
RISK FACTORS

You should carefully consider all of the information in this document including the risks and uncertainties described below before making an investment in the H Shares. You should pay particular attention to the fact that the Company is a PRC company and is governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. The business, financial condition or results of operations of the Group could be materially adversely affected by any of these risks. The trading price of the H Shares could decline due to any of these risks, and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below, please refer to Appendix IV "Summary of principal legal and regulatory provisions and articles of association" to this document.

RISKS RELATING TO THE GROUP

Locations of Distribution Outlets, rental exposure and renewal of leases

The Group's retail distribution network depends significantly on its ability to deploy Retail Outlets at accessible and convenient locations where there is a high population density and pedestrian flow. Given the scarcity of such locations and their relatively high rental, particularly in downtown Beijing, there is no assurance that the Group could secure or obtain such locations on favourable terms. As at 31 December 2006, 77 of the Group's directly-operated Retail Outlets were operated at leased properties whilst five of its directly-operated Retail Outlets were operated at properties owned by the Group. Failure to successfully deploy the Group's existing and future Retail Outlets at such accessible and convenient locations with high population density and pedestrian flow may lead to reduced sales and hence may have an adverse effect on the Group's financial position and its future growth.

The Group's wholesale distribution network comprises of two strategically situated Distribution Centres, serving the Greater Beijing Region. The premises of both Distribution Centres are leased from lessors who are Independent Third Parties. The Distribution Centres are situated in locations with easy access to major transportation highways and roads. Failure to successfully deploy the Distribution Centres at such locations may lead to disruptions and/or increased costs to and hampering growth in the Group's business.

Details of the Group's leases are set out in Appendix III to this document.

During the Track Record Period, the total rental costs of the Distribution Outlets amounted to approximately RMB34.2 million, RMB39.5 million and RMB50.0 million respectively, (representing approximately 0.96%, 0.96% and 1.1% respectively of the Group's revenue of continuing operations).

Given the economic growth in the PRC generally, the costs of properties in the PRC are generally expected to increase. As a result, the Group's profitability may be adversely affected by fluctuations in the PRC property market.

In an effort to control its exposure to rising rental rates, as at 31 December 2006, the Group had negotiated and entered into long-term leases of ten or over ten years for all of its directly-operated Retail Outlets except for six leases of six months, five years, five years, seven and a half years, eight years and nine and a half years respectively. In relation to the Distribution Centres, the Group had negotiated and entered into leases of five years, five years, nine years, ten years and fifteen years

RISK FACTORS

respectively with lessors who are Independent Third Parties. There is no assurance that the Group would be able to renew such leases or negotiate new leases on similar or favourable terms (including, without limitation, on similar tenure and on similar rental charges) in the future or that any such lease would not be terminated early. To the extent that the Group is required to find alternative locations for its Distribution Outlet, there is no assurance that it would be able to secure comparable locations or negotiate leases on comparable terms. This may, in turn, have an adverse effect on the Group's business, financial position and its future growth potential.

Resumption of Retail Outlets and neighbourhood property

Pursuant to 中華人民共和國土地管理法 (the Land Administration Law of the People's Republic of China), 中華人民共和國城市規劃法 (the City Planning Law of the People's Republic of China), 城市房屋拆遷管理條例 (the Regulation on Urban Housing Demolition) and 北京市城市房屋拆遷管理辦法 (the Administrative Rules on Urban Housing Demolition of Beijing), the State is entitled to resume land for various purposes such as town planning, compliance with the reform policy of city adaptation, improvement of dangerous buildings, environmental protection, urban renewal and preservation of historical sites. Monetary compensation or exchange for property rights would be given to the occupants of reclaimed land.

During the Track Record Period, five of the Retail Outlets were closed down primarily as a result of the State's resumption of land. The contributions of revenue and net profits from these five self-owned Retail Outlets to the Group during the Track Record Period were approximately RMB163.5 million and RMB7.6 million, RMB95.2 million and RMB4.1 million, and RMB50.3 million and RMB1.7 million, respectively. Although the State and the demolition and removal party paid compensation to the Group in respect of the closure of such Retail Outlets and the Group recorded income from net compensation for demolished Retail Outlets of approximately RMB12.0 million, RMB11.1 million and 17.0 million respectively during the Track Record Period, and also recorded a gain of exchange of property of approximately RMB27.5 million for the year ended 31 December 2004, the Group has no control over the State's land resumption plans and there is no assurance that any compensation or financial assistance offered by the State and the demolition and removal party in future would be sufficient to even cover the Group's investment costs in respect of any Retail Outlet which had to close. The Directors confirmed that the compensations received during the Track Record Period were sufficient to cover the Group's investment costs. To the extent that the Group is obliged to close down any of its Retail Outlets due to such land resumption and/or to the extent that any resultant compensation or financial assistance offered by the State and the demolition and removal party is insufficient to cover the Group's investment costs for any such Retail Outlet, and if the Group could not find alternative location with comparable operating environment, the Group's business plans and financial position may be adversely affected.

Furthermore, the easily accessible and highly visible locations (such as residential neighborhoods, and in or along major road and transport systems) of the Group's Retail Outlets are critical to the success and performance of the Group's retail operations. However, the State may also resume the land and buildings in the vicinity of, or change the road and transport systems connecting, the Group's Retail Outlets, which may have the effect of reducing and/or limiting the pedestrian and traffic flow, and as a result, the business of the relevant Retail Outlets may be adversely affected.

RISK FACTORS

Risks associated with leased property interests of Chaopi Trading and the Company

Leased properties for five supermarkets numbered 46, 49, 50, 53 and 60 in the section headed “Property Valuation” in Appendix III to this document which as at 31 December 2006 have not registered with relevant PRC authorities, have subsequently completed the relevant registration.

As at 30 April 2007, the tenancy agreements of 20 Retail Outlets, including one hypermarket, 15 supermarkets and four convenience stores, have not been registered with the relevant PRC authorities as required under the PRC laws and regulations.

For the 20 aforementioned Retail Outlets, 16 were in operation as at 30 April 2007; the tenancy agreements of three Retail Outlets were entered in December 2006 and in 2007 of which will be opened in 2007; and the tenancy agreement of one leased property number 59 in the section headed “Property Valuation” in Appendix III to this document with leased terms of six months and expiring in September 2007, which the Group intended not to renew the tenancy and the relevant Retail Outlet will be relocated to other premises upon expiry.

For the above 16 Retail Outlets in operation with an aggregate net operating area of approximately 26,659 sq.m., including one hypermarket, 11 supermarkets and four convenience stores, which have not yet completed the PRC registration procedures. The aggregate annual revenue of these 16 Retail Outlets in 2006 was only approximately RMB106.4 million, representing only 2.3% of the total revenue of the Group for the year 2006. The hypermarket commenced operations on the last day of 2006. The revenue generated by each of the supermarkets and convenience stores accounted for less than 1% of the Group’s revenue for the year ended 31 December 2006.

The Group has selected the above locations because of their high pedestrian flow. In the event that any of the above tenancy agreements is determined to be void, and the use and occupation of any of the above premises are terminated or interrupted, the affected Retail Outlets may be required to move to another location, which may adversely affect the operations of the Group. In this respect, Chaoyang Auxillary has undertaken to indemnify the Company against any costs, expenses, losses and claims that the Company may suffer as a result of such relocation.

The lessor of Chaopi Trading’s Distribution Centre in Beijing has not obtained the relevant building ownership certificate. In addition, the tenancy agreements entered into by Chaopi Trading and the lessor in respect of the Distribution Centre have not been registered with the relevant PRC authorities as required under the PRC laws and regulations. This Distribution Centre was leased by Chaopi Trading under four tenancy agreements. As the lands involved are owned by rural collectives, the relevant tenancy agreements cannot be registered with the relevant PRC authorities as required under the relevant PRC laws and regulations. Though the wholesale distribution business contributed to over 40% of revenue of the Group’ continuing operations during the Track Record Period, the Directors consider that the defects in title would not have a material adverse impact to the Group should Chaopi Trading be evicted from such premises due to (i) such Distribution Centre being a warehouse in nature; (ii) the dry product Logistic Centre can support part of such Distribution Centre’s function; (iii) such Distribution Center is located in rural area of Chaoyang District and a site with similar area and location can be easily identified; (iv) most of the fixed assets installed, for example loading systems, are movable in nature and the costs incurred for relocation would be minimal; and (v) Chaoyang Auxillary has undertaken to indemnify the Company against any costs, expenses, losses and claims that the Company may suffer as a result of such eviction.

RISK FACTORS

For further details, please refer to the section headed “Property Valuation” in Appendix III to this document. As advised by the Company’s PRC legal advisers, the failure to obtain the building ownership certificate and to register the leased property may render the respective tenancy agreements void. The Group may not be capable of invalidating any legally viable claims of right of such properties from any lenient third parties by virtue of the leases. As such, the Group’s occupancies and uses of the properties may cease or terminate. In addition, the Company will complete the registration of such tenancies within a specified timeframe as described in the paragraph headed “Property Interests” in the “Financial Information” section of this document. In the event that such registration cannot be completed in time, the Company would need to terminate the relevant tenancies within 12 months after the specified deadline. Whilst the Company will use its best endeavours to ensure that all of its future lease arrangements are properly registered in accordance with applicable laws and regulations, there can be no assurance that the Company will be able to do so in a timely manner (if at all) on each and every occasion particularly where the circumstances are beyond the Company’s control (such as due to the landlord’s lack of title documents).

Employee Loans and other loans to the Group

The Group had borrowings aggregating approximately RMB181 million as at 31 December 2003 from approximately 2,169 employees (“Employee Loans”) and such Employee Loans were made prior to Chaoyang Auxillary State Owned Assets Restructuring to partly finance the Group’s operation and development. These Employee Loans were unsecured and repayable on demand. The Group had paid interest to such employees at a rate lower than that of the Group’s then prevailing bank loans, and its employees received interest at a rate higher than that generally offered for cash deposited in banks. Accordingly, such arrangement was believed to have been in the benefit of the Group and its employees as a whole. Further information about the Employee Loans are set out in the “Financial Information – Further Information on the Employee Loans, the BITIC Loans and the Employee Investments” section in this document. In addition, apart from bank loans and Employee Loans, the Group had borrowings from other enterprises during the Track Record Period, including various commercial entities and government bodies under the jurisdiction of the SASAC of the Chaoyang District.

Based on a PRC legal opinion obtained by the Company, the Employee Loans and other loans from the abovementioned commercial entities and government bodies might not have been complied with the relevant PRC laws and hence the relevant loan agreements might not have been enforceable. All of the Employee Loans and such other borrowings were therefore repaid in June 2004 and by 28 February 2006 respectively. However, according to the PRC legal opinion, (i) in relation to the Employee Loans, the Group may be subject to a maximum penalty of 5% of the amount of the total borrowings from the said employees and (ii) in relation to the borrowings from commercial entities and government bodies, the Group may be subject to a penalty equivalent to the amount of bank interest only in the event that a lawsuit in this regard is brought. In relation to the 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 Employee Loans, the fact that the relevant loan agreements were not enforceable, and that the Group may be subject to a maximum penalty of 5% of the amount of the total borrowings. 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.

RISK FACTORS

Since the repayment of the Employee Loans was made in June 2004, the Group had taken out certain loans from Beijing International Trust and Investment Company Limited (“BITIC Loans”). The BITIC Loans were funded by certain investments contributed by certain employees of the Group (“Employee Investments”). The Company’s PRC lawyers have confirmed that the BITIC Loans and the Employee Investments are valid and legal. Further details of the BITIC Loans and the Employee Investments are set out in the “Financial Information” section of this document.

The Company will state in its annual report issued each year after the Main Board Listing whether its borrowings incurred in the relevant financial year are in compliance with applicable laws.

Inability to successfully implement its strategy for future growth

The Directors believe that the success of the Group in the future will substantially depend on, inter alia, the Group’s success in expanding its distribution networks. As at 30 April 2007, the Group directly-operated a distribution network of five hypermarkets, 40 supermarkets and 39 convenience stores, and two Logistics Centres and two Distribution Centres. It had also entered into franchise arrangements for one supermarket and 85 convenience stores.

The Group has formulated plans to further establish not less than 83 Retail Outlets, including approximately 43 directly-operated Retail Outlets and 40 Retail Outlets under franchise arrangements, respectively, during the period from 5 September 2006, being the latest practicable date as defined in the Prospectus, to 31 December 2008. The Group also hopes to expand the coverage of its wholesale distribution network by establishing additional Chaopi Trading’s subsidiaries and associated companies. There is no assurance that any such expansion plans will become successful or materialise.

The successful implementation of such plans may be affected by a number of factors, which may or may not be within the Group’s control. Such factors include, without limitation:

- the Group’s ability to manage such expansion, and to recruit and train appropriate staff
- the Group’s ability to identify strategic locations for establishing Distribution Outlets and secure the relevant lease and/or purchase such locations on favorable terms
- changes in consumer preference and/or purchasing power
- the availability of funds to finance the Group’s expansion plans
- the availability of suitable investment opportunities and whether the return on such investments can meet the Directors’ expectations
- whether the PRC consumer product industry will continue to grow at a pace expected by the Directors
- the level of the competition, domestic and foreign, in the retail and wholesale distribution industries in which the Group operate
- whether the Group is able to effectively complement and coordinate both its retail and wholesale distribution networks, and capitalise on any business opportunities arising from the sharing of data between the distribution networks

RISK FACTORS

There is no assurance that the Group will be successful in managing any of the foregoing risks. The Group's growth is also dependent on the continued development of its operating and financial controls, which may entail devising and effectively implementing business plans, training and managing the Group's growing workforce, managing costs and implementing adequate control and reporting systems in a timely manner. This may also place strains on the Group's information management systems. To the extent that the Group is unable to fully carry out its future plans effectively or encounters difficulties in implementing its growth strategies, its business prospects may be adversely affected.

Potential failure on software and hardware systems

Any system failure or inadequacy that causes interruptions to the availability of the Group's distribution networks, or increases the response time of the Group's distribution networks, could reduce customer satisfaction, and thus adversely affect the future growth and the Group's attractiveness to customers.

Although the Group has not experienced any major system failure and electrical outages in the past, the Group may experience minor system failures and electrical outages in future. The Group does not presently have any disaster recovery plan in the event of damage from disasters such as fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins and similar events. Moreover, if any of the foregoing occurs, the Group may experience a computer system shut-down. Although the Group currently has back-up procedures and off-site storage of back-up tapes, the Group may have to make substantial investments to deploy additional servers should the Group decide to take measures against any of the above or other risks.

Keen competition in the distribution business

There is no assurance that the prices (or quality) of the daily consumer products which the Group distributes will not be higher than (or inferior to, as the case maybe) those of competing products supplied by the Group's competitors, or that the overall demand for such products from end-consumers can at all times be sustained. In the event that demand from end-consumers for such products decreases, resulting in a decrease in the demand for such products from the Group, the Group's sales will be affected until the Group is able to source an alternative products or identify alternative sources of supply at desirable prices (or quality) to make up the shortfall. This may have an adverse impact on the Group's revenue and profitability.

In addition, any material cancellation of, reduction in and/or cessation of orders for whatever reasons by any of the Group's major customers, without suitable replacements, would adversely affect the results of operations and financial condition of the Group.

Potential change of distribution method by suppliers and manufacturers

As e-commerce develops and third party logistics providers become more efficient and easily available, the suppliers and manufacturers who presently have arrangements with the Group for distribution may change their sales and/or distribution format or channels by engaging the services of other logistics services providers to undertake direct distribution of their daily consumer products in PRC and/or the Greater Beijing Region on their own. The loss of such distribution business may have an adverse impact on the Group's results.

RISK FACTORS

Inability to obtain all requisite licences on time

Each Retail Outlet and the third party counters in the Retail Outlets offering ancillary services are required to obtain certain licences and/or permits from the relevant PRC governmental authorities in order to sell certain categories of daily consumer products. These include business licenses, hygiene permits, permits for circulation of publications, animal quarantine permits, permit for tobacco monopoly retail business and alcoholic beverages circulation registrations. The obtaining or renewing of such licences and permits may take time and there is no assurance that the Group will be able to ensure that all requisite licences and permits are obtained or renewed for any particular Retail Outlet and/or by any third party counter. It is an offence to sell certain products without the relevant licences and permits and in any such case the operator is liable to financial penalties of up to 10 times of the revenue received and/or foreclosure of the retail store. In addition, the Group may be liable to compensate for any infringement of consumer rights at such third party counters in Retail Outlets.

As at the Latest Practicable Date, one supermarket, the branch of a subsidiary and one associated company of the Group are in the progress of obtaining or renewing certain licences and/or permits for their respective operations. The Directors have undertaken to speed up the process of obtaining and renewing the relevant licences and/or permits. According to the legal opinion of the Group's PRC legal advisers, save as the aforesaid, the Group has obtained all licences and/or permits necessary for their actual operations. The said associated company of the Group recorded a loss and turnover of approximately RMB0.56 million and RMB2.1 million, RMB74,000 and RMB4.7 million, and RMB0.22 million and RMB2.4 million, respectively during the Track Record Period. The said branch of the Group's subsidiary recorded a loss and turnover of approximately RMB0.9 million and RMB42.8 million, and RMB0.8 million and RMB95.5 million for each of the two years ended 31 December 2005 and a profit and turnover of approximately RMB1.7 million and RMB80.5 million for the year ended 31 December 2006. The said supermarket of the Group has not yet commenced operations and no profit and turnover have been recorded.

During the Track Record Period, save as disclosed above, the Group has obtained and maintained all required licences and permits for its Retail Outlets, Logistics Centres and operations of its subsidiaries and associated companies, and was not subject to any penalties or any compensation orders. However, there is no assurance that the Group and its third party counter operators will be able to comply fully with the licensing requirements at all times in the future, which would lead to the cessation of the relevant business activity, and hence the business and results of the Group would be adversely affected.

Product liability

The Group sources its products from third party manufacturers and suppliers. Although the Group adopts quality controls on sourcing daily consumer products, certain consumers may have adverse reactions to or suffer loss from any of the daily consumer products they purchase from any of the Distribution Outlets, which may lead to actual or potential product liability claims. Apart from potential financial losses, the Group is also exposed to reputation damage as a result of any such claim.

Under the current PRC laws, both the manufacturer and vendor of defective products in the PRC may be liable for loss and injury caused by such products, at both criminal and civil levels. Pursuant to 中華人民共和國民法通則 (the General Principles of the Civil Law of the People's Republic of China), which was implemented in 1987, defective products causing any property damages or physical injuries to any person may expose the manufacturer or vendor of such product to civil liability. In 1993, 中華人民共和國消費者權益保護法 (the Law of the People's Republic of China on Protection of Consumers' Rights and Interests) was promulgated which accords further protection to the legal

RISK FACTORS

rights and interests of consumers in connection with the purchase or use of goods and services. At present, all vendors must observe and comply with 中華人民共和國消費者權益保護法 (the Law of the People's Republic of China on Protection of Consumers' Rights and Interests) in the course of selling goods to consumers.

The Group does not maintain product liability insurance. The Group has obtained back-to-back indemnities from a few suppliers. These indemnities are drafted broadly to cover all costs and expenses arising from any litigation claims, with no explicit cap on liability. Although back-to-back indemnity helps to protect the Group and is a risk reduction strategy, it is not available from all of the Group's suppliers, and, for the existing indemnities, they are unlikely to be able to protect the Group against all of the costs which might result from product liability claims, such as investigative effort and administrative overhead. In addition, depending on the nature and scope of the claims, regardless of merit, the reputation and financial position of the Group may be adversely affected. Hence, there is no assurance that the Group will be able to successfully claim any compensation from such manufacturers and/or suppliers or that any such recovered sum will be sufficient to cover the Group's exposure to the relevant product liability claims.

Quality control on franchisees' operations

As at 30 April 2007, the Group had franchise arrangements with one supermarket and 85 convenience stores operating in the Greater Beijing Region under the service mark of “京客隆”. All of these franchised Retail Outlets are independent legal entities with the capacity to bear civil responsibilities independently. Pursuant to its standard franchise agreements, the Group's franchisees are solely liable for their wrongdoings and/or misuse of the Group's service logos, and the Group is entitled to claim compensation for any loss it suffers from such wrongdoings/misuse by the franchisees under the default clauses of the franchise agreements. The Group may also be able to claim compensation for losses suffered by taking other civil actions.

The Group has adopted stringent criteria in selecting its franchisees. However, there is no assurance that the Group's franchisees will be able to adhere to the Group's expected standard of operations. If Group's service logos or trademarks are misused by its franchisees or if any franchisee does not fully comply with the Group's standards for operating franchised Retail Outlet, the Group's reputation and brand image may be adversely affected.

In addition, although the franchisees have operational responsibility over the relevant franchised Retail Outlets, the Group remains exposed to the risk of third party lawsuits for any wrongdoings of the franchisees. This is because the franchisees operate their business in association with the Jingkelong trademark, with the consequence that third parties are given the impression that the franchisees belong to a chain or association of businesses which are associated with the Group. In such circumstances, the Group may incur liability and/or additional costs and expenses and devote management resources to handle such claims, which may have an adverse impact on its business and financial positions as a whole.

Reliance on key management personnel

The future success of the Group is significantly dependent on the strategies and vision of the Group's key management team, including Mr. Wei Tingzhan, Mr. Li Jianwen, Mr. Liu Yuejin, Ms. Chen Limin, Ms. Li Chunyan, Mr. Zhao Weili and Mr. Gao Jingsheng with solid experience in

RISK FACTORS

the local retail and wholesale distribution markets. Any unanticipated departure of the Group's key management personnel or other members of the Group's senior management could have a material adverse impact on the Group's business.

Furthermore, there is no assurance that the Group will be able to manage its expansion by retaining its existing executives and other experienced personnel and/or by recruiting additional appropriate employees, as competition for such personnel is and is likely to continue to be intensive.

Stock control

As at 31 December 2006, the Group had stock of approximately RMB499.6 million. Stock provisions as at 31 December 2004, 2005 and 2006 amounted to approximately RMB3.3 million, RMB2.5 million and RMB2.5 million, respectively. The stock turnover days during the Track Record Period were 41 days, 37 days and 41 days, respectively. The Group's stock represented approximately 19.6%, 17.8% and 16.0% of its total assets as at 31 December 2004, 2005 and 2006 respectively. As the Group sells both live and fresh produce and room temperature daily consumer products in the ordinary course of its retail distribution business, it needs to constantly review and monitor its stock control methods and procedures in order to minimise spoilage and overstocking. A failure to do so may have an adverse impact on the Group's future performance. It is also essential for the Group to maintain sufficient inventory of both perishable and non-perishable goods to meet the demands of its customers within a stipulated delivery time. In the event that the Group could not do so, its profitability and reputation could be adversely affected. Furthermore, if the Group cannot sell its stock promptly, the Group's cash flow may be adversely affected. Moreover, if such stock could not be sold before their expiry date, the Group may have to write-off such stock, which may affect the Group's profitability.

In addition, in the event that the Group's stock in the Logistics Centres and Distribution Centres are damaged (for example by fire), this may disrupt the Group's business and affect its profitability adversely. Further, the Group may not be able to fully recover its losses from its insurers.

Intellectual property protection and infringement

Uncertain protection

The Group's trademarks and other intellectual property rights, such as its service logos and brandnames, are important to the success of its branding and corporate identity. The Group is susceptible to third parties' infringement of its intellectual property rights, and there is no assurance that third parties will not copy or otherwise obtain and use the Group's intellectual property rights without authorisation. Should the Group fail or be unable to assert its rights over these trademarks and intellectual property, there may be an adverse impact on its business and marketing plans.

The Group has registered the trademarks and service marks referred to in the section headed "Intellectual property rights of the Group" in Appendix V to this document.

Although steps have been taken to ensure that the Group's intellectual property rights are protected, it is not possible for the Group to comply fully with, and seek every clearance under, the relevant laws of all possible jurisdictions for the protection and enforceability of its intellectual property rights.

RISK FACTORS

Infringement by the Group

It is also possible that the Group may inadvertently infringe the intellectual property rights of others and face liabilities for such infringements in the course of carrying on its business. The Group, in the ordinary course of its operations, sells products supplied by various manufacturers and suppliers, and it is possible that some of such products may themselves infringe the intellectual property rights of other third parties. The Group, in its capacity as a trader, may attract liability for such infringement, and it is common for proprietary intellectual property owners to first take action against retailers and wholesalers (rather than manufacturers) to stop further sale and circulation of the infringing products by the retailers and wholesalers.

A few of the manufacturers and/or suppliers have provided the Group with a written indemnity covering any third party liability as a result of the infringement of proprietary intellectual property rights. However, there can be no assurance that the indemnity payment will fully cover all of the Group's exposure to such liability claims. To date, there has been no significant action taken against the Group by proprietary intellectual property owners to stop the sale and circulation of any of the products sold by the Group.

The use of the Jingkelong cards and the membership reward cards

As part of the Group's marketing strategy for its retail operations to enhance customer loyalty, the Jingkelong card was launched in December 2003 and the membership reward card was launched in September 2004. As at 31 December 2006, the membership reward card scheme had over 656,000 members and the total amount of value stored in the Jingkelong cards was approximately RMB130 million. Both cards may only be used in the Group's Retail Outlets. Details of the Jingkelong card and the membership reward card are set out in the section headed "Business-marketing and promotion" of this document. The Group has formulated internal controls and procedures in respect of its Jingkelong cards and membership reward cards. However, the operation of the Jingkelong card and the membership reward card programmes otherwise than in accordance with such internal controls and procedures may constitute a breach of the applicable PRC laws and regulations including but not limited to the Contract Law and the Law on Protection of Consumers' Rights and Interests. Such programmes also constitute a breach of the Law on the People's Bank of China and Regulation on Administration of Renminbi, and the Group may be subject to a fine of up to RMB200,000, in addition to being ordered to cease the operation of the programmes. The specific PRC laws are: Article 20 of Law on The People's Bank of China and Article 29 of Regulation on the Administration of Renminbi state that no organization or individual may print or issue promissory notes as substitutes for Renminbi for circulation in the open market. Article 45 of Law on The People's Bank of China further states that in the event that anyone prints or sells promissory notes as substitutes for Renminbi for circulation in the open market, The People's Bank of China shall order the cessation of the breaching actions and impose a fine of up to RMB200,000.

Furthermore, upon cessation of the said programmes, under the relevant PRC laws such as the General Principles of the Civil Law, Law on the Protection of the Rights and Interests of Consumers and Contract Law, the consumer is entitled to ask from the Company for a refund of the money paid and compensation for any losses actually suffered. This is an area of changing rules and regulations and there can be no certainty that relevant PRC governmental authorities may not promulgate new, or change the existing, rules and regulations or require that the provision and use of prepayment cards and membership cards by the Group be modified or terminated, and in which case, there is no assurance that the Group would be able to continue to operate such programmes and/or comply with any such requirement, which may have an adverse effect on the operation and financial condition of the retail business of the Group. In this respect, Chaoyang Auxillary has undertaken to indemnify the Company

RISK FACTORS

against any costs and penalties that the Group may suffer due to any breach of the applicable PRC laws and regulations on the use of the Jingkelong cards and the membership reward cards.

Future dividends

Dividends declared by the Company amounted to approximately RMB39.5 million, RMB56.4 million and RMB57.7 million for the years ended 31 December 2004, 2005 and 2006, respectively.

Investors should be aware that there is no assurance that dividend distributions will continue to be made by the Company in the future. The amount of dividends, if any, to be declared by the Company is subject to the recommendation of the Directors after taking into account, inter alia, the Group's earnings, financial conditions, cash requirements and availability, prospects and other relevant factors. The past dividend distribution record referred to above should not be used as a reference or basis to determine or estimate the amount of dividend payable in the future.

Operations of the new community shopping centre

Without changing its core business format, the Group will develop community shopping centre. The Group's new community shopping centre is situate at Jiuxianqiao in the Chaoyang District, Beijing ("Jiuxianqiao Community Shopping Centre"). The Jiuxianqiao Community Shopping Centre is expected to commence operations in fourth quarter of 2007 and will comprise a hypermarket, theme department stores and other entertainment and ancillary facilities.

As the business model is to a certain extent different from the Group's core business format, the Directors consider that special expertise is involved in the operations of the Jiuxianqiao Community Shopping Centre in particular the operations of the theme department stores. Therefore, the Group may not be able to manage the Jiuxianqiao Community Shopping Centre as efficiently as the other Retail Outlets currently operated by the Group.

Although the Group has entered into a co-operation agreement with a third party authorised by 北京翠微大厦股份有限公司 (Beijing Cui Wei Building Stock Limited Company), which is responsible for liaison of tenants and cooperators and provision of management services and will form project teams among its operational management personnel to ensure overall staffing services of the Jiuxianqiao Community Shopping Centre, there is no assurance that suitable third party operators can be engaged or retained. In the event that the Group fails to manage the Jiuxianqiao Community Shopping Centre efficiently, the Group's overall operations and profitability may be adversely affected.

Reliance on leasehold of third party counters

During the Track Record Period, the Group leased certain counters in the Retail Outlets to third party individuals or enterprises who are all Independent Third Parties. The third party counters offer ancillary services to the customers of the Retail Outlets such as ornaments processing, shoes and watches repairing. The terms of the lease are usually one year and the Group receive fixed rentals from the third party counter operators.

The rentals received from the leasing of third party counters during the Track Record Period were approximately RMB11 million, RMB15 million and RMB18 million respectively which accounted for approximately 0.3%, 0.4% and 0.4% respectively of the Group's total revenue. Accordingly, the Group's profitability depends to a certain extent on its ability to retain existing, and attract new, third party counter operators. The Group only recorded the rental income received from the leased counters

RISK FACTORS

in other income and gains. The counters operate independent from the Group and accordingly their turnovers are not accounted for by the Group.

If the Group is unable to maintain good relationships with its existing third party counter operators, and develop and maintain new third party counter operators relationships, and as a result, unable to provide certain ancillary services to the Group's customers, the Group's revenue, market positioning and image may be adversely affected.

We derive our revenue from the third party counters in the form of fixed rentals for the leasehold of the counters. To the extent that the third party counter operators are able to reduce the rental when negotiating their leasehold arrangements with the Group, the Group's revenue may decrease and its results of operations may be adversely affected.

Revenue derived from activities outside the ordinary and usual course of business

During the Track Record Period, the Group recorded income and gains which were generated from activities outside the Group's ordinary and usual course of business such as net compensation on demolished properties, gain on exchange and disposal of items of property, plant and equipment, excess over the cost of business combinations, gain on disposal of short term investments, government grants and interest subsidy, and interest income resulted from over-subscription of the H shares at GEM Listing. The aggregate amounts of such income and gains were approximately RMB54.4 million, RMB25.0 million and RMB53.4 million, respectively and accounted for approximately 1.48%, 0.61% and 1.18%, respectively of the Group's total revenue during the Track Record Period.

As such income and gains were generated from activities outside the ordinary and usual course of the Group's business, the Group has less control in such income and gains and there is no assurance that the Group will maintain comparable amounts as recorded in the Track Record Period or at all. Although such income and gains only represented a minimal percentage of the Group's total revenue during the Track Record Period, any substantial decrease in such income and gains or the fact that any significant items of such income and gains do not happen in the future can to an extent affect our profitability.

Moreover, the amount of such income and gains recorded during the Track Record Period should not be used as a reference or basis to determine or estimate the amount of the same items generated in the future. If the Group fails to make comparable amounts in the future, its financial performance will to an extent be affected.

RISKS RELATING TO THE PRC DISTRIBUTION INDUSTRY

Domestic competition

Domestic competition in the PRC consumer products distribution markets has become increasingly intense since early 1990s. Aside from foreign entrants to the PRC market, the Group also faces intense competition from domestic players whose operations tend to be larger than those of the Group. Although the Group believes that the product knowledge of its sales staff, the range of the products it offers, the competitive pricing of its products and the prime locations of its network of Retail Outlets as well as its local knowledge of its customers' shopping preference are all critical factors which have contributed to its success, the Group's profitability may be adversely affected if there is an oversupply of the products sold by the Group or if competitors drastically reduce their product prices or expand their networks, particularly in view of the hosting of the Beijing Olympics in 2008.

RISK FACTORS

The Group's profitability may also be adversely affected if domestic retail chain operators expand their businesses to include wholesale distribution of daily consumer products, hence competing with the Group in terms of products and customers and be able to further control their costs. These domestic retail chain operators, particularly the large ones, may have competitive advantages over the Group in terms of established and comprehensive retail chain networks, strong financial resources, brand recognition and management know-how.

Intensified competition from these domestic competitors may lead to lower profit margins due to price competition, loss of customers and slower growth for the Group, thus adversely affecting the Group's profitability.

Foreign competition

In recent years, famous international companies have begun to set up large scale "hypermarket-style" operations with efficient supply chains in China, offering consumers not only goods at lower prices, but also a wide array of goods and services. In addition, these foreign retail chain operators may also undertake wholesale distribution services, similarly integrating their retail and wholesale networks. The Group may also face competition from foreign distributors of daily consumer products who may enter the wholesale distribution market, which may offer competing products at lower prices. Such foreign competitors may have certain competitive advantages over the Group in their business in terms of access to abundant financial resources, brand recognition and management know-how.

There is no assurance that new industry players will not enter the market. These international competitors may form alliances with or acquire companies to set up retail business in the PRC.

Intensified competition from these international competitors may lead to lower profit margins due to price competition, loss of customers and slower growth for the Group, thus adversely affecting the Group's profitability.

Although 《外商投資商業領域管理辦法》 (the "Management Measures on Foreign Investment in Commercial Jurisdiction") issued by the MOC on 16 April 2004 as supplemented by two supplemental rules issued on 9 January 2006 and 3 November 2006 respectively imposes limitations on operation period, categories of goods and time for market entrance in relation to foreign companies entering the PRC retail industry, it still provides a more liberal regulatory environment for foreign operators to operate in the PRC retail industry. The liberal approach adopted by the State Council represents a decision at the central government level to allow controlled competition in order to accomplish two vital goals: the acceleration of further reform of and the introduction of modern management expertise to the PRC retail industry. The Directors believe that such reforms in the PRC retail industry, especially after the PRC's accession to WTO, will probably lead to a significant influx of foreign investment to the PRC, especially with the removal of the limitations on retail outlet locations invested by foreign investors since 11 December 2004. In turn, this may introduce increased market competition to the PRC retail industry as a whole. Accordingly, there is no assurance that the Group will continue to be profitable or maintain its profitability under such competitive environment.

Change in consumer preferences and/or purchasing power

The performance of the retail business of the Group depends primarily upon its customers' selection of supermarkets and/or convenience stores and their purchasing power, while the demand by the Group's wholesale customers depends primarily upon the purchasing power of their own retail

RISK FACTORS

consumers. There is no assurance that the Group's retail and wholesale customers will continue to purchase from the Group's Retail Outlets and source the products distributed by the Group in the future. If the purchasing habits of the Group's retail and wholesale customers change in the future, the Group's business and financial results may be adversely affected. In addition, although the PRC has experienced rapid economic development in recent years, there is no assurance that such a rate of growth can be sustained in the future. A prolonged period of slow economic development or economic recession in the PRC or, more specifically, in the Greater Beijing Region, may cause a reduction in spending by the Group's retail and wholesale customers in these regions, which in turn may have a material adverse impact on the Group's overall financial results.

RISKS RELATING TO THE PRC

Political and economic policies of the PRC government

The Group's operations are within the PRC. Potential investors should note that changes in the economic and political situation in the PRC and policies adopted by the State to regulate the PRC's economy may affect the Group's operations, performance and profitability.

The economy of the PRC differs from the economies of most countries belonging to the Organisation for Economic Co-operation and Development ("OECD") in aspects such as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, rate of inflation and balance of payments position. The PRC's economy has traditionally been centrally planned, with a series of economic plans promulgated and implemented by the State. Over the past twenty years, the State has been reforming the economic and political systems in the PRC. Such reforms have resulted in significant economic and social advancements. Many of these reforms are unprecedented and are expected to be refined and improved on an ongoing basis, while political, economic and social factors may also lead to further adjustment of the reform measures. The refinement and adjustment process, however, may not always have a positive effect on the operations of the Group. Accordingly, there is no assurance that the Group's performance and profitability will not be adversely affected due to changes in political, economic and social conditions in the PRC or due to changes in State policies such as changes in laws and regulations (or the interpretation thereof), the introduction of measures to control inflation, changes in the rate or method of taxation and the imposition of additional restrictions on currency conversion and overseas remittances. In addition, there is no guarantee that the PRC government will continue to pursue economic liberalisation and other reforms.

The PRC legal system

The Company is established under the laws of the PRC. The PRC legal system is based on written statutes. Prior court decisions may be quoted for reference but have limited precedent value. Since 1979, the PRC government has promulgated laws and regulations dealing with economic matters, such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view towards developing a comprehensive system of commercial law. However, as these laws and regulations are relatively new, and because of the limited volume of published cases and their nonbinding nature, interpretation and enforcement of these laws and regulations involve uncertainties.

RISK FACTORS

The PRC has not entered into any treaty which provides for the reciprocal recognition and enforcement of judgments of courts with countries such as the United States, the United Kingdom and Singapore, and therefore the recognition and enforcement in PRC of judgments of a court in any of these jurisdictions may be difficult or impossible. The Articles and the Main Board Listing Rules provide that most disputes between holders of H Shares and the Company, the Directors, the Supervisors or other officers or holders of Domestic Shares, arising out of the Articles or the Company Law of the PRC and related regulations concerning the Group's affairs or with respect to the transfer of the H Shares, are to be resolved through arbitration by arbitration organisations in Hong Kong or PRC. On 21 June 1999, an arrangement was made between Hong Kong and PRC for the reciprocal recognition and enforcement of arbitral awards. This arrangement was approved by the Supreme People's Court of PRC and the Hong Kong Legislative Council, and became effective on 1 February 2000. The arrangement was made in accordance with the spirit of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958. Under the arrangement, awards that are made by Chinese arbitral authorities recognised under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Likewise, Hong Kong arbitration awards are also enforceable in the PRC. As far as the Directors are aware, no action has been brought in the PRC by any holder of H shares issued by any joint stock limited company established in the PRC to enforce an arbitral award that is made by Hong Kong arbitral authorities and, as such, the Directors are uncertain as to the outcome of any action to be brought in the PRC to enforce an arbitral award made in Hong Kong in favour of the Shareholders.

Furthermore, the Company Law includes provisions for derivative actions. Pursuant to Section 152 of the Company Law, a shareholder of a company may by him/her/itself institute legal proceedings for the benefit of the company against any of the company's directors, supervisors, senior management and any other person who has brought damages to the company. PRC laws, rules and regulation applicable to companies listed overseas do not distinguish among minority and controlling shareholders in terms of their rights and protections. Furthermore, minority shareholders of the Company may not have the same protections enjoyed by shareholders of companies incorporated under the laws of certain other countries.

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

The Company is established under the laws of the PRC, and substantially all (if not all) of its assets and subsidiaries are located in the PRC. Given that the Group carries on its business in the PRC, its operations are governed principally by PRC laws and regulations. As a joint stock limited company established in the PRC and offering H Shares for listing outside the PRC, the Company is subject to the Mandatory Provisions. Upon the listing of H Shares on Main Board, the Main Board Listing Rules will also become one of the principal sources for the protection of Shareholders' rights. The Main Board Listing Rules prescribe certain standards of conduct, fairness and disclosure requirements on the Group, the Directors and the Company's controlling shareholder. The legal framework to which the Group is subject in the PRC may be materially different from the Companies Ordinance in relation to, for example, the protection of minority shareholders. In addition, the mechanisms for enforcement of shareholders' rights under the corporate framework within the PRC legal system to which the Company is subject, are also relatively undeveloped and untested compared to those in Hong Kong.

Although the Company will be subject to the Main Board Listing Rules and, depending on the nature of the transactions concerned, the Hong Kong Codes on Takeovers and Mergers and Share Repurchases upon the listing of the H Shares on Main Board, the holders of H Shares will be unable to bring actions on the basis of violations of the Main Board Listing Rules and must rely on the Stock

RISK FACTORS

Exchange to enforce the Main Board Listing Rules. The Hong Kong Codes on Takeovers and Mergers and Share Repurchases do not carry the force of law and provide merely standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong.

In addition, as most of the Directors and other officers of the Company reside within the PRC, and the assets of such Directors and officers may be located within the PRC, it may not be possible to effect service of process outside of the PRC upon such Directors and officers.

Taxation of holders of H Shares

Under current PRC tax laws, regulations and rulings, dividends paid by the Company to holders of H Shares who are individuals not resident in the PRC or which are foreign enterprises with no permanent establishments in the PRC are not currently subject to PRC withholding tax. In addition, gains realised by individuals or enterprises upon the sale or other disposition of H Shares are not currently subject to PRC capital gains tax. There is no assurance, however, that withholding or capital gains taxes will not become applicable to such dividends or gains in the future. In such event, holders of H Shares could become subject to a withholding tax on dividends or to a capital gains tax, each of which is currently imposed in the PRC upon individuals at the rate of 20%, unless reduced or eliminated by an applicable double taxation treaty.

Changes in foreign exchange regulations and fluctuation of the RMB

All of the operating revenues of the Group are denominated in RMB. However, in relation to dividends payable to Shareholders outside the PRC, a portion of the Group's RMB-denominated revenue must be converted into Hong Kong Dollars. Pursuant to the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (the "Settlement Regulations"), foreign currencies required for the distribution of profits and payment of dividends may be purchased from designated foreign exchange banks upon presentation of tax clearance certificates issued by the relevant government authorities in respect of such dividends and the board resolutions authorising the distribution of profits or dividends of the Company. The Settlement Regulations has abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

As part of the PRC's currency reforms, which came into effect on 1 January 1994, the PRC government abolished its two-tier exchange rate system and replaced it with a unified system which is subject to market demand and supply. Under the new system, the PBOC quotes a daily exchange rate for the RMB to the US Dollar based on the previous day's dealings in the inter-bank foreign exchange market. PBOC announced in 2005 that, with immediate effect, the PRC would switch to a managed floating exchange rate regime based on market demand and supply and adjustments of which would be made by reference to a basket of currencies such that the Renminbi is no longer pegged to only the U.S. dollar. Instead, PBOC announces closing prices of Renminbi against the U.S. dollar and various transacting currencies in the inter-bank foreign exchange market on each business day and based on these closing prices it would determine the median prices of Renminbi against such currencies for the following business day.

Despite such developments, the RMB is still not freely convertible into foreign currencies. Under the current foreign exchange control system, there is no guarantee that sufficient foreign currency will be available to the Group to enable it to pay dividends declared on the H Shares.

RISK FACTORS

Payment of dividends subject to restrictions under PRC law

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits are the Company's net profit as determined under PRC GAAP or HKFRSs, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that the Group is required to make. As a result, the Company may not have sufficient or any distributable profits to enable it to make dividend distributions to its shareholders in the future, including in respect of periods which its financial statements indicate that its operations have been profitable. Furthermore, the Company may not be able to pay any dividends in a given year if (i) it does not have distributable profits as determined under PRC GAAP, even if it has profits for that year as determined under HKFRSs; or (ii) it does not have distributable profits under HKFRSs, even if it has profits for that year as determined under PRC GAAP.

Domestic Shares may be converted into H Shares

Subject to the approval of the State Council Securities Regulatory Authority, and the approval of the Shareholders in general meeting in accordance with the Articles, Domestic Shares may be transferred to overseas investors, and such shares may be listed or traded on an overseas stock exchange. Any listing or trading of such shares on an overseas stock exchange will also need to comply with the regulatory procedures, rules and requirements of such stock exchange. No separate class shareholders' meeting's approval is required for the listing and trading of such shares on an overseas stock exchange. However, the PRC Company Law provides that in relation to the public offering of a company, the shares of that company which are issued prior to the public offering shall not be transferred within one year from the date of the listing. In the event that the Domestic Shares are successfully converted into H Shares and listed on the Main Board, the number of H Shares available on the market will increase and as a result, the share price of the H Shares may be affected.

In the event the Board exercises the General Mandate, certain Domestic Shares held by Chaoyang Auxillary that may then be allocated by SASAC to the NSSF Council would be converted into H Shares and the share price of the H Shares may be affected.

New corporate income tax law

There can be no assurance that the existing tax laws, their applications and interpretations which are applicable to the activities conducted by the Group will remain in effect and will not change. Any changes in the applicable legislation or regulations or otherwise in the PRC may have a negative impact on the results of the Group's operations.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("New Corporate Income Tax Law") was approved and will become effective on 1 January 2008.

The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, (i) a uniform corporate income tax of 25% will be applied to both the domestic and the foreign invested enterprises in the PRC; (ii) based on the regulation promulgated by the State Council of the PRC, the fixed tax holiday may be enjoyed until its expiry, but if an enterprise has not started to enjoy such holiday because of no profit, such holiday shall commence from the year this law becomes effective; and (iii) other enterprises belonged to the encouraged class confirmed by the

RISK FACTORS

state may enjoy tax benefits according to the regulations promulgated by the State Council of the PRC. There is no assurance as to when the implementation rules of the Corporate Income Tax Law will be promulgated and how such implementation rules will affect the Group, and there is no assurance that no other changes will be made to other existing tax regulations applicable to the Group. Although the current corporate income tax rate applicable to the Group is 33% and the unification of income tax rate to 25% should be beneficial to the Group, since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law on our PRC operations cannot be reasonably estimated at this stage.

Changes in laws and regulations regarding social insurance contributions and other social responsibility aspects

The Group makes social insurance contributions (including industrial accidents and retirement benefits) in accordance with the applicable PRC laws regulations. The applicable PRC laws and regulations are (i) Decision regarding Perfection of Enterprise Employees Basic Retirement Insurance System (《關於完善企業職工基本養老保險制度的決定》) and Basic Retirement Insurance Regulation of Beijing (《北京市基本養老保險規定》) in relation to provision of basic retirement insurance, (ii) Industrial Accident Insurance Law (《工傷保險條例》) and Implementation Rules of Industrial Accident Insurance Law of Beijing (《北京市實施《工傷保險條例》辦法》) in relation to provision of industrial accident insurance, (iii) Unemployment Insurance Law (《失業保險條例》) and Regulation of Unemployment Insurance Law of Beijing (《北京市失業保險規定》) in relation to provision of unemployment insurance, (iv) Decision regarding Establishment of Basic Medical Insurance System for Employees in Cities and Towns (《國務院關於建立城鎮職工基本醫療保險制度的決定》) and Regulation of Basic Medical Insurance of Beijing (《北京市基本醫療保險規定》) in relation to provision of basic medical insurance, and (v) Rules relating to Birth Insurance for Enterprise Employees (《企業職工生育保險辦法》) and Regulation of Birth Insurance for Enterprise Employees of Beijing (《北京市企業職工生育保險規定》) in relation to provision of birth insurance, respectively. According to the PRC legal advice, the Group has fully complied with all applicable laws and regulations in relation to social insurance contributions and, apart from that, there are no other applicable laws and regulations relevant to the issue of social responsibility. Based on the PRC legal advice, the Directors confirm that the Group's operations are in compliance with the currently applicable labour and safety regulations in all respects.

There is no assurance that the PRC government will not change the existing laws or regulations or impose additional or more stringent requirement regarding social insurance contributions or other social responsibility aspects, compliance with which may cause the Group to incur significant capital expenditure. Moreover, if the Group fails to comply with the present or future regulations relevant to the issue of social responsibility, it may be required to pay substantial fines or cease operations. Consequently, our financial condition, business and reputation may be adversely affected.

RISKS RELATING TO THE H SHARES

Development of an active market for the H Shares

An active trading market for the H Shares may not develop and the trading price for the H Shares may be volatile. The market price of the H Shares may be subject to significant volatility in response to, among other factors:

- investor's perceptions of the Group and its future expansion plans;
- the market price of and volume fluctuations in the H Shares;

RISK FACTORS

- changes in the estimate of the Group's financial performance by securities analysts, newspapers and other media reports;
- variations in the operating results of the Group;
- the competitive landscape of the markets in which the Group operates;
- changes in the pricing and strategies made by the Group, its competitors or providers of alternative services; and
- general economic and other factors.

In addition, in recent years, stock markets in general have experienced price and volume fluctuations, some of which have been unrelated or disproportionate to the operating performances of individual companies. These broad market and industry fluctuations may adversely affect the market price of the H Shares.

Potential dilution of the H Shares

It is anticipated that additional funds may be required in the future to finance the expansion of the business and operations of the Group. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a pro rata basis to Shareholders, the percentage ownership of the Shareholders may be reduced. This would result in a dilution of the shareholding interest of the then existing Shareholders.

At the annual general meeting of the Company held on 18 May 2007, a special resolution was passed to grant the Board a general mandate to issue Domestic Shares and/or H Shares of the Company. Pursuant to the general mandate, the aggregate nominal amount of H Shares allotted and issued or agreed conditionally or unconditionally to be allotted and issued shall not exceed (i) 20% of the aggregate nominal amount of the Domestic Shares in issue; and (ii) 20% of the aggregate nominal amount of the H Shares in issue, respectively. Full particulars of the general mandate are set out under the section headed "Share capital – Issuing mandate" in this document.

The Board may, during the Relevant Period (as defined in the section headed "Share capital – Issuing Mandate" in this document), at its sole discretion exercise the power of the Company pursuant to the general mandate to issue further H Shares (which, if issued, may comprise the Domestic Shares held by Chaoyang Auxillary that may then be allocated by SASAC to the NSSF Council and converted into H Shares), which exercise may be before and/or after the Main Board Listing.

The shareholding interest of the existing Shareholders may be diluted if the Board exercises the general mandate partially or in full.