
HISTORY AND DEVELOPMENT AND REORGANISATION

Unless the context stipulates to the contrary or requires otherwise, references to the Company in this section includes the Company's predecessor.

CHAORYANG AUXILLARY STATE OWNED ASSETS RESTRUCTURING AND THE REORGANISATION

The Company was converted with the authorisation of BDRC in accordance with 《關於同意北京京客隆超市連鎖集團有限公司變更為北京京客隆商業集團股份有限公司的函》(京發改[2004] 2241號) (Letter in relation to the authorisation of converting “Beijing Jingkelong Supermarket Chain Group Company Limited” to “Beijing Jingkelong Company Limited”) (Jing Fa Gai [2004] 2241) from Jingkelong Supermarket and established as a joint stock limited company.

1. THE ESTABLISHMENT OF JINGKELONG SUPERMARKET

The establishment of the predecessor of the Company evolved from the restructuring of 北京關東店商廈 (Beijing Guandongdian Shang Sha (“Guandongdian Shang Sha”)), being a state-owned enterprise.

On 12 May 1994, upon the approval and the issuance of the business licence by 北京市朝陽區工商行政管理局 (Administration for Industry and Commerce of Chaoyang District, Beijing), the Company was first established in the PRC under the name of Guandongdian Shang Sha as a state-owned enterprise. At the time, the Company's registered capital was RMB2,000,000.

On 6 February 1996, upon the approval and the issuance of business licence by Administration for Industry and Commerce of Chaoyang District, Beijing, the name of the Company was changed to “Beijing Jingkelong Shang Sha”.

On 4 June 1997, upon the approval and the issuance of business licence by Administration for Industry and Commerce of Chaoyang District, Beijing, the registered capital of the Company was increased to RMB22,190,000.

On 28 April 2002, Chaoyang Auxillary proposed a restructuring of its assets to 金朝陽 (Jin Chaoyang) (which proposal is entitled 《北京市朝陽副食品總公司關於進行企業改制設立北京京客隆超市連鎖有限公司的改制方案》 (Enterprise restructuring proposal by Chaoyang Auxillary in relation to Beijing Jingkelong Supermarket Chain Company Limited)), which was aimed to segregate its operating/performing assets from its non-operating/non-performing assets, and rationalise its various business units and holding structure. Pursuant to the Chaoyang Auxillary State Owned Assets Restructuring, of which the Reorganisation forms part, Chaoyang Auxillary injected Jingkelong Shang Sha together with its other interests including 北京市朝陽肉禽水產批發部 (Beijing City Chaoyang Poultry and Seafood Wholesale Department), 北京市生命綠洲健康服務中心 (Beijing City Life Health Service Centre), 北京市朝陽肉禽蔬菜公司 (Beijing City Chaoyang Poultry and Vegetables Company), 北京市朝陽藥品器材經營公司 (Beijing City Chaoyang Medical Equipment Operating Company), 北京市朝陽區文化用品批發公司 (Beijing City Chaoyang District Cultural Commodities Wholesale Company), 北京市朝陽副食品批發總公司 (Beijing City Chaoyang Food Wholesale Company), 北京月盛元飯店 (Beijing Yue Sheng Yuan Restaurant), 北京市朝陽東方招待所 (Beijing City Chaoyang Eastern Service Centre), 北京市騰遠汽車維修中心 (Beijing City Teng Yuan Vehicle Repair Centre), 北京市朝陽區商業設備公司 (Beijing City Chaoyang District Business Equipment Company), 北京市朝陽東方加油站 (Beijing City Chaoyang Eastern Petrol Station) and 北京市朝陽區騰遠出租汽車公司 (Beijing City

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Chaoyang District Teng Yuan Car Rental Company), and cash, aggregating RMB176,540,000, whilst the other investors (comprising officers, employees and business partners of the Group) contributed cash in the aggregate amount of RMB60,120,000, to establish 北京京客隆超市連鎖有限公司 (Beijing Jingkelong Supermarket Chain Company Limited).

After the aforesaid assets and equity interest were injected into the Company, they were further rationalised into the different entities set out in the chart contained in the section headed “Group structure” in this document, together with the dissolutions of Beijing City Chaoyang Poultry and Seafood Wholesale Department, Beijing City Life Health Service Centre and Beijing City Chaoyang Poultry and Vegetables Company on 12 January 2006, the reorganisation of Beijing City Chaoyang Medical Equipment Operating Company and Beijing City Chaoyang District Cultural Commodities Wholesale Company into Yiyuantang on 8 November 2002, the conversion of Beijing City Chaoyang Food Wholesale Company into Chaopi Trading on 31 May 2002, the conversion of Beijing City Chaoyang District Business Equipment Company into Xinyang Tongli on 31 May 2002, the conversion of Beijing City Chaoyang District Teng Yuan Car Rental Company into Tengyuan on 31 May 2002 and concurrently the injection of Beijing Yue Sheng Yuan Restaurant, Beijing City Chaoyang Eastern Service Centre, Beijing City Teng Yuan Vehicle Repair Centre and Beijing City Chaoyang Eastern Petrol Station into Tengyuan, pending the final steps of this restructuring, being the Reorganisation set out below.

On 20 May 2002, Beijing Administration for Industry and Commerce (“BAIC”) authorised the establishment of Beijing Jingkelong Supermarket Chain Company Limited with a registered capital of approximately RMB236,660,000. Chaoyang Auxillary invested RMB176,540,000, representing approximately 74.60% of the registered capital of Beijing Jingkelong Supermarket Chain Company Limited. The remaining shareholders were other legal corporate entities and individuals.

On 6 December 2002, the name of Beijing Jingkelong Supermarket Chain Company Limited was changed to “北京京客隆超市連鎖集團有限公司” (Beijing Jingkelong Supermarket Chain Group Company Limited).

2. THE REORGANISATION

However, as the establishment of the Company was only part of the Chaoyang Auxillary State Owned Assets Restructuring which was designed to rationalise the diverse business interests of Chaoyang Auxillary, certain unrelated and independent businesses were also transferred to and held by the Company pending further administrative actions then to be taken in respect thereof.

Accordingly, subsequent to the establishment of the Company, with a view to further rationalising the various business functions and holding structure of Chaoyang Auxillary and those of the Group and in preparation for the GEM Listing, in June 2004:

- (i) the Company acquired approximately 1.25% and 0.79% equity interest in Chaopi Trading at consideration of approximately RMB1,000,000 and RMB628,000, representing the initial cost of investments, from Chaopi Huaqing and Chaopi Flavourings, respectively in June 2004 and thereby increasing its equity interest in Chaopi Trading to approximately 71.7%;

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- (ii) Chaopi Trading entered into two equity transfer agreements with Chaoyang Auxillary to acquire an additional approximately 11.11% and 12.50% equity interest in Chaopi Huaqing and Chaopi Flavourings (at a consideration of RMB1,305,959.90 and RMB2,152,867.86 determined by an independent PRC valuer by reference to the net asset value attributable to the relevant equity interest being transferred) respectively, in June 2004. Upon the completion of the equity transfers, Chaopi Trading owned a total interest of approximately 52.22% and 56.25% in Chaopi Huaqing and Chaopi Flavourings, respectively. The Group accounted for Chaopi Huaqing and Chaopi Flavourings as associates for the period from January 2004 to June 2004 and as subsidiaries by the purchase method of accounting thereafter;
- (iii) the Company transferred its entire 10% equity interest in Chaopi Shuanglong to Chaopi Trading for approximately RMB1,611,000 determined by an independent PRC valuer by reference to the net asset value attributable to the relevant equity interest being transferred so as to consolidate the Group's equity holding in Chaopi Shuanglong in Chaopi Trading;
- (iv) the Company disposed of its entire approximately 62.73% equity interest in Tengyuan to Chaoyang Auxillary for approximately RMB9,038,000 determined by an independent PRC valuer by reference to the net asset value attributable to the relevant equity interest being transferred. Tengyuan was principally engaged in the sale of motor vehicles and the provision of car repair services, which was an independently operated business unit of Chaoyang Auxillary, and such equity interest was only injected into the Company by Chaoyang Auxillary at the time of the Company's establishment as a transitional arrangement (being part of the Chaoyang Auxillary State Owned Assets Restructuring) pending this disposal, which was amongst the final steps under the Chaoyang Auxillary State Owned Assets Restructuring to rationalise the different business units of Chaoyang Auxillary; and
- (v) the Company disposed of its entire approximately 35.07% equity interest in Yiyuantang to Chaoyang Auxillary for approximately RMB14,984,000 determined by an independent PRC valuer by reference to the net asset value attributable to the relevant equity interest being transferred. Yiyuantang was principally engaged in the sale of pharmaceutical products, which was an independently operated business unit of Chaoyang Auxillary, and such equity interest was only injected into the Company by Chaoyang Auxillary at the time of the Company's establishment as a transitional arrangement (being part of the Chaoyang Auxillary State Owned Assets Restructuring) pending this disposal, which was amongst the final steps under the Chaoyang Auxillary State Owned Assets Restructuring to rationalise the different business units of Chaoyang Auxillary.

Each of the equity interest disposal in paragraphs (ii), (iii), (iv) and (v) above was conducted at a consideration determined by an independent PRC valuer by reference to the net asset value attributable to the relevant equity interest being transferred and was approved by the SASAC of Chaoyang District, Beijing.

Although the holding by the Group of the equity interests of Tengyuan and Yiyuantang was a transitional arrangement which formed part of the Chaoyang Auxillary State Owned Assets Restructuring exercise, for accounting purposes, the Group accounted its equity interests in Tengyuan and Yiyuantang under discontinued operations in the Accountants' Report included as Appendix I to this document. The operating results of Tengyuan were consolidated into the Group until June 2004 when the Group transferred its entire equity interest therein to Chaoyang Auxillary under the Chaoyang Auxillary State Owned Assets Restructuring. The operating results of Yiyuantang were consolidated into the Group until the Company disposed of its approximately 35.07% equity interest therein to a third party in July 2003 for RMB14,467,900, representing the initial cost of investment, and then, the operating results of Yiyuantang were accounted for as a share of result of associates until June 2004 when the Group transferred the balance of its equity interest therein (being approximately 35.07%) to Chaoyang Auxillary under the Chaoyang Auxillary State Owned Assets Restructuring.

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On 22 November 2004, the equity holders of Chaopi Flavourings resolved, at a meeting of its equity holders, to increase the registered capital of Chaopi Flavourings from RMB8,000,000 to RMB9,500,000, and Chaopi Flavourings received cash contributions from (i) Chaopi Trading (which was then already an equity holder of Chaopi Flavourings) in the sum of RMB1,075,000 (of which RMB500,000 was paid and recorded as capital and RMB575,000 was paid and recorded as reserves), and (ii) 李俊偉 (Li Junwei, being a then existing equity holder of Chaopi Flavourings) in the sum of RMB2,150,000 (of which RMB1,000,000 was paid and recorded as capital and RMB1,150,000 was paid and recorded as reserves), and as a result thereof, Chaopi Trading held approximately 52.63% of Chaopi Flavourings' equity.

On 25 July 2005, Chaopi Trading acquired an approximately 7.33% equity interest in Chaopi Shuanglong at consideration of RMB880,000, representing the initial cost of investment, from Shenzhen Yunzhongyuan Trading Company Limited and thereby increasing its equity interest in Chaopi Shuanglong to approximately 59.00%.

On 1 August 2005, the equity holders of Chaopi Trading resolved, at a meeting of its equity holders, to increase the registered capital of Chaopi Trading from RMB80,000,000 to RMB96,000,000, and Chaopi Trading received cash contribution from the Company in the sum of RMB17,206,400 (of which RMB16,000,000 was paid and recorded as capital and RMB1,206,400 was paid and recorded as reserves), and as a result thereof, the Company held approximately 76.42% of Chaopi Trading's equity.

On 7 February 2007, Chaopi Zhongde was incorporated with registered capital of RMB28,000,000 and is principally engaged in wholesale of general merchandise and provision of storage services. At the time of its incorporation, Chaopi Zhongde was wholly held by Chaopi Trading. On 18 April 2007, Chaopi Trading transferred 20% of Chaopi Zhongde's equity to 北京中得高雅經貿有限公司 (Beijing Zhongde Gaoya Jingmao Company Limited), an independent third party, at a consideration of RMB5,600,000, representing the initial cost of investment and thereby reducing its equity interest in Chaopi Zhongde to 80.00%.

On 8 February 2007, Chaopi Huilong was incorporated with registered capital of RMB12,000,000 and is principally engaged in the wholesale of general merchandise. At the time of its incorporation, Chaopi Trading held approximately 51.10% of Chaopi Huilong's equity.

On 23 April 2007, the equity holders of Chaopi Trading resolved at a meeting of its equity holders to (i) increase the registered capital of Chaopi Trading from RMB96,000,000 to RMB192,000,000 and the said equity holders were offered to subscribe for the increase in registered capital pro-rata to their holdings of equity in Chaopi Trading, and (ii) declare a dividend of RMB28,800,000. The said dividend of RMB28,800,000 was re-invested by the equity holders as registered capital, and the balance of the increase in registered capital was contributed by the said equity holders by way of cash payments. Accordingly, the Company has contributed RMB51,352,700 by way of cash payment to Chaopi Trading as further registered capital to maintain its approximately 76.42% interest in Chaopi Trading. Furthermore, Shanxi Trust has also contributed RMB6,665,400 by way of cash payment as further registered capital to Chaopi Trading to maintain its approximately 9.92% interest in Chaopi Trading. Accordingly, the registered capital of Chaopi Trading was increased to RMB192,000,000, while the proportionate equity interest of the Company and Shanxi Trust in Chaopi Trading remained unchanged respectively.

On 24 April 2007, the equity holders of Chaopi Huaqing resolved at a meeting of its equity holders to (i) increase the registered capital of Chaopi Huaqing from RMB9,000,000 to RMB18,000,000 and the said equity holders were offered to subscribe for the increase in registered capital pro-rata to their holdings of equity in Chaopi Huaqing, and (ii) declare a dividend of RMB2,700,000. The

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said dividend of RMB2,700,000 was re-invested by the equity holders as registered capital, and the balance of the increase in registered capital was contributed by the said equity holders by way of cash payments. Accordingly, Chaopi Trading has contributed RMB3,507,000 by way of cash payments to Chaopi Huaqing as further registered capital to maintain its holdings of equity in Chaopi Huaqing and acquired a further interest of approximately 1.21% in Chaopi Huaqing, and as a result thereof, Chaopi Trading held approximately 53.43% of Chaopi Huaqing's equity.

On 27 April 2007, the equity holders of Chaopi Flavourings resolved at a meeting of its equity holders to (i) increase the registered capital of Chaopi Flavourings from RMB9,500,000 to RMB23,750,000; and (ii) declare a dividend of RMB10,450,000. The said dividend of RMB10,450,000 was re-invested by the equity holders as registered capital, and the balance of the increase in registered capital was paid out by the reserve of Chaopi Flavourings in the sum of RMB3,800,000. Accordingly Chaopi Trading maintained its approximately 52.63% interest in Chaopi Flavourings.

On 23 April 2007, Chaopi Trading acquired 25.00%, 12.50% and 3.50% equity interests in Chaopi Qingdao from 王春林 (Wang Chunlin), 劉東 (Liu Dong) and 王曉娟 (Wang Xiaojuan) respectively at consideration of RMB490,000, RMB250,000 and RMB70,000, representing the initial cost of investments, and thereby increasing its equity interest in Chaopi Qingdao to 100.00%. All of them, save for 王春林 (Wang Chunlin) who is a director of Chaopi Shuanglong, and Chaopi Huilong and also holds approximately 28.50% of the equity of Chaopi Shuanglong, 16.30% of the equity of Chaopi Huilong and 0.89% of the equity of Chaopi Trading are Independent Third Party. On the same date, Chaopi Trading, being the sole equity holder of Chaopi Qingdao, resolved to increase the registered capital of Chaopi Qingdao from RMB2,000,000 to RMB5,000,000 of which Chaopi Qingdao received cash contribution from Chaopi Trading in the sum of RMB3,000,000 and was recorded as capital of Chaopi Qingdao.

On 23 April 2007, Chaopi Trading acquired 25.00%, 12.50% and 3.50% equity interests in Chaopi Shijiazhuang from 王春林 (Wang Chunlin), 段雲洪 (Duan Yunhong) and 王曉娟 (Wang Xiaojuan) respectively at consideration of RMB500,000, RMB250,000 and RMB70,000, representing the initial cost of investments, and thereby increasing its equity interest in Chaopi Shijiazhuang to 100.00%. All of them, save for 王春林 (Wang Chunlin) who is a director of Chaopi Shuanglong, and Chaopi Huilong and also holds approximately 28.50% of the equity of Chaopi Shuanglong, 16.30% of the equity of Chaopi Huilong and 0.89% of the equity of Chaopi Trading are Independent Third Party. On the same date, Chaopi Trading, being the sole equity holder of Chaopi Shijiazhuang, resolved to increase the registered capital of Chaopi Shijiazhuang from RMB2,000,000 to RMB5,000,000 of which Chaopi Shijiazhuang received cash contribution from Chaopi Trading in the sum of RMB3,000,000 and was recorded as capital of Chaopi Shijiazhuang.

On 27 April 2007, the equity holders of Chaopi Jinglong resolved at a meeting of its equity holders to (i) increase the registered capital of Chaopi Jinglong from RMB12,000,000 to RMB18,000,000 and the said equity holders were offered to subscribe for the increase in registered capital pro-rata to their holdings of equity in Chaopi Jinglong, and (ii) declare a dividend of RMB3,600,000. The said dividend of RMB3,600,000 was re-invested by the equity holders as registered capital, and the balance of the increase in registered capital was contributed by the said equity holders by way of cash payments. Accordingly, Chaopi Trading has contributed RMB1,301,496 by way of cash payments to Chaopi Jinglong as further registered capital to maintain its approximately 54.23% interest in Chaopi Jinglong.

On 27 April 2007, the equity holders of Chaopi Shuanglong resolved at a meeting of its equity holders to (i) increase the registered capital of Chaopi Shuanglong from RMB12,000,000 to RMB24,000,000, and (ii) declare a dividend of RMB12,000,000. The said dividend of RMB12,000,000 was re-invested by the equity holders as registered capital. Accordingly, Chaopi Trading maintained its 59% interest in Chaopi Shuanglong.

3. CONVERTING JINGKELONG SUPERMARKET TO THE COMPANY

On 12 August 2004, the shareholders of Jingkelong Supermarket at a shareholders' meeting resolved to convert their company into a joint stock limited company. On the same day, all shareholders of Jingkelong Supermarket signed the Promoters' Agreement. For the purpose of converting the Company (being in the form of a limited company under the name of 北京京客隆超市連鎖集團有限公司 (Beijing Jingkelong Supermarket Chain Group Company Limited)) into a joint stock limited company, the net asset value of the Company of RMB246,620,000 (as determined by 安永華明會計事務所 (Ernst & Young Hua Ming, the PRC auditors of the Company) by deducting the amount of the declared dividend of RMB29,135,259 from the net asset value as at 31 December 2003 of RMB275,755,259) was converted into 246,620,000 shares of RMB1.00 each of the Company.

On 28 September 2004, Beijing SASAC authorised the establishment of the Company as a joint stock limited company in accordance with 《關於北京京客隆商業集團股份有限公司國有股權管理有關問題的批覆》(京國資產權字[2004]96號) (In relation to the authorisation of the "Management of the state-owned shareholdings of Beijing Jingkelong Company Limited") (Jing Guo Zi Chan Quan Zi [2004] No. 96) and the conversion of Jingkelong Supermarket into a joint stock limited company. The issued share capital of the Company was (based on the net asset value of the Company of RMB246,620,000 referred to above) RMB246,620,000 comprising 246,620,000 shares of RMB1.00 each. Chaoyang Auxillary held 183,969,808 shares, amounting to approximately 74.6% of the total share capital, the shareholding nature of which is state-owned legal person shares. The remaining share capital was held by other legal corporate entities and individuals.

On 21 October 2004, pursuant to 《關於同意北京京客隆超市連鎖集團有限公司變更為北京京客隆商業集團股份有限公司的函》(Letter concerning the approval of the conversion of Beijing Jingkelong Supermarket Chain Group Company Limited to Beijing Jingkelong Company Limited) 京發改[2004]2241號) (Jing Fa Gai [2004] No. 2241) issued by BDRC, Jingkelong Supermarket was converted into a joint stock limited company. In accordance with the above approval, the value of the total net assets of Jingkelong Supermarket amounting to RMB246.62 million, was converted into 246,620,000 Shares, comprising the total issued Shares thereof.

On 1 November 2004, BAIC authorised Jingkelong Supermarket to convert to 北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited).

LISTING ON GEM

On 18 February 2005, a shareholders' meeting of the Company was held, at which, among other things, the listing of the H Shares on GEM was approved.

On 23 March 2006, the CSRC issued 《關於同意北京京客隆商業集團股份有限公司發行境外上市外資股的批覆》(an approval document approving the issue of the H Shares by the Company) to approve the issue and listing of the H Shares on GEM.

The Company was approved listing on GEM by the Stock Exchange and the H Shares have been listed and traded on GEM since 25 September 2006 (stock code: 8245). As at the Latest Practicable Date, based on the closing price of the H Shares on GEM of HK\$7.04 per H Share, the Company had a market capitalisation of approximately HK\$1,068.7 million.

ACQUIRING INTEREST IN SHOU LIAN

On 10 February 2007, the Company and Shou Lian entered into a capital increase agreement in relation to the issue by Shou Lian of RMB50 million of its new equity capital (representing approximately 11.04% of the enlarged equity of Shou Lian) to the Company at consideration of RMB50 million representing the initial cost of registered capital. The condition set out in the capital increase agreement of the completion of the capital verification in respect of Xi You's RMB50 million capital contribution to Shou Lian (which amount has been received by Shou Lian), and the completion of the administrative procedures with the Beijing Administration of Industry and Commerce in respect of Shou Lian's increase of registered capital from RMB353 million to RMB403 million have been fulfilled.

On the same date, in conjunction with the capital increase agreement, the Company also entered into a co-operation agreement with Xi You and Shou Lian, pursuant to which, amongst others, (1) the Company will operate Shou Lian's retail network under the Group's franchise arrangements, and (2) the Company was granted a purchase right and a right of first refusal in respect of Xi You's interest in the equity of Shou Lian. The Company entered into a franchise agreement, trademark licence agreement, computer system maintenance agreement and training service agreement with Shou Lian on the same date as and in conjunction with the co-operation agreement, pursuant to which Shou Lian's retail network will be operated under the Group's franchise arrangement.

The Directors believe that upon completion of integration of the retail network of Shou Lian under franchise arrangements, the public recognition of the Group's "京客隆" brandname will be further enhanced. The Group can further expand its retail distribution network to cover other parts of the Greater Beijing Region and increase its revenue through the distribution of its products to Shou Lian. The cost benefit of the Group's distribution systems can be more effectively realized with the incorporation of Shou Lian's retail network into that of the Group. Moreover, the economies of scale of the Group can be further upgraded in terms of, for example, sourcing ability and bargaining power.

HISTORY AND DEVELOPMENT

The Company is a joint stock company incorporated in the PRC with limited liability on 1 November 2004, formerly known as Guandongdian Shang Sha and then as Jingkelong Shang Sha, Jingkelong Supermarket, and was then converted into a joint stock limited company with effect from 1 November 2004.

In 1994, the Group established its first Distribution Centre in the Chaoyang District of Beijing. The products distributed through this Distribution Centre include foods, edible oil, drinks, flavorings, alcohol and general merchandise.

In 1995, the Group opened its first supermarket. In February 1997, the Group commenced operations of its first Logistics Centre. The Logistics Centre distributes dry products including food products such as alcoholic and non-alcoholic beverages, packaged food, seasonings and processed food products, as well as non-food products such as household items.

In May 1998, the Group obtained its business licence for its first hypermarket. By April 1999, the Group was operating seven Retail Outlets, comprising a hypermarket and six supermarkets.

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The Group recognised that efficient logistics management was vital to the development of its retail distribution business. In September 1999, the Group entered into an agreement with 北京北大青鳥商用信息系統有限公司 (Beijing Beida Jade Bird Business Information Systems Company Limited) to develop information management systems to manage the Group's inventories and deliveries, in order to provide effective inventory control and facilitating product distribution and ensuring a smooth coordination of the Group's retail operations.

In 2000, the Group obtained its business licence for its second hypermarket in Hebei Province, PRC. Shortly thereafter, the Group obtained its business licence for its third hypermarket and entered into a franchise arrangement for its first supermarket. Additionally, Jingkelong Langfang and Chaopi Huaqing were incorporated as limited liability companies in the PRC, principally engaged in the retail of general merchandise, and the wholesale distribution of drinks and food, respectively.

In January 2001, the Group opened its second supermarket under franchise arrangement. In April 2001, the Group entered into an agreement with 茂進系統股份有限公司 (Maojin System Company Limited) to further enhance its information management systems in its Logistics Centre to handle various aspects of the distribution of the daily consumer products, including management of storage and replenishment. Also, in April 2001, Chaopi Flavourings was incorporated as limited liability company in the PRC, principally engaged in the wholesale of flavourings, food and edible oil.

As the number of Retail Outlets increased, the Group sought to improve its information management systems. In February 2002, the Group entered into an agreement with 北京億高索爾科技有限公司 (Beijing Yigao Suoer Technology Company Limited) to set up an e-commerce platform for communication with the Group's suppliers. This allowed the Logistic Centre to conveniently replenish low inventory levels.

Pursuant to the Reorganisation, in April 2002, Chaoyang Auxillary, injected certain assets into the Company, which included the business of wholesale distribution of daily consumer goods, hence setting up the Group's wholesale distribution arm. The assets include Chaopi Trading and Xinyang Tongli, principally engaged in the wholesale distribution of general merchandise such as food, non-staple food, edible oil, beverages, grain and groceries and the production of plastic packing material and installation and production maintenance of commercial equipment, respectively. For details, please refer to the sub-paragraphs (I)(b), (III), (IV), (V) and (VI) in the section headed "(1F) Chaoyang Auxillary State Owned Assets Restructuring" in Appendix V to this document.

In June 2002, the Group obtained its business license for its first convenience store. In July 2002, Chaopi Tianxing was incorporated as a limited liability company, principally engaged in the retail of fruit and vegetables. In August 2002, the Group entered into franchise agreements to operate two convenience stores. Also, Chaopi Shuanglong was incorporated as a limited liability company, principally engaged in the wholesale of alcoholic beverages. Additional franchise arrangements for five and three franchised convenience stores were entered into in September 2002 and November 2002 respectively.

In December 2002, the Group obtained its business licence for its fourth hypermarket, the 望京店 (Wangjing Hypermarket). The number of hypermarkets directly operated by the Group was thus increased to four. As at 31 December 2002, the Group directly operated four hypermarkets, 24 supermarkets and 29 convenience stores, and had two supermarkets and 13 convenience stores under franchise arrangements.

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In the same year, the trademarks of the Group's three in-house brands, namely Miwu (蜜屋), Manmiao (曼妙) and Huilian (惠廉) were registered.

In 2003, Chaopi Ziguang was incorporated as a limited liability company, principally engaged in the wholesale of alcoholic beverages. In May 2005, Chaopi Jinglong was incorporated as a limited liability company, principally engaged in the sale of edible oil. In September 2005, Chaopi Qingdao and Chaopi Shijiazhuang were incorporated as limited companies in the PRC, principally engaged in wholesale of alcoholic beverages in the Shandong Province and Hebei Province respectively.

Since 25 September 2006, the H Shares have been listed on GEM (stock code: 8245).

In July 2006, the Group obtained its business licence for its fifth hypermarket, the 舊宮店 (Jiugong Hypermarket), which increased the number of hypermarkets directly operated by the Group to five. As at 31 December 2006, the Group directly operated five hypermarkets, 38 supermarkets and 39 convenience stores, and had one supermarket and 88 convenience stores under franchise arrangements.

In February 2007, Chaopi Zhongde and Chaopi Huilong were incorporated as limited liability companies in the PRC, both principally engaged in wholesale distribution business in Beijing, to strengthen its wholesale distribution operations.

On 10 February 2007, the Company and Shou Lian entered into a capital increase agreement in relation to the issue by Shou Lian of RMB50 million of its new equity capital (representing approximately 11.04% of the equity of Shou Lian) to the Company. On the same date, in conjunction with the capital increase agreement, the Company also entered into a co-operation agreement with Xi You and Shou Lian. The Company entered into a franchise agreement, trademark licence agreement, computer system maintenance agreement and training service agreement with Shou Lian on the same date as and in conjunction with the co-operation agreement, pursuant to which Shou Lian's retail network will be operated under the Group's franchise arrangement.

The major terms of the co-operation agreement are that (i) Shou Lian's retail network of hypermarkets, supermarkets and convenience stores will be operated, on terms of the Group's franchise arrangements, under the Group's "京客隆" brandname; (ii) the Group is granted a right of first refusal for the purchase of the Delegated Equity exercisable upon Xi You's sale of the Delegated Equity; (iii) the Group is granted a purchase right exercisable on completion of each full year during the Delegation Period to purchase the Delegated Equity provided that prior to the exercise of the purchase right the Group shall notify Xi You in writing regarding its option whether exercise the purchase right or not; (iv) the Group shall exercise the voting rights attached to the Delegated Equity in accordance with Xi You's direction; (v) Xi You enjoys the right of profit sharing and bears any loss resulting from the operations of Shou Lian according to its percentage shareholding in Shou Lian; and (vi) the Company will make a loan in the sum of RMB50 million with interest to Shou Lian through a bank in the PRC.

Through these years, the Group has received awards and recognition in the PRC. For details, please refer to "Awards and achievements" in the "Business" section of this document.