFORMATION MANAGEMENT SYSTEM*

During the Reporting Period, the safety system of the Jingkelong membership card system was reformed, upgrading on the efficiency of the Company's network system was completed and the safety and operational efficiency of the information management system was enhanced.

The technical preparation and developing tasks in respect of the pre-reforming of the Shou Lian's sourcing and logistics system were completed for preparing the information management system switching of the Shou Lian's retail outlets.

Integration of the operating system with the information technique was further enhanced and through the well-established data application system to provide supports for operation and management tasks.

### 4. *STRENGTHENING OF OPERATIONAL MANAGEMENT, ENHANCEMENT OF OPERATIONAL EFFICIENCY*

In view of further achieving simplification and high-efficiency of retail outlets, the Group is re-designing the adjusted scheme of organization structure for its retail outlets. During the Reporting Period, such re-design has been implemented for the newly-opened retail outlets and will be gradually promoted to all the existing retail outlets.

For enhancing the retail outlets in achieving better sales results, the Group strengthens its operational strategies, 20 special-price promotional programmes, 16 topical promotional activities, 9 membership reward points exchange and purchase activities were arranged consecutively during the Reporting Period. Competition activities of display, services, hygiene, etc. among the retail outlets were conducted during the Spring Festival to inspirit the retail outlets in making great efforts to achieve better operating results.

### 5. *STRENGTHENING OF BRAND ESTABLISHMENT, ENHANCEMENT OF SERVICE QUALITY*

During the Reporting Period, the Group promoted customer service with great efforts. Took the opportunity of the "3.15 customer protection day" to develop customer service and rights protection activities, such as organized voluntary inspectors to visit the supply bases for live and fresh produce, conducted customer consultation activities on 15th of March, etc. in strengthening customer recognition of the superior service brand of "京客隆".

In addition, the Group is seriously concerned in building up good co-operative partner relationship with suppliers. During the Reporting Period, the Group achieved the reconciliation of transaction balances with all suppliers through the internet for their convenience. A conference with suppliers has been conducted during the Reporting Period for thorough understanding their opinions and suggestions and corresponding measures has been made for improvement timely.

## 6. OPERATION RESULTS FOR DIFFERENT TYPES OF DIRECTLY-OPERATED RETAIL FORMAT

### Revenue (Unaudited)

	For the three months ended 31 March			
	2007		2006	
	Revenue	Percentage of	Revenue	Percentage of
	RMB'000	retail revenue (%)	RMB'000	retail revenue (%)
Hypermarket	264,990	33.9	219,532	33.5
Supermarket	451,332	57.7	386,787	59.0
Convenience store	66,166	8.4	49,309	7.5
Total	<b>782,488</b>	<b>100.0</b>	655,628	100.0

### Gross profit and gross profit margin of directly-operated retailing business (Unaudited)

	For the three months ended 31 March			
	2007		2006	
	Gross profit	Gross profit	Gross profit	Gross profit
	RMB'000	margin (%)	RMB'000	margin (%)
Hypermarket	38,942	14.7	30,709	14.0
Supermarket	66,732	14.8	54,497	14.1
Convenience store	9,943	15.0	7,312	14.8
Total	<b>115,617</b>	<b>14.8</b>	92,518	14.1

### ***Hypermarkets Operations***

Hypermarkets Operations are the important part of the Group's retail business and currently the most competitive business among local chain retail operators. During the Reporting Period, the revenue generated from the hypermarkets operations was approximately RMB265.0 million, representing approximately 33.9% of the total retail revenue of the Group. The increase in revenue of approximately 20.7% during the Reporting Period was mainly due to the contribution of revenue by the Jiugong hypermarket which has commenced operation from the last day of 2006 and the same store sales growth of approximately 11.3%. Gross profit margin from this business segment increased from approximately 14.0% in the first quarter of 2006 to approximately 14.7% mainly because of (i) better bargaining power with suppliers as an increase in purchase volume, (ii) higher gross profit margin generated by the self-operated live and fresh produce, and (iii) continuously optimization of product mix.

### ***Supermarkets Operations***

Supermarkets operations are the Group's most mature business and major contributor of the Group's retail business. During the Reporting Period, two new directly-operated supermarkets were set up. The revenue generated from the supermarkets operations during the Reporting Period was approximately RMB451.3 million, representing approximately 57.7% of the total retail revenue of the Group. The increase in revenue of approximately 16.7% during the Reporting Period was mainly attributable to the total revenue contributed by the 13 supermarkets which were set up during the period from the second quarter of 2006 to the first quarter of 2007, and the same store sales growth of approximately 14.1%. Gross profit margin from this business segment increased from approximately 14.1% in the first quarter of 2006 to approximately 14.8% was mainly due to (i) better bargaining power with suppliers as an increase in purchase volume, (ii) higher gross profit margin generated by the self-operated live and fresh produce, and (iii) continuously optimization of product mix.

### ***Convenience Store 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 revenue generated from the convenience stores operations was approximately RMB66.2 million, representing approximately 8.4% of the total retail revenue of the Group. The increase in revenue of approximately 34.2% during the Reporting Period was mainly attributable to the total revenue contributed by the four new convenience stores set up during the second half of 2006 and the same store sales growth of approximately 14.8%. Gross profit margin from this business segment increased from approximately 14.8% in the first quarter of 2006 to approximately 15.0%.

## WHOLESALE BUSINESS

The Group endeavours to extend its wholesale business in respect of operational locality and scope coverage. During the Reporting Period, through the subsidiary, Beijing Chaopi Trading Company Limited ("Chaopi Trading") and other investors jointly established Beijing Chaopi Huilong Trading Company Limited ("Chaopi Huilong") mainly to engage in wholesale distribution of food, wines, beverages, etc. to catering business. Sales channels of the wholesale business will be extent from department stores, supermarkets to catering business. Meanwhile, Chaopi Trading established Beijing Chaopi Zhongde Trading Company Limited ("Chaopi Zhongde") to focus on the wholesale distribution of consumer sanitary products. The operating categories of the wholesale business would be strengthened by the wholesale distribution of consumer sanitary products in addition to the existing base of focusing in food and non-staple food.

### **Operation results (Unaudited)**

	For the three months ended 31 March	
	2007 RMB'000	2006 RMB'000
Revenue	<b>782,367</b>	615,850
Gross profit	<b>82,261</b>	58,605
Gross profit margin (%)	<b>10.5</b>	9.5

During the Reporting Period, the revenue of wholesale business was approximately RMB782.4 million, representing approximately 50.0% of the total revenue, which is approximately 27.0% higher than that of last corresponding period. The increase was primarily due to (i) 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, (ii) increase in number of regional sole distributorships, and (iii) continuously optimization of product mix. Gross profit margin increased from approximately 9.5% in the first quarter of 2006 to approximately 10.5% was mainly because of (i) better bargaining power with suppliers as an increase in purchase volume, (ii) increase in regional sole distributorships with relatively higher gross profit margin, (iii) more inventories with selling prices anticipated to be increased in 2007 were stored in advance to accommodate the upcoming market demand especially the Spring Festival, and (iv) continuously optimization of product mix.

## FINANCIAL REVIEW

### Financial Results (Unaudited)

	For the three months ended 31 March	
	2007 RMB'000	2006 RMB'000
Revenue	<b>1,565,590</b>	1,272,496
Gross profit	<b>198,066</b>	151,439
Gross profit margin (%)	<b>12.7</b>	11.9
Profit for the period	<b>54,841</b>	44,688
Profit attributable to equity holders of the parent	<b>43,298</b>	36,308
Net profit margin (%)	<b>2.8</b>	2.9

### Revenue

The Group's revenue increased by approximately 23.0% from approximately RMB1,272.5 million in the first quarter of 2006 to approximately RMB1,565.6 million in the first quarter of 2007, which was primarily due to the increase in retail and wholesale revenue by approximately 19.3% and 27.0%, respectively. The increase in retail revenue from approximately RMB655.6 million in the first quarter of 2006 to approximately RMB782.5 million in the first quarter of 2007 was mainly attributable to the contribution from the 13 supermarkets which were set up during the period from the second quarter of 2006 to the first quarter of 2007 and the Jiugong hypermarket, and the overall same store sales growth of approximately 13.1%. The increase in the wholesale revenue was mainly because of (i) 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, (ii) increase in number of regional sole distributorships, (iii) more inventories with selling prices anticipated to be increased in 2007 were stored in advance to accommodate the upcoming market demand especially the Spring Festival, and (iv) continuously optimization of product mix.

## Gross profit and gross profit margin

During the Reporting Period, the gross profit of the Group was approximately RMB198.1 million, representing an increase of approximately 30.8% compared with approximately RMB151.4 million of last corresponding period. The increment was in line with the increase in revenue. The increase in gross profit margin from approximately 11.9% in the first quarter of 2006 to approximately 12.7% was mainly attributable to (i) better bargaining power with suppliers as an increase in purchase volume, (ii) higher gross profit margin generated by self-operated live and fresh produce of retail business, (iii) increase in wholesale regional sole distributorships with relatively higher gross profit margin, (iv) more inventories with selling prices anticipated to be increased in 2007 were stored in advance by the wholesale subsidiaries to accommodate the upcoming market demand especially the Spring Festival, and (v) continuously optimization of product mix.

## Profit for the period

Profit for the period increased by approximately 22.7% from approximately RMB44.7 million in the first quarter of 2006 to approximately RMB54.8 million during the Reporting Period. The increase was mainly attributable to the increase in revenue of approximately 23.0% resulting in an increase in gross profit of approximately 30.8% and an increase in other income and gains of approximately 27.9%.

## STRATEGIES AND PLANS

The Group is a leading retail and wholesale operator in the Greater Beijing Region. The Group's mission is to further strengthen its foothold in the Greater Beijing Region and to expand steadily to its periphery. With a superior and well-established back-up foundation, the Group has formulated a realistic and feasible future development plan.

- To migrate the H share listing from GEM Board to the Main Board (the "Main Board Migration"). The event of the Main Board Migration has been approved by an extraordinary general meeting on 20 March 2007. On 27 April 2007, the Company has submitted an advance booking form to the Stock Exchange for the Main Board Migration. The Directors believe that the shareholder base can be further expand and the liquidity of the shares will be enhanced after the migration to the Main Board as well as a long-lasting effect in the Group's future development, financial aspect, etc.

- To maximize synergy effect through the integration of Shou Lian's retail outlets. The Directors believe that upon completion of integration of the retail network of Shou Lian under franchise arrangement, the public recognition of the Group's "京客隆" brandname will be further enhanced. The Group can further expand its retail distribution network to cover other parts of Beijing City and increase its revenue through distribution products to Shou Lian. The cost benefit of the Group's logistics systems can be more effectively realized with the incorporation of Shou Lian's retail outlets into that of the Group. Moreover, the economies of scale of the Group can be further enhanced in terms of, for example, sourcing ability and bargaining power.
- To continue to expand retail and wholesale distribution network in the Greater Beijing Region, northern China and eastern China. To speed up development rate, apart from the initial concrete development plan through organic growth, the Group will strive for suitable merger and acquisition opportunities. With the support of its existing advanced logistics systems and information management systems, the Group will pro-actively seek opportunities of mergers and acquisitions in the retail chain industry in the Greater Beijing Region and will utilise its existing wholesale distribution network within and outside the Greater Beijing Region to continue expansion of the regional coverage of its wholesale business.
- Continuing in improving logistics and distribution and information management system in order to further enhancing efficiency, reducing costs, strengthening the Group core competitiveness.

## SUBSEQUENT EVENTS

- a. Pursuant to an equity interest and distribution business transfer agreement entered into between Chaopi Trading, Chaopi Zhongde and an independent third party on 18 April 2007, the independent third party would transfer the distribution and supplier networks of the wholesale of consumer sanitary products to Chaopi Zhongde for a consideration of RMB5,600,000, and Chaopi Trading would transfer 20% of its equity interest in Chaopi Zhongde for a consideration of RMB5,600,000 to the independent third party. After the completion of the transfer of this equity interest, the Group holds an indirect interest of approximately 61.14% in Chaopi Zhongde.

- b. On 23 April 2007, the equity holders of Chaopi Trading resolved to increase the registered capital of Chaopi Trading from RMB96,000,000 to RMB192,000,000 and the equity holders were offered to subscribe for the increase in registered capital pro-rata to their holdings of equity interest in Chaopi Trading. The increase in the registered capital of RMB96,000,000 was settled by dividend declared by Chaopi Trading of RMB28,800,000 and cash contribution from the equity holders. Accordingly, the Company would contribute cash of RMB51,352,700 to Chaopi Trading as further registered capital. Upon the completion of the increase in the registered capital, the Group maintains its approximately 76.42% interest in Chaopi Trading.
- c. On 23 April 2007, Chaopi Trading acquired the remaining equity interests of 41% in Qingdao Chaopi Jinlong Trading Company Limited (“Chaopi Qingdao”) from the minority equity holders at consideration of RMB810,000. Upon the acquisitions, Chaopi Trading held 100% of Chaopi Qingdao’s equity. On the same day, Chaopi Trading, being the sole equity holder of Chaopi Qingdao, resolved to increase the registered capital of Chaopi Qingdao from RMB2,000,000 to RMB5,000,000.
- d. On 23 April 2007, Chaopi Trading acquired the remaining equity interests of 41% Shijiazhuang Chaopi Xinlong Trading Company Limited (“Chaopi Shijiazhuang”) from the minority equity holders, at consideration of RMB820,000. Upon the acquisitions, Chaopi Trading held 100% of Chaopi Shijiazhuang’s equity. On the same day, Chaopi Trading, being the sole equity holder of Chaopi Shijiazhuang, resolved to increase the registered capital of Chaopi Shijiazhuang from RMB2,000,000 to RMB5,000,000.
- e. On 24 April 2007, the equity holders of Beijing Chaopi Huaqing Beverage Company Limited (“Chaopi Huaqing”) resolved to increase the registered capital of Chaopi Huaqing from RMB9,000,000 to RMB18,000,000 and the equity holders were offered to subscribe for the increase in registered capital pro-rata to their holdings of equity interest in Chaopi Huaqing. The increase in the registered capital of RMB9,000,000 was settled by dividend declared by Chaopi Huaqing of RMB2,700,000 and cash contribution from the equity holders. Chaopi Trading would contribute cash of RMB3,507,000 to Chaopi Huaqing as further registered capital to maintain its holdings of equity in Chaopi Huaqing and acquired a further interest of approximately 1.21% in Chaopi Huaqing. Upon the completion of the increase in the registered capital, the Group holds indirect interest of approximately 40.83% in Chaopi Huaqing.

- f. On 27 April 2007, the equity holders of Beijing Chaopi Flavourings Company Limited (“Chaopi Flavourings”) resolved to increase the registered capital of Chaopi Flavourings from RMB9,500,000 to RMB23,750,000. The increase in the registered capital of RMB14,250,000 was settled by dividend declared by Chaopi Flavourings of RMB10,450,000 and a conversion of its statutory reserve in the sum of RMB3,800,000 into the registered capital. Upon the completion of the increase in the registered capital, the Group maintains its indirect interest of approximately 40.22% in Chaopi Flavourings.
- g. On 27 April 2007, the equity holders of Beijing Chaopi Jinglong Oil Sales Company Limited (“Chaopi Jinglong”) resolved to increase the registered capital of Chaopi Jinglong from RMB12,000,000 to RMB18,000,000 and the equity holders were offered to subscribe for the increase in registered capital pro-rata to their holdings of equity interest in Chaopi Jinglong. The increase in the registered capital of RMB6,000,000 was settled by dividend declared by Chaopi Jinglong of RMB3,600,000 and cash contribution from the equity holders. Chaopi Trading would contribute cash of RMB1,301,496 to Chaopi Jinglong as further registered capital. Upon the completion of the increase in the registered capital, the Group maintains its indirect interest of approximately 41.44% in Chaopi Jinglong.
- h. On 27 April 2007, the equity holders of Beijing Chaopi Shuanglong Alcohol Sales Company Limited (“Chaopi Shuanglong”) resolved to increase the registered capital of Chaopi Shuanglong from RMB12,000,000 to RMB24,000,000. The increase in the registered capital of RMB12,000,000 was settled by dividend declared by Chaopi Shuanglong of RMB12,000,000. Upon the completion of the increase in the registered capital, the Group maintains its indirect interest of approximately 45.09% in Chaopi Shuanglong.

## CORPORATE GOVERNANCE

During the Reporting Period, the Company complied with the provisions set out in Appendix 15 of the Code on Corporate Governance Practices of the GEM Listing Rules.

### Board of Directors

The Board is currently comprised of nine Directors (being four executive Directors, two non-executive Directors and three independent non-executive Directors) who have served as Directors for the whole Reporting Period and their term of office will end on 31 October 2007.

During the Reporting Period, the Board fulfilled the requirement of having three independent non-executive Directors as required by the GEM Listing Rules and the number of independent non-executive Directors being at least one-third of the members of the Board, and it also met the requirement of having one independent non-executive Director qualified as a professional accountant or having the professional accounting and financial management expertise.

## Board Practices and Procedures

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

## Chairman and General Manager

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

## AUDIT COMMITTEE

Pursuant to the Rules 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 reviews the effectiveness of external audit, internal controls and risk evaluation and 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.

The Group's unaudited results for the Reporting Period and the last corresponding period prepared in accordance with the HKFRSs have been reviewed by the audit committee.

## OTHER INFORMATION

### 1. DISCLOSURE OF INTERESTS

#### ***DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES***

As at 31 March 2007, the interests and positions of the Directors, supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, or sections 324 and 347 of Part XV of the SFO, to be notified to the Company and the Stock Exchange were as follows:

#### *Long positions in the domestic shares of the Company*

<b>Name</b>	<b>Capacity</b>	<b>Number of domestic shares held</b>	<b>Approximate percentage of total issued domestic shares (%)</b>	<b>Approximate percentage of total issued shares (%)</b>
Wei Tingzhan	Personal	1,417,237	0.61	0.37
Li Jianwen	Personal	1,354,712	0.58	0.35
Li Chunyan	Personal	208,417	0.09	0.05
	Beneficiary (Note 1)	187,575	0.08	0.05
Liu Yuejin	Beneficiary (Note 2)	375,151	0.16	0.10
Gu Hanlin	Personal	1,417,237	0.61	0.37
Li Shunxiang	Personal	5,210,428	2.24	1.35
Yang Baoqun	Personal	1,042,086	0.45	0.27
Qu Xinhua	Personal	833,669	0.36	0.22
Wang Shuying	Beneficiary (Note 3)	375,151	0.16	0.10

Notes:

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

Save as disclosed above, as at 31 March 2007, none of the Directors, supervisors or chief executive of the Company nor their associates had any interest and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, or sections 324 and 347 of Part XV of the SFO, to be notified to the Company and the Stock Exchange.

**SUBSTANTIAL SHAREHOLDERS**

As at 31 March 2007, so far as is known to the Directors, supervisors or chief executive of the Company, the persons (other than a Director, supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

*Long positions in the domestic shares of the Company*

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

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

*Long positions in the H shares of the Company*

Name	Number of H shares held	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued shares (%)
UOB Asset Management Limited ("UOB Asset") (Note 1)	20,528,000	13.52	5.34
United Overseas Bank Limited ("UOB") (Note 2)	20,528,000	13.52	5.34
Fidelity International Limited (Note 3)	11,875,000	7.82	3.09

*Notes:*

1. These 20,528,000 H shares were held by UOB Asset in its capacity as an investment manager.
2. UOB Asset is a subsidiary of UOB and UOB is therefore deemed to have an interest in the 20,528,000 H shares in which UOB Asset is interested.
3. These 11,875,000 H shares were held by Fidelity International Limited in its capacity as an investment manager.

Save as disclosed above, so far as is known to the Directors, supervisors or chief executive of the Company, as at 31 March 2007, no other persons (not being a Director, supervisor or chief executive of the Company) had, or were deemed or taken to have any interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

## 2. 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 Reporting Period.

## 3. 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 may compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or had any other conflict of interests with the Group during the Reporting Period.

## 4. COMPLIANCE ADVISER'S INTEREST

Based on the latest information and notices from DBS Asia Capital Limited ("DBS Asia"), the Company's compliance adviser, pursuant to Rules 6A.32 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 March 2007. Pursuant to an agreement dated 30 March 2006 entered into between DBS Asia and the Company (the "Agreement"), DBS Asia received and will received fees for acting as the Company's compliance adviser for a term expiring on the date on which the Company distributes the annual report for the second full financial year after listing of the Company's H shares on GEM of the Stock Exchange on 25 September 2006, or for the period until termination of the Agreement as stipulated therein.

By order of the Board  
**Wei Tingzhan**  
Chairman

Beijing, PRC  
9 May 2007

*As at the date of this report, 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.*