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## SUMMARY

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*This summary aims to give you an overview of the information contained in this document. As the following is a summary, it does not contain all the information that is important to you.*

*There are risks associated with any investment. Some of the particular risks in investing in the Company are set forth in the section headed “Risk factors” in this document. You should read that section carefully before making any decision to invest in the H Shares.*

### **BUSINESS OVERVIEW**

The Group is one of the leading distributors of daily consumer products in the Greater Beijing Region, with a turnover of more than RMB4.5 billion for the year ended 31 December 2006. The Group operates its distribution business under the well-known brands of “京客隆” and “朝批”. According to China Chain Store & Franchise Association, the Group was ranked 27th among the top 100 fast moving consumer goods retail chain in China and 38th among the top 100 chain enterprises in China in 2006. In addition, the Group also generates other income from the following activities: (i) income from suppliers for display space leasing fee, promotion income, information system service income, and merchandise storage and delivery income, and (ii) rental income from (1) sub-leasing third party counters and designated areas of the Retail Outlets and (2) leasing of investment properties of the Group. Details are set out in the section headed “Business – Retail Distribution Operations” in this document.

The distribution network of the Group spans across retail and wholesale distribution channels. As at 30 April 2007, the retail distribution network of the Group comprised 170 Retail Outlets, of which 84 were directly-operated and 86 were under franchise arrangements; and the Group’s directly-operated Retail Outlets comprised five hypermarkets, 40 supermarkets and 39 convenience stores, while the Group’s franchised Retail Outlets comprised one supermarket and 85 convenience stores. The Group also operates a wholesale distribution business through Chaopi Trading and its subsidiaries and associated companies under the well-known “朝批” brandname for the wholesale supply of daily consumer products to customers including the Group’s Retail Outlets and other retail operators and trading companies. Operating in these retail and wholesale distribution formats, the Group has positioned itself to cater for the needs of a diverse range of customers, ranging from retail operators to end consumers.

Since its inception, the Group has been principally operating in the Greater Beijing Region, with a particularly strong network in the Chaoyang District, which is one of the most affluent inner city regions of Beijing. With the hosting of the Beijing Olympic Games in 2008 and the principal event auditoriums being located in the Chaoyang District, the Directors believe that any increase in tourism and the construction of various infrastructure and residential projects will further stimulate economic and population growth in and increase urbanization of the Greater Beijing Region, particularly the Chaoyang District, hence providing Chaoyang-based retail chain operators such as the Group with growth opportunities.

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### **Retail distribution operations**

The retail distribution network of the Group comprises hypermarkets, supermarkets and convenience stores, with a geographical focus in the Greater Beijing Region. Leveraging on its established brandname, the Group has expanded its business model into managing and operating supermarket and convenience store franchises. All Retail Outlets, whether directly-operated or under franchise arrangements, are operated under the “京客隆” service mark. The daily consumer products distributed through the retail distribution channels include live and fresh produce, dry products, beverages, processed food and daily necessities.

The Retail Outlets are generally located at easily accessible and highly visible locations, such as in the vicinity of residential neighborhoods, public transport systems and major roads. This enhances public awareness of the Group’s Retail Outlets and allows the Group to build a strong corporate identity by attracting new consumers and encouraging repeat consumers.

In addition, the Chaoyang District of Beijing, where most of the Retail Outlets are located, is easily accessible by four major motorways in Beijing, namely 京張高速公路 (Jingzhang Motorway), 京石高速公路 (Jingshi Motorway), 京津唐高速公路 (Jingjintang Motorway) and 京沈高速公路 (Jingshen Motorway). The Directors believe that the strategic location and accessibility of the Chaoyang District allows the Group to tap into a large pool of consumers.

All Retail Outlets, whether directly-operated or under franchise arrangements, are operated under the “京客隆” service mark. These Retail Outlets generally followed a uniform and distinctive design, layout and colour scheme, and their staff are attired in standard uniform. The Directors believe that the use of a common layout, colour scheme and design distinguishes the Group from other chain operators and enhances the public recognition of the “京客隆” brand.

The Group’s retail distribution network is supported by two specially designed Logistics Centres: a live and fresh produce Logistics Centre and a dry product Logistics Centre. Both of these Logistics Centres are situated in the Chaoyang District of Beijing and are connected by the Group’s information management systems to the directly-operated Retail Outlets, and they facilitate the Group’s logistics requirements by consolidating orders for, warehousing and coordinating the delivery of daily consumer products to the Retail Outlets in the Greater Beijing Region.

Both of the two Logistics Centres have automatic replenishment systems by which each directly-operated Retail Outlet can automatically generate and place its orders electronically through the intranet system. This enables the Group to achieve high flexibility in delivering goods within 24 hours of receiving an order. The Group is thus able to satisfy various demands at the Retail Outlets covering the different business models of hypermarkets, supermarkets and convenience stores efficiently, hence minimizing disruptions to the supply of daily consumer products and ensuring the stability of product supply and faster fulfilment of orders.

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The table below sets out the locations of the Retail Outlets as at 30 April 2007:

	Hypermarkets		Supermarkets		Convenience stores		Total	
	Number of stores	Net operating area (sq.m.)	Number of stores	Net operating area (sq.m.)	Number of stores	Net operating area (sq.m.)	Number of stores	Net operating area (sq.m.)
<b>Directly operated by the Group</b>								
大興區 (Daxing District)	1	6,300	-	-	-	-	1	6,300
延慶縣 (Yanqing County)	-	-	1	3,460	-	-	1	3,460
朝陽區 (Chaoyang District)	2	19,450	22	54,902	38	8,717	62	83,069
密雲縣 (Miyun County)	-	-	1	4,580	-	-	1	4,580
廊坊市 (Langfang City)	1	9,381	1	2,620	-	-	2	12,001
昌平區 (Changping District)	1	9,807	-	-	-	-	1	9,807
順義區 (Shunyi District)	-	-	1	1,390	-	-	1	1,390
通州區 (Tongzhou District)	-	-	8	11,690	1	124	9	11,814
東城區 (Dongcheng District)	-	-	1	1,800	-	-	1	1,800
西城區 (Xicheng District)	-	-	1	2,400	-	-	1	2,400
海澱區 (Haidian District)	-	-	3	6,775	-	-	3	6,775
宣武區 (Xuanwu District)	-	-	1	2,700	-	-	1	2,700
<b>Sub-total</b>	<b>5</b>	<b>44,938</b>	<b>40</b>	<b>92,317</b>	<b>39</b>	<b>8,841</b>	<b>84</b>	<b>146,096</b>
<b>Operated by franchisees</b>								
朝陽區 (Chaoyang District)	-	-	1	880	68	12,742	69	13,622
昌平區 (Changping District)	-	-	-	-	3	606	3	606
海澱區 (Haidian District)	-	-	-	-	2	597	2	597
豐台區 (Fengtai District)	-	-	-	-	5	979	5	979
通州區 (Tongzhou District)	-	-	-	-	1	254	1	254
順義區 (Shunyi District)	-	-	-	-	2	718	2	718
大興區 (Daxing District)	-	-	-	-	2	240	2	240
宣武區 (Xuanwu District)	-	-	-	-	1	39	1	39
崇文區 (Chongwen District)	-	-	-	-	1	165	1	165
<b>Sub-total</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>880</b>	<b>85</b>	<b>16,340</b>	<b>86</b>	<b>17,220</b>
<b>Total</b>	<b>5</b>	<b>44,938</b>	<b>41</b>	<b>93,197</b>	<b>124</b>	<b>25,181</b>	<b>170</b>	<b>163,316</b>

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### **Wholesale distribution operations**

The Group's wholesale distribution network is operated through Chaopi Trading and its subsidiaries and associated companies under the “朝批” brandname, and is supported by its Distribution Centres. Chaopi Trading and its subsidiaries and associated companies provide wholesale supply of daily consumer products to the Retail Outlets and its other customers comprising, principally, retail operators and trading companies and is currently providing merchandise of 45 brands such as “金六福”, “塔牌”, “五粮液”, “金龍魚” under sole distributorship in department stores and supermarkets in Beijing and northern China. The Group's wholesale distribution operation recorded a revenue of RMB2,228.5 million for the year ended 31 December 2006. The Group is expanding the customer base of its wholesale business and has established Chaopi Huilong with other investors mainly to engage in wholesale distribution of consumer products to catering business, and exploiting variety of the fast moving consumer products and operates Chaopi Zhongde with another investor mainly to engage in wholesale distribution of consumer sanitary products.

The Group's wholesale distribution operations are supported by two Distribution Centres, one in the Chaoyang District of Beijing and the other in Tianjin. The daily consumer products distributed through Chaopi Trading and its subsidiaries and associated companies include processed food products, beverages, wine products, non-staple food and non-food products. Chaopi Trading and its subsidiaries and associated companies do not distribute fresh or frozen food products.

Each of these Distribution Centres uses an independent information management system to manage its inventory and deliveries. This enables the Group to provide up-to-date product availability information to its wholesale customers.

### **Integrated retail and wholesale distribution operations**

The Group's integrated retail and wholesale business model distinguishes it from other traditional retail chain operators in which its wholesale business provides a robust complementary support to its retail business. The Group is able to monitor market demand and fluctuations at the retail level effectively, hence reducing the risk of stock obsolescence and excessive inventory. Besides, the advantageous position of being both a retail and wholesale distributor provides the Group with a competitive edge in its efficiency in launching and promoting new brands and products for the manufacturers.

The dry product Logistics Centre and Distribution Centres are able to support and supplement each other in terms of order fulfilment and the replenishment needs of the Group's retail and wholesale distribution networks. For example, a Distribution Centre may utilise part of its capacity to assist the dry product Logistics Centre, especially during peak seasons while the dry product Logistics Centre may support the supply capacity of the Distribution Centres in case of a sudden increase in the wholesale business. The Directors believe that such inter-transferability of capacity enables the Group to achieve higher productivity gains, cost efficiencies and attain economies of scale by ensuring that no single Logistics Centre or Distribution Centre is overloaded as well as reducing the risk of stock obsolescence and excessive inventory levels. In addition, the Directors believe that such inter-transferability of capacity between the dry product Logistics Centre and Distribution Centres can enhance distribution efficiency.

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### COMPETITIVE STRENGTHS

The Directors believe that the Group's competitive strengths have enabled the Group to become one of the leading distributors of daily consumer products in the Greater Beijing Region and enable the Group to be well-positioned to take advantage of future growth in the distribution businesses in the PRC. The Group's competitive strengths include:

- Well-recognised brands
- Locality of operations – the Greater Beijing Region (in particular the Chaoyang District)
- Integrated retail and wholesale distribution operations
- Centralised Logistics Centres and Distribution Centres
- Efficient information management systems
- Multi-tiered retail distribution network
- Experienced and stable management

### BUSINESS OBJECTIVES AND STRATEGIES

The Group's mission is to strengthen its foothold in the Greater Beijing Region and to expand into other parts of eastern and northern China. The Group aims to become one of the leading retail and wholesale distribution network operators in the PRC through leveraging on and enhancing its competitive strengths. To achieve its business objectives, the Group has developed the following business strategies:-

- Expanding distribution network
- Increasing operating efficiency
- Further brand-building
- Joint venture collaborations and acquisitions
- Funding for expansion

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### RISK FACTORS

The Group's business is subject to certain risks which can be broadly categorised into (a) risks relating to the Group; (b) risks relating to the PRC distribution industry; (c) risks relating to the PRC; and (d) risks relating to the H Shares. Details of these risks are set out in the section headed "Risk Factors" in this document.

### RISKS RELATING TO THE GROUP

- Locations of Distribution Outlets, rental exposure and renewal of leases
- Resumption of Retail Outlets and neighbourhood property
- Risks associated with leased property interests of Chaopi Trading and the Company
- Employee Loans and other loans to the Group
- Inability to successfully implement its strategy for future growth
- Potential failure on software and hardware systems
- Keen competition in the distribution business
- Potential change of distribution method by suppliers and manufacturers
- Inability to obtain all requisite licences on time
- Product liability
- Quality control on franchisees' operations
- Reliance on key management personnel
- Stock control
- Intellectual property protection and infringement
- The use of the Jingkelong cards and the membership reward cards
- Future dividends
- Operations of the new community shopping centre

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- Reliance on leasehold of third party counters
- Revenue derived from activities outside the ordinary and usual course of business

### **RISKS RELATING TO THE PRC DISTRIBUTION INDUSTRY**

- Domestic competition
- Foreign competition
- Change in consumer preferences and/or purchasing power

### **RISKS RELATING TO THE PRC**

- Political and economic policies of the PRC government
- The PRC legal system
- Holders of the H Shares may not be able to successfully enforce their Shareholders' rights in the PRC under the Company Law or relevant Hong Kong regulatory provisions
- Taxation of holders of H Shares
- Changes in foreign exchange regulations and fluctuation of the RMB
- Payment of dividends subject to restrictions under PRC law
- Domestic Shares may be converted into H Shares
- New corporate income tax law
- Changes in laws and regulations regarding social insurance contributions and other social responsibility aspects

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### RISKS RELATING TO THE H SHARES

- Development of an active market for the H Shares
- Potential dilution of the H Shares



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## FINANCIAL INFORMATION

The following is a summary of the consolidated results of the Group during the Track Record Period, which has been derived from, and should be read in conjunction with, the audited financial statements included in the Accountants' Report set out in Appendix I to this document. These financial statements have been prepared in accordance with HKFRSs.

	Year ended 31 December								
	2004			2005			2006		
	Continuing operations	Discontinued operations <sup>(1)</sup>	Total	Continuing operations	Discontinued operations <sup>(1)</sup>	Total	Continuing operations	Discontinued operations <sup>(1)</sup>	Total
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3,568,865	97,893	3,666,758	4,121,748	-	4,121,748	4,530,975	-	4,530,975
Cost of sales	<u>(3,164,852)</u>	<u>(89,137)</u>	<u>(3,253,989)</u>	<u>(3,621,667)</u>	<u>-</u>	<u>(3,621,667)</u>	<u>(3,966,385)</u>	<u>-</u>	<u>(3,966,385)</u>
Gross profit	404,013	8,756	412,769	500,081	-	500,081	564,590	-	564,590
Other income and gains	154,700	1,362	156,062	143,668	-	143,668	224,308	-	224,308
Selling and distribution costs	(317,899)	(7,232)	(325,131)	(369,764)	-	(369,764)	(419,117)	-	(419,117)
Administrative expenses	(88,285)	(1,358)	(89,643)	(88,924)	-	(88,924)	(107,958)	-	(107,958)
Other expenses	(5,800)	(1,422)	(7,222)	(20,452)	-	(20,452)	(29,897)	-	(29,897)
Finance costs	(20,988)	(130)	(21,118)	(19,073)	-	(19,073)	(26,296)	-	(26,296)
Share of profits and losses of associates	<u>2,177</u>	<u>508</u>	<u>2,685</u>	<u>(32)</u>	<u>-</u>	<u>(32)</u>	<u>(139)</u>	<u>-</u>	<u>(139)</u>
Profit before tax	127,918	484	128,402	145,504	-	145,504	205,491	-	205,491
Tax	<u>(44,127)</u>	<u>(106)</u>	<u>(44,233)</u>	<u>(47,158)</u>	<u>-</u>	<u>(47,158)</u>	<u>(74,072)</u>	<u>-</u>	<u>(74,072)</u>
Profit for the year	<u>83,791</u>	<u>378</u>	<u>84,169</u>	<u>98,346</u>	<u>-</u>	<u>98,346</u>	<u>131,419</u>	<u>-</u>	<u>131,419</u>
Attributable to:									
Equity holders of the parent	73,167	361	73,528	75,098	-	75,098	99,577	-	99,577
Minority interests	<u>10,624</u>	<u>17</u>	<u>10,641</u>	<u>23,248</u>	<u>-</u>	<u>23,248</u>	<u>31,842</u>	<u>-</u>	<u>31,842</u>
	<u>83,791</u>	<u>378</u>	<u>84,169</u>	<u>98,346</u>	<u>-</u>	<u>98,346</u>	<u>131,419</u>	<u>-</u>	<u>131,419</u>
Dividends			<u>39,505</u>			<u>56,367</u>			<u>57,693</u>
Earnings per Share attributable to ordinary equity holders of the parent <sup>(2)</sup>									
- basic for profit for the year (RMB)			<u>29.8 cents</u>			<u>30.5 cents</u>			<u>35.1 cents</u>
- basic for profit from continuing operations (RMB)			<u>29.7 cents</u>			<u>30.5 cents</u>			<u>35.1 cents</u>

(1) The motor vehicle and repair operations was discontinued in 2004. For details, please refer to section headed "History and Development and Reorganisation" in this document.

(2) Earnings per Share for each financial year in the Track Record Period have been computed by dividing the profit attributable to equity holders of the parent for each year by the weighted average number of ordinary Shares (2006: 283,672,055 Shares, 2005 and 2004: 246,620,000 Shares) in issue during the Track Record Period.

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### **FURTHER INFORMATION ON THE EMPLOYEE LOANS, THE BITIC LOANS AND THE EMPLOYEE INVESTMENTS**

#### **Employee Loans**

The Company first started to accept voluntary loans from certain of its employees in 1997 (loans of such nature shall be referred to as the “Employee Loans”). While the Group was confident that it would be able to obtain financing from other sources, the Group implemented the Employee Loans as an arrangement that was mutually beneficial to the Group and the relevant employees.

Subsequently in 2004, the Company was advised by its PRC legal advisers that the Employee Loans were not in compliance with the relevant PRC laws. Based on the PRC legal advice obtained, the Group may be subject to a maximum penalty of 5% of the amount of the total Employee Loans.

Chaoyang Auxillary has undertaken to indemnify the Company against any costs and penalties that the Group may suffer due to the non-compliance with the relevant PRC Laws in respect of the Employee Loans, the relevant loan agreements being not enforceable, and the maximum penalty of 5% of the amount of the total borrowings.

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

To rationalise the Group’s financing arrangement, in June 2004, the Company obtained a loan of RMB130 million (the “First BITIC Loan”) from Beijing International Trust and Investment Company Limited (“BITIC”; and the First BITIC Loan and the further loans from BITIC shall together be referred to as the “BITIC Loans”). Insofar as the Company is aware, BITIC (a) was founded in 1984 and is 40% owned by the Beijing State-owned Assets Management Co., Ltd.; (b) is an Independent Third Party to the Company and a licensed non-bank financial institution regulated by the China Banking Regulatory Commission; and (c) offers a wide range of trust, corporate finance and agency services.

Prior to granting the First BITIC Loan, BITIC had conducted credit due diligence on the Company. The First BITIC Loan was secured by a guarantee from the Company’s controlling shareholder, Chaoyang Auxillary. Such guarantee from the Company’s controlling shareholder has also covered all subsequent BITIC Loans extended to the Company, whilst other BITIC Loans which were extended to Chaopi Trading was secured by a corporate guarantee from the Company itself. The guarantee from the Company’s controlling shareholder was, upon GEM Listing, replaced by a corporate guarantee from the Company and the pledge of the Company’s 71.7% equity interest in Chaopi Trading.

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In the process of obtaining the First BITIC Loan, the Company introduced BITIC to certain employees of the Group, as these employees, being members of the public, were amongst one of the trust deposit customer groups that, the Company believes, BITIC would, in its ordinary course of business, consider canvassing for funds. BITIC, as a professional and independent service provider, offered an investment proposal to those interested employees of the Group to invest in a trust loan programme such that the investments would be used to fund the BITIC Loans to be 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”). One attractive feature of the Employment Investments is that they offer a higher yield to the participating employees of the Group (“Participating Employees”).

Immediately before obtaining the First BITIC Loan, BITIC provided a one-day bridging loan of RMB90 million to the Company through Chaoyang Auxillary. The Company used such bridging loan together with its internal resources to fully repay the Employee Loans. Contemporaneous with the repayment of the Employee Loans, approximately 1,701 Participating Employees voluntarily made Employee Investments with BITIC in an aggregate amount of RMB130 million. In respect of the Employee Investments made by the Participating Employees, investment agreements (“Employee Investment Agreements”) were entered into between certain employee representatives (“Employee Representatives”) and BITIC.

From time to time, BITIC have offered and may continue to offer new tranches of Employee Investments which would be open to all employees of the Group (including all Participating Employees in the previous tranches of Employee Investments). The term of such new tranches of Employee Investments may vary. It would, however, be a term of the Employee Investment that all Employment Investments could only be used to fund the BITIC Loans. It would also be expressly stated in the Employee Investment Agreements that all investment risks and losses arising from the Employee Investments, in the absence of any breach of the Employee Investment Agreements by BITIC, should be borne by the Participating Employees. Pursuant to the Employee Investment Agreements, neither the Group nor any Participating Employee has acted as guarantor or offered any form of collateral in respect of the Employee Investments and the BITIC Loans respectively. Insofar as the Company is aware, all Employee Investments were made by the Participating Employees with express knowledge of the said terms.

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As at 30 June 2004, 31 December 2004, 31 December 2005 and 31 December 2006, the total accrued sum of Employee Investments made amounted to approximately RMB130 million, RMB220 million, RMB302.3 million and RMB310.0 million, respectively. As at the same dates, the total number of Participating Employees amounted to approximately 1,701 employees, 2,162 employees, 2,525 employees, and 2,128 employees, respectively. Without taking account of any new tranches of Employment Investments or any extension of maturity in respect of the subsisting tranches of Employment Investments, as at the Latest Practicable Date and to the best of the knowledge, information and belief of the Directors, the latest expected maturity date of the subsisting tranches of the Employment Investments is 29 June 2008. The following table sets out a summary of movements in Employee Investments and the BITIC Loans for each of the three years ended 31 December 2006:

### BITIC Loans and Employee Investments

Period	Participating Employees	Balance <i>(RMB'million)</i>	Yield on the Employee Investments	Interest rates on BITIC Loans	Settlement
24/06/04 – 24/06/06	1,701	130	4.00%	4.72%	N/A
			(24/6/04 – 31/3/05)	(24/6/04 – 31/3/05)	
			4.50%	5.2475%	
			(1/4/05 – 24/6/06)	(1/4/05 – 24/6/06)	
16/08/04 – 16/11/05	913	50	4.00%	4.72%	N/A
			(16/8/04 – 31/3/05)	(16/8/04 – 31/3/05)	
			4.50%	5.2475%	
			(1/4/05 – 16/11/05)	(1/4/05 – 16/11/05)	
29/12/04 – 29/12/05	147	40	4.00%	4.72%	N/A
<b>As at 31 December 2004</b>	<b>2,162 *</b>	<b>220</b>			
24/06/04 – 24/06/06	1,701	130	4.00%	4.72%	N/A
			(24/6/04 – 31/3/05)	(24/6/04 – 31/3/05)	
			4.50%	5.2475%	
			(1/4/05 – 24/6/06)	(1/4/05 – 24/6/06)	
16/08/04 – 16/11/05	913	50	4.00%	4.72%	Extended to
			(16/8/04 – 31/3/05)	(16/8/04 – 31/3/05)	16 February 2007
			4.50%	5.2475%	
			(1/4/05 – 16/2/07)	(1/4/05 – 16/2/07)	
01/04/05 – 01/10/06	973	62.3	4.50%	5.2475%	N/A
29/12/04 – 29/12/05	147	40	4.00%	4.72%	Extended to
					29 December 2006
29/12/05 – 29/12/06	124	20	4.00%	4.72%	N/A
<b>As at 31 December 2005</b>	<b>2,525 *</b>	<b>302.3</b>			

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Period	Participating Employees	Balance <i>(RMB' million)</i>	Yield on the Employee Investments	Interest rates on BITIC Loans	Settlement
24/06/04 – 24/12/07	918	100	4.50%	5.2475%	The 130 million loan was extended to 24 December 2007 upon expiry. The balance was reduced to 100 million and the number of employees participated was reduced to 918.
16/08/04 – 31/03/08	760	50	4.00% (16/8/04 – 16/2/07) 4.50% (16/2/07 – 31/3/08)	4.72% (16/8/04 – 16/2/07) 5.2475% (16/2/07 – 31/3/08)	The 50 million loan was extended to 31 March 2008. The number of employees participated was reduced to 760.
01/04/05 – 31/03/08	676	60	4.50%	5.2475%	The 62.3 million loan was extended to 31 March 2008. The balance was reduces to 60 million and the number of employees participated was reduced to 676.
29/12/04 – 29/06/08	147	40	4.00% (29/12/04 – 29/12/06) 5.2% (29/12/06 – 29/06/08)	4.72% (29/12/06 – 29/12/06) 6.12% (29/12/06 – 29/06/08)	Extended to 29 June 2008
29/12/05 – 29/06/08	124	20	4.00% (29/12/05 – 29/12/06) 5.2% (29/12/06 – 29/06/08)	4.72% (29/12/05 – 29/12/06) 6.12% (29/12/06 – 29/06/08)	Extended to 29 June 2008
29/09/06 – 29/06/08	191	40	5.2%	6.12%	N/A
<b>As at 31 December 2006</b>	<b>2,128 *</b>	<b>310</b>			

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\* *There were approximately 599, 965 and 691 employees participating in more than one tranche of Employee Investment as at 31 December 2004, 31 December 2005 and 31 December 2006 respectively.*

The PRC legal advisers to the Company have confirmed that the Employee Investments, BITIC Loans and Confirmation Letters were valid and comply with all relevant PRC laws and regulations. The primary reason that the Company chose to obtain the BITIC Loans in June 2004 was that the commercial terms offered by BITIC were the most favorable compared to the other potential lenders canvassed by the Group. From the perspective of the risks to, and the obligations of, the Group, the BITIC Loans are no different from any other loans from financial institutions. The BITIC Loans have been used by the Group for working capital purposes and it is intended that they will continue to be used by the Group for such purposes as well as to finance its operations in the future. The Directors confirmed that the Group has not received any complaints for the arrangement of BITIC Loans and Employees Investments. In relation to the other abovementioned borrowings, the PRC legal opinion states that the risk of litigation and hence the risk of penalty, is minimal as the borrowings have been repaid.

Apart from the BITIC Loans, the Group has also obtained other loan facilities from other financial institutions. As at 31 December 2006, the Group had borrowings from such other financial institution of approximately RMB576.4 million being amount repayable within one year and borrowings of RMB120.0 million being amount repayable over one year.

Details of the Employee Loans, the BITIC Loans and the Employee Investments are set out in the section headed “Financial Information – Further Information on the Employee Loans, the BITIC Loans and the Employee Investments”.