

OVERVIEW

The Group is one of the leading distributors of daily consumer products in the Greater Beijing Region, with a turnover of more than RMB4.5 billion for the year ended 31 December 2006. The Group operates its distribution business under the well-known brands of “京客隆” and “朝批”. According to China Chain Store & Franchise Association, the Group was ranked 27th among the top 100 fast moving consumer goods retail chain in China and 38th among the top 100 chain enterprises in China in 2006.

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

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

With such positioning, the Group has established strengths in the daily consumer product distribution industry. The Group aims to deliver high service quality to its customers while maintaining cost efficiency, hence maintaining a leading position in the daily consumer product distribution industry and enhancing its competitiveness. The Group believes in “customers come first” and “honesty”, which are the foundations of the Group’s consumer-oriented marketing strategy.

The infrastructure of extensive wholesale and retail distribution channels enables the Group to maintain a stable supply of daily consumer products to its Retail Outlets, even for certain popular seasonal products during peak seasons. At the same time, it also facilitates the timely collection of first-hand feedback on market trends and end consumer preferences, which enables the Group to implement market-driven merchandising and stocking at the wholesale level. The Directors believe that these advantages are not available to those distribution operators who do not possess complementary capabilities on both retail and wholesale capabilities.

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The following table shows the number and net operating areas of the different retail and wholesale distribution formats of the Group as at 30 April 2007.

	Retail distribution operations			Wholesaling distribution operations
	Hypermarkets	Supermarkets	Convenience stores	Distribution Centres
Number of Distribution Outlets				
– directly-operated	5	40	39	2
– franchise-operated	–	1	85	–
	<u>5</u>	<u>41</u>	<u>124</u>	<u>2</u>
Net operating area (sq.m.)				
– directly-operated	44,938	92,317	8,841	90,182
– franchise-operated	–	880	16,340	–
	<u>44,938</u>	<u>93,197</u>	<u>25,181</u>	<u>90,182</u>

In order to excel within the daily consumer product distribution industry in the Greater Beijing Region, the Group plans to continue to increase the number of its Retail Outlets and franchise stores, which will in turn enhance economies of scale and the consumers' awareness of its “京客隆” brandname, and thereby further capitalising on the Group's established “京客隆” brandname and extensive retail distribution network. In addition, the Group will also explore opportunities for the expansion of the Group's wholesale distribution network, both by increasing the number of Distribution Centres and extending the reach of the Group's wholesale distribution network.

COMPETITIVE STRENGTHS

Well-recognised brands

The Group has more than 10 years of experience in the daily consumer product distribution industry, operating under the “京客隆” and “朝批” brandnames. In this respect, both brandnames have since been established as leading brands in the retail and wholesale daily consumer product distribution industry.

As at 30 April 2007, the Company had a retail distribution network comprising 170 Retail Outlets with more than 163,000 sq.m. of operating area. In 2006, the Group generated approximately RMB4.5 billion in sales. The Group was ranked 27th among the top 100 fast moving consumer goods retail chain in China in 2006. The easy accessibility of the Group's daily consumer products in many convenient Retail Outlets serves to build brand loyalty and enhances the Group's relationship with its consumers.

The Group's wholesale distribution operations are supported by two Distribution Centres and operated by Chaopi Trading and its subsidiaries and associated companies which supply wholesale daily consumer products to customers including the Retail Outlets and other retail operators and trading companies.

Locality of operations – the Greater Beijing Region (in particular the Chaoyang District)

Since its inception, the Group has been principally operating in the Greater Beijing Region, with a particularly strong network in the Chaoyang District, which is one of the most affluent inner city regions of Beijing. According to the Beijing Municipal Bureau of Statistics, in 2005, the working population of the Chaoyang District was approximately 840,000, ranking it the second most populous district (out of 18 districts) of Beijing with an average per capita annual income of approximately RMB42,000. Additionally, with the main hosting of the Olympic Games in Beijing in 2008 and the principal event auditoriums being located in the Chaoyang District, it is anticipated that the increasing tourism and the commencement of various infrastructural projects in relation to the Olympic Games will stimulate economic growth in the Greater Beijing Region, particularly the Chaoyang District, hence providing the Group with tremendous growth opportunities.

Integrated retail and wholesale distribution operations

Unlike traditional retail chain operators, the Group is also engaged in the wholesale distribution of daily consumer products, integrating this with its retail distribution operations to form a distribution network spanning wholesale and retail distribution channels and customers. The Directors believe that an integrated retail and wholesale distribution model provides the Group with a competitive edge in:

- facilitating the implementation of its uniform policies throughout its retail and wholesale distribution networks, resulting in stability in both the sourcing of products (via the wholesale operations) and the distribution of the same (via the retail channel);
- having the ability to buy in bulk, which allows the Group to enjoy considerable bargaining power, leading to better concessions from suppliers and lower costs for the Group's customers;
- facilitating the timely collection of first-hand feedback on market trends and end-consumer preferences at the retail level, which enables the Group to implement market-driven merchandising and stocking at the wholesale level.

Centralised Logistics Centres and Distribution Centres

In order to maximise the efficiency of its retail and wholesale distribution network, the Group maintains two centralised and modern Logistics Centres, comprising the dry product Logistics Centre and the live and fresh produce Logistics Centre, and two Distribution Centres, in order to cater to various demands of its Retail Outlets and its wholesale customers. The Logistics Centres and all directly-operated Retail Outlets are linked via an information management system, hence providing effective inventory control and facilitating product distribution and ensuring a smooth coordination of the Group's retail operations. In addition, by centralising the inventory and distribution facilities, the Group is able to minimise its inventory and distribution costs, hence allowing the Group to increase its profit margins.

The operation of the Logistics Centres and the Distribution Centres significantly complements the Group's retail operations by ensuring efficient and reliable replenishment to the Retail Outlets. It also reduces the stocking and ensures quality of merchandise in Retail Outlet. Besides, the Logistics Centres and the Distribution Centres support and supplement each other in terms of order fulfilment and replenishment needs of the Group's retail and wholesale distribution networks.

Details of the locations of the Group's Logistics Centres and Distribution Centres are set out in Appendix III to this document.

Efficient information management systems

The Group's retail and wholesale distribution operations are supported by two separate and independent information management systems. The Directors believe that an efficient information management remarkably and significantly improves product procurement, delivery schedules, inventory management and merchandising, helps to maintain lower but effective levels of inventories and allows for better overall sales performance. The information management system also provides useful and timely sales information enabling the Group to make timely decisions regarding distribution, merchandising and other strategic decisions.

Multi-tiered retail distribution network

The Group adopts a multi-tiered retail model – hypermarkets, supermarkets and convenience stores – which caters to the preferences of a broad range of consumers with different shopping habits and needs.

The Group's hypermarkets target consumers who require a comprehensive “one-stop” shopping experience. They provide a broad range of quality products and services at competitive prices.

Compared with hypermarkets, the target consumers of the Group's supermarkets are those who are located in residential areas with the need for daily necessities. Convenience stores target consumers with the need for fast, efficient and convenient shopping services, and are usually located near residential neighborhoods.

Looking forward, without changing its core business format, the Group will develop community shopping centre which will comprise a hypermarket, theme department stores and other entertainment and ancillary facilities including restaurants and hotel accommodation.

Experienced and stable management

The Group has an experienced and stable management team with diverse backgrounds and substantial expertise in the distribution of daily consumer products in the PRC. Most of the Group's senior management staff has many years of experience in the PRC retail and wholesale distribution industry. The Directors believe that with stability at the senior management level, the Group has been able to formulate a clear business direction and carry out its business strategies effectively. The Directors believe that the Group's experienced management team, together with its emphasis on staff development, has enabled the Group to efficiently allocate its resources and adjust its development strategies according to market conditions.

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REVENUE MODEL

Revenue represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts. The table below sets out the Group's principal revenue model during the Track Record Period:

	Year ended 31 December 2004			Year ended 31 December 2005			Year ended 31 December 2006		
	Continuing operations	Discontinued operations*	Total	Continuing operations	Discontinued operations*	Total	Continuing operations	Discontinued operations*	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sale of merchandise and produce									
- Retailing from directly-operated Retail Outlets	2,009,270	-	2,009,270	2,060,573	-	2,060,573	2,297,306	-	2,297,306
- Wholesaling	1,555,895	-	1,555,895	2,057,361	-	2,057,361	2,228,520	-	2,228,520
Trading of automobiles and provision of related repair services	-	97,893	97,893	-	-	-	-	-	-
Others	3,700	-	3,700	3,814	-	3,814	5,149	-	5,149
Total	3,568,865	97,893	3,666,758	4,121,748	-	4,121,748	4,530,975	-	4,530,975

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

During the Track Record Period, the Group expanded its retail and wholesale operations, both in terms of geographical coverage and product mix, with the aim of strengthening its market presence within the Greater Beijing Region. For its retail distribution business, the Group's revenue increased from approximately RMB2,009.3 million for the year ended 31 December 2004 to approximately RMB2,297.3 million for the year ended 31 December 2006. For its wholesale distribution business, the Group's revenue increased from approximately RMB1,555.9 million for the year ended 31 December 2004 to approximately RMB2,228.5 million for the year ended 31 December 2006.

In order to excel within the daily consumer product distribution industry in the Greater Beijing Region, the Group plans to continue to increase the number of its Retail Outlets, which will in turn enhance economies of scale and the consumers' awareness of its "京客隆" brandname. In addition, the Group will also explore opportunities for the expansion of the Group's wholesale distribution network by expanding its distribution region and channels.

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PRODUCTS

The daily consumer products distributed by the Group through its retail distribution network range from fresh and frozen meat, seafood, vegetables, cooked and processed food products, tea leaves, confectionary, plants, snacks, bakery, seasoning, household paper products, plastic products, groceries, home appliance, softwares, mobile phones and accessories, footwear and headwear, textiles, books, watches, electrical appliances to general household products.

The daily consumer products distributed by the Group through its wholesale distribution network include processed food products, beverages, wine products and non-staple food. The Group does not distribute fresh or frozen food products at the wholesale level.

The Directors believe that the Group is well positioned to secure further distributorships as a result of the coordination of the wholesale and retail distribution operations of the Group, hence enhancing the competitiveness of the Group and growing its profit margins.

DISTRIBUTION NETWORKS

As at 30 April 2007, the Group distributed daily consumer products through (i) its retail distribution network comprising 170 Retail Outlets, of which all five hypermarkets, 40 supermarkets and 39 convenience stores and directly-operated by the Group, while one supermarket and 85 convenience stores were operated under franchise arrangements; and (ii) its wholesale distribution network operated by Chaopi Trading and its subsidiaries and associated companies.

The network of the Group's Retail Outlets comprised the following as at 30 April 2007:

	Directly-operated	Franchises	Total
Retail Distribution business:			
Hypermarkets	5	–	5
Supermarkets	40	1	41
Convenience stores	<u>39</u>	<u>85</u>	<u>124</u>
Total	<u>84</u>	<u>86</u>	<u>170</u>

The Group's wholesale distribution operations are operated through Chaopi Trading and its subsidiaries and associated companies as at 30 April 2007:

	Number
Chaopi Trading	1
Subsidiaries of Chaopi Trading	8
Associated companies of Chaopi Trading	<u>2</u>
Total	<u>11</u>

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The Group's wholesale distribution operations are supported by its Distribution Centres. Details of the location of each of the Group's Distribution Outlets (directly-operated) are set out in Appendix III to this document.

The Directors believe that the complementary infrastructure comprising both wholesale and retail distribution channels has enabled the Group to achieve a high level of cost efficiency. As a result of the Group's established retail and wholesale distribution network, the Group has the ability to buy in bulk and enjoys considerable purchasing power. In this respect, the Group is able to enjoy economies of scale, leading to lower costs as well as being able to capture the profit margins at the retail level.

In addition, the coordination of the wholesale and retail distribution networks ensures the sufficiency and stability of the supply of daily consumer products in various demand conditions. The visibility in the demand for these daily consumer products at the retail level is increased as the Retail Outlets enable the Group to timely collect information on market trends and consumer preferences, hence optimising the efficacy of the merchandising and stocking at the distribution network. Similarly, volatility at the wholesale sourcing level is reduced.

RETAIL DISTRIBUTION OPERATIONS

(i) Retail Outlets

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

The table below shows the Rules of Classification of Retail Formats 2004 issued by the MOC:

	Sales Area	Commodities
Hypermarket	6,000 m ² or above	Featuring self-branded products and a wide range of daily consumer products
Supermarket	Under 6,000 m ²	Packaged foods, daily consumer products, live and fresh produce are available for sales
Convenience Store	Approximately 100 m ²	Featuring around 3,000 types of products with prices higher than the average market prices

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

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

The Chaoyang District's strategic location also enhances the distribution efficiency of the Group's distribution network by allowing the Logistics Centres to meet the various product demands of the Retail Outlets in a timely manner. Complemented with the Group's information management systems and own delivery trucks, the Directors believe that the Group is able to enhance its distribution capabilities. The Group has over 80 self-owned vehicles of various types and also lease other vehicles from other third parties.

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

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

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

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The table below sets out the aggregate revenue of the Retail Outlets directly-operated by the Group during the Track Record Period:

	Year ended 31 December					
	2004		2005		2006	
	Aggregate revenue <i>RMB('000)</i>	(<i>%</i>)	Aggregate revenue <i>RMB('000)</i>	(<i>%</i>)	Aggregate revenue <i>RMB('000)</i>	(<i>%</i>)
Hypermarkets	653,687	32.5	694,362	33.7	700,997	30.5
Supermarkets	1,208,077	60.1	1,205,007	58.5	1,419,103	61.8
Convenience stores	147,506	7.4	161,204	7.8	177,206	7.7
	<u>2,009,270</u>	<u>100.0</u>	<u>2,060,573</u>	<u>100.0</u>	<u>2,297,306</u>	<u>100.0</u>

In addition to revenue the Group derives from sales, the Group also derives income from the following activities during the Track Record Period, including but not limited to:

- promotion income of approximately RMB35.6 million, RMB42.8 million and RMB70.7 million respectively derived from suppliers for the promotion of their products and indoor signboard advertising income;
- display space leasing fee of approximately RMB12.9 million, RMB18.3 million and RMB31.0 million respectively derived from suppliers for displaying products at prime area of the Retail Outlets;
- information system service income of approximately RMB1.0 million, RMB1.1 million and RMB1.9 million respectively represented the one-off set-up fees received from the suppliers and the annual maintenance fees from the suppliers allowing them access to the Group's automatic ordering systems;
- merchandise storage and delivery income of approximately RMB6.7 million, RMB11.6 million and RMB13.1 million respectively represented the service fees received from the suppliers for safekeeping of merchandise and delivery to the Retail Outlets on behalf of the suppliers; and
- gross rental income of approximately RMB34.5 million, RMB37.0 million and RMB40.3 million respectively derived from (1) the sub-leases of third party counters and designated area of the Retail Outlets to, among others, ornaments processing shops, shoes and watches repairing shops, restaurants, fast food outlets, photo shops and banks and (2) leases of investment properties of the Group. The rental income received from the sub-leasing of third party counters and designated areas during the Track Record Period were approximately RMB29.0 million, RMB31.5 million and RMB34.8 million respectively. The rentals received from the leasing of investment properties during the Track Record Period were approximately RMB5.5 million, RMB5.5 million and RMB5.5 million respectively.

Hypermarkets

As at 30 April 2007, the Group owned and operated five hypermarkets, through which it distributes its in-house branded products and other daily consumer products. The hypermarkets target consumers who require a comprehensive “one-stop” shopping experience whereby they can complete their shopping all under one roof. Accordingly, the hypermarkets offer a broad range of quality products at competitive prices and various ancillary services to satisfy the needs of an one-stop shopping experience of the consumers such as laundry, banking, pharmacy, watch repair and photo-finishing services.

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Details of Hypermarkets

The following table sets out the total number of hypermarkets and the total net operating space of the directly-operated hypermarkets of the Group:

	As at 31 December		
	2004	2005	2006
Directly-operated hypermarkets	4	4	5
Total net operating area ('000 sq.m.)	38.6	38.6	44.9

The table below sets out the approximate average transaction figures for the hypermarkets during the Track Record Period:

	As at 31 December		
	2004	2005	2006
Revenue (RMB million)	654	694	701
Average daily sales (RMB'000)	1,786	1,902	1,921
Average number of daily transactions	38,904	39,289	38,257
Revenue per operating area per day (RMB)	46.2	49.2	49.9
Average value per transaction (RMB)	45.9	48.4	50.2

As at 31 December 2006, three hypermarket sites were leased to the Group by Independent Third Parties, with two other sites being owned by the Group. Such leases are for 15 years and 20 years.

Supermarkets

As at 30 April 2007, the Group operated 40 supermarkets directly, and operated one supermarket under franchise arrangements, through which it distributed its in-house branded products and other daily consumer products. The supermarkets tend to be located in more densely-populated residential areas and have smaller store sizes as compared to the hypermarkets.

Details of Supermarkets

The following table sets out the total number of supermarkets and the total net operating space of the directly-operated supermarkets of the Group during the Track Record Period:

	As at 31 December		
	2004	2005	2006
Directly-operated supermarkets	26	26	38
Total net operating area of directly-operated supermarkets ('000 sq.m.)	66.9	65.4	87.1
Supermarkets operated under franchise agreements	4	5	1

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The table below sets out the approximate average transaction figures for the directly-operated supermarkets of the Group during the Track Record Period:

	As at 31 December		
	2004	2005	2006
Revenue (<i>RMB million</i>)	1,208	1,205	1,419
Average daily sales (<i>RMB'000</i>)	3,408	3,623	4,160
Average number of daily transactions	136,213	130,286	146,428
Revenue per operating area per day (<i>RMB</i>)	48.1	46.9	46.7
Average value per transaction (<i>RMB</i>)	25.0	27.8	28.4

As at 31 December 2006, 22 supermarket sites were leased to the Group by Independent Third Parties, with 15 other sites being leased to the Group by Chaoyang Auxillary, with one other site being owned by the Group. Such leases usually have a term of 20 years.

Convenience stores

As at 30 April 2007, the Group directly-operated 39 convenience stores, and operated 85 convenience stores under franchise agreements. These convenience stores target consumers with the need for fast, efficient and convenient services. Their sizes generally are much smaller than the other formats of Retail Outlets and they tend to be located near residential neighborhoods. They offer a more selective range of daily consumer products and the prices are generally higher than those sold in the hypermarkets and supermarkets.

Details of Convenience Stores

The following table sets out the total number of convenience stores and the total net operating space of the directly-operated convenience stores of the Group during the Track Record Period:

	As at 31 December		
	2004	2005	2006
Directly-operated convenience stores	34	35	39
Total net operating area of directly-operated convenience stores (<i>'000 sq.m.</i>)	8.2	8.1	8.8
Convenience stores operated under franchise agreements	72	88	88

The table below sets out the approximate average transaction figures for the directly-operated convenience stores of the Group during the Track Record Period:

	As at 31 December		
	2004	2005	2006
Revenue (<i>RMB million</i>)	148	161	177
Average daily sales (<i>RMB'000</i>)	410	439	492
Average number of daily transactions	44,075	49,071	53,334
Revenue per operating area per day (<i>RMB</i>)	49.7	55.3	57.5
Average value per transaction (<i>RMB</i>)	9.3	9.0	9.2

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As at 31 December 2006, 10 convenience stores sites were leased to the Group by Independent Third Parties, with 27 other sites being leased to the Group by Chaoyang Auxillary, with two other site being owned by the Group. Such leases usually have a term of 20 years.

Community shopping centres

Looking forward, without changing its core business format, the Group will develop a community shopping centre business. The Group's planned community shopping centre is situated on a parcel of land with a total site area of approximately 24,000 sq.m. in Jiuxianqiao, Chaoyang District, Beijing ("Jiuxianqiao Community Shopping Centre"). The Jiuxianqiao Community Shopping Centre is currently under construction and is expected to commence operations in the fourth quarter of 2007. Upon completion, the Jiuxianqiao Community Shopping Centre will comprise a hypermarket, theme department stores and other entertainment and ancillary facilities.

The hypermarket will occupy an operating area of approximately 8,200 sq.m., the theme department stores selling boutique fashion, leisure sportswear, trendy accessories, cosmetics, household commodities and outdoor sports commodities will occupy an operating area of approximately 23,000 sq.m., and other entertainment and ancillary facilities will occupy an operating area of approximately 8,600 sq.m.

The Directors expect that the total investment amount of the Jiuxianqiao Community Shopping Centre will be approximately RMB510 million and the source of funding comes from cash generated from the Group's operations, bank borrowings, BITIC Loans and proceeds of the GEM Listing.

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 operation of the Jiuxianqiao Community Shopping Centre in particular the operation of the theme department stores. On 23 August 2006, a co-operation agreement in relation to operation of the Jiuxianqiao Community Shopping Centre was signed with a third party authorised by 北京翠微大厦股份有限公司 (Beijing Cui Wei Building Stock Company Limited). According to the co-operation agreement, the Company shall pay a fixed fee of RMB6 million to the said third party as consideration for the services provided. The third party with which the Group entered into the co-operation agreement is 北京航標商業企業經營管理有限責任公司 (Beijing Hangbiao Commercial Enterprises Operations Management Company Limited), which is an Independent Third Party. Beijing Hangbiao Commercial Enterprises Operations Management Company Limited is a management company held by Beijing Cui Wei Building Stock Company Limited. The business scope of Beijing Hangbiao Commercial Enterprises Operations Management Company Limited covers provision of operations management and management consultancy services to commercial enterprises; computer technology development, consultancy, training and services. According to the co-operation agreement, Beijing Hangbiao Commercial Enterprises Operations Management Company Limited is responsible for the liaison of concessionaires, planning and design, provision of guidance to commencement of operations, management consultancy and knowhow in respect of the Jiuxianqiao Community Shopping Centre whilst Beijing Cui Wei Building Stock Limited Company will form project teams among its operational management personnel to ensure overall staffing services of the Jiuxianqiao Community Shopping Centre. It is purely a commercial decision of Beijing Cui Wei Building Stock Company Limited to authorize Beijing Hangbiao Commercial Enterprises Operations Management Company Limited to enter into the co-operation agreement with the Group.

The other entertainment and ancillary facilities such as catering business, cosmetic and beauty treatment, hairdressing, bank in the Jiuxianqiao Community Shopping Centre will be operated by third parties who will enter into lease agreements with the Company. The Group will also enter into system agreements in respect of its hotel and lodging management in the Jiuxianqiao Community Shopping Centre with third parties such as Super 8 and other famous hotel and lodging operators.

Since the construction of the Jiuxianqiao Community Shopping Centre is principally for self-use by the Group, based on the legal opinion of the Company's PRC legal advisers, the Directors confirm that the Group's role in the development of the Jiuxianqiao Community Shopping Centre is not that of a property developer in the PRC. Moreover, the Group has appointed independent third parties to design, construct and decorate the Jiuxianqiao Community Shopping Centre. As the Group is not a property developer, it does not and will not have any property development project.

(ii) Logistics Centres

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

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

Most suppliers of the Company are also linked with the Company's automatic replenishment system. The orders for dry products from the directly-operated Retail Outlets are centralized at the sourcing department at the headquarters of the Group. The Group uploads the automatically generated orders on the internet every day such that the suppliers can promptly receive those orders and deliver accordingly. Unlike dry products, the Retail Outlets through the headquarters place orders for meat, fruits and vegetables to the live and fresh produce Logistics Centre using the Group's automatic replenishment system. The sourcing department at the headquarters however does not perform centralized processing of the orders. For other fresh daily merchandise including dairy products, bean products, bakery and cooked food, the Retail Outlets directly place orders to suppliers pre-approved by the Group.

The Group maintains a stringent quality control over all incoming merchandise to the Logistics Centres with a set of standard procedures. By exercising an overall incoming check at the Logistics Centres, the Group ensures a high quality of the supplies to its Retail Outlets.

The operation of the Logistics Centres significantly complements the Group's retail operations mainly in terms of ensuring efficient and reliable replenishment to the Retail Outlets. It also reduces the stocking and ensures the quality of merchandise in Retail Outlets.

With the obtaining of interest in Shou Lian and the expected operation of Shou Lian's retail network under the Group's franchise arrangements in February 2007, the Group intends to connect the Logistics Centres with Shou Lian's network of outlets and further increases the benefits of economy of scale. Upon completion of such integration, the cost effectiveness of the synergistic benefits of the Logistics Centres will be further enhanced.

Live and fresh produce Logistics Centre

The Group operates a live and fresh produce Logistics Centre, located in the Chaoyang District, Beijing, the site of which is leased to the Group by Chaoyang Auxillary with a lease term of 20 years. This Logistics Centre possesses the processing and logistics capabilities of vegetables, fruits and meat and provides live and fresh produce to the Retail Outlets. This Logistics Centre obtained its business licence in November 2004 and commenced operation in January 2005. The Group has invested a total of approximately RMB55.4 million in the live and fresh produce Logistics Centre.

The gross area of this Logistics Centre is approximately 20,000 sq.m. It has a total storage capacity of approximately 1,400 tonnes of products, handling a maximum daily delivery of approximately 119 tonnes of products, and is equipped with sub-zero temperature storage capabilities.

The Directors believe that with rising income levels and changing lifestyle habits of the consumers in the Greater Beijing Region, the increasingly discerning consumers are likely to choose to purchase live and fresh produce at hypermarkets, supermarkets and/or convenience stores over the traditional wet markets. In order to ensure that the quality, cleanliness and freshness of the products are rigorously maintained, through the establishment of a supply base and the centralized processing operations of live and fresh produce the Group is able to swiftly supply live and fresh produce to its Retail Outlets providing consumers with fresh vegetables, fruits and meats, and maintain a relatively low inventory level with average stock turnover days of approximately five days for its sales operations.

The live and fresh produce Logistics Centre obtained ISO9000 quality management system accreditation, ISO14001 environmental management system accreditation and the food safety management system certification respectively in October 2006.

Dry product Logistics Centre

The Group operates a dry product Logistics Centre also in the Chaoyang District of Beijing, the site of which is rented by the Group from an Independent Third Party with a lease term of 20 years. Dry products include food products such as alcoholic and non-alcoholic beverages, dried food and vegetables, seasonings and processed food products, as well as non-food products such as household items.

This Logistics Centre was established in 2001 and upgraded in the first quarter of 2007 by investing approximately RMB1.08 million mainly for implementation of a new merchandise processing and sorting section with an area of 1,400 sq.m.. As at the Latest Practicable Date, it comprises a total area of approximately 26,500 sq.m. with over 19,000 available storage lots. It has a daily and maximum handling capacity of over 97,000 and 235,000 units of products respectively. The Group has invested a total of approximately RMB57.7 million in this Logistics Centre.

As at the Latest Practicable Date, the dry products Logistics Centre provides over 49% of the merchandise of the directly-operated Retail Outlets. The orders for dry products from the directly-operated Retail Outlets are centralized and sorted at the sourcing department of the Group. Upon receiving the orders, the dry products Logistics Centre will pick out the products and deliver to the Retail Outlets.

WHOLESALE DISTRIBUTION OPERATIONS

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

Chaopi Trading and its subsidiaries and associated companies have sales rebates arrangements with most of its merchandise suppliers whereby sales rebates will be enjoyed if certain fixed sales targets are met. To stimulate merchandise sales, Chaopi Trading and its subsidiaries and associated companies may share the sales rebates with its wholesales customers to command a lower retail price.

Moreover, Chaopi Trading and its subsidiaries and associated companies have return or exchange arrangements with most of its merchandise suppliers in respect of expired and damaged goods. For example, subject to specific conditions laid down in the arrangements, some suppliers allow Chaopi Trading and its subsidiaries and associated companies to return damaged goods up to a monetary limit for a fixed period of time.

The Group normally provides credit terms of not more than 60 days to the customers of its wholesale distribution business.

The Directors believe that there are abundant business opportunities for further development of the wholesale supply and distribution of daily consumer products to wholesale trade customers, in addition to the supply and distribution of daily consumer products to the Retail Outlets. In particular, the Group plans to further expands its wholesale distribution network to cover wider part of eastern and northern China including Tianjin Municipality, Hebei Province, Shandong Province and Shanxi Province.

The Directors believe that the Group's wholesale distribution strengths lie with its on-the-ground resources (such as its sales teams and local delivery capabilities) and inventory management which allow daily fulfillment, and an established network of wholesale trade customers.

Looking forward, the Group targets to be the sole distributor of some major brands of products which enhances its market position in wholesale distribution operations.

It is expected that the wholesale business of the Group will be benefited from the operation of Shou Lian's retail network. With the addition of Shou Lian's network according to the co-operation agreement signed with Xi You and Shou Lian in February 2007, the Group will increase its revenue from its wholesale business through an increase in the distribution of its products to Shou Lian. The

cost benefit of the Group's distribution systems can be more effectively realised 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 capability and bargaining power.

Distribution Centres

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

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

Distribution Centre in Beijing

The Group's Distribution Centre was established in 1994. It moved to its current location in the Chaoyang District of Beijing in 2004, comprising a total area of approximately 85,382 sq.m, which is rented by the Group from Independent Third Parties with lease terms of five years and 10 years respectively. The Group has invested a total of approximately RMB39.6 million in this Distribution Centre. The products distributed through this Distribution Centre include foods, edible oil, drinks, flavourings, alcohol and general merchandise.

This Distribution Centre, comprising three warehouses, has round-the-clock operations and is insured against theft, fire and bursting of water pipes. This centre can ensure that it is responsive to the demands of wholesale trade customers in an efficient and professional manner.

Distribution Centre in Tianjin

Since November 2003, another Distribution Centre was established in Tianjin, to serve growing wholesale business there. It comprises a total area of approximately 4,800 sq.m. which is rented by the Group from an Independent Third Party with a lease term of five years. The Group has invested a total of approximately RMB3.2 million in this Distribution Centre. The products distributed through this Distribution Centre include foods, edible oil, drinks, flavourings, alcohol and general merchandise.

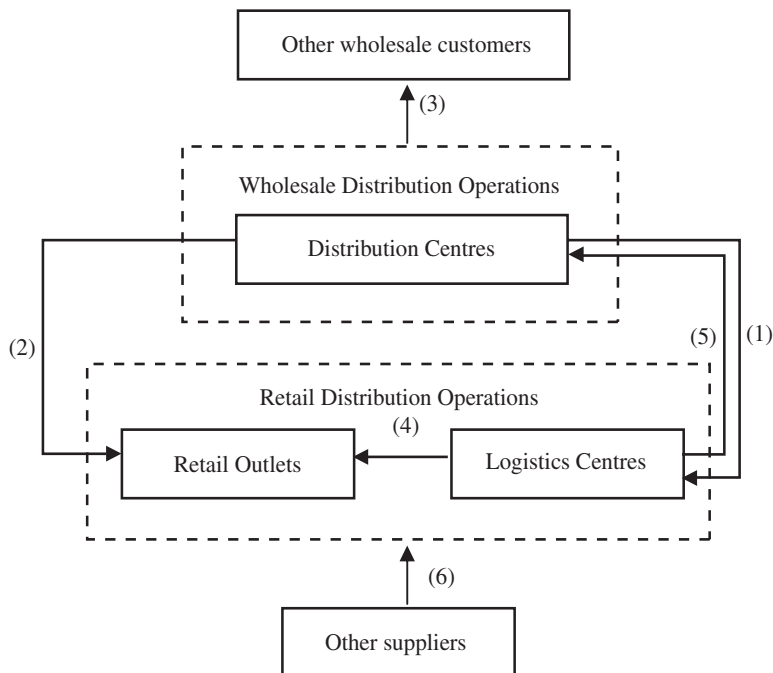
This centre has round-the-clock operations and is insured against theft, fire and bursting of water pipes.

INTEGRATED RETAIL AND WHOLESALE DISTRIBUTION OPERATIONS

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

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

Flowchart illustrating the interrelation among the Distribution Centres, the Logistics Centres and the Retail Outlets



Notes:

- (1) and (2) Chaopi Trading and its subsidiaries and associated companies, through its Distribution Centres, supply daily consumer products, including foods, edible oil, drinks, flavourings, alcohol and general merchandise, on a wholesale basis to the Logistics Centres and Retail Outlets, which accounts for 15.6%, 16.6% and 16.7% of the Company’s total purchase during the Track Record Period which ensures stability in the sourcing of products for the Group’s retail distribution network, even during peak seasons.

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- (3) Other wholesale customers of Chaopi Trading and its subsidiaries and associated companies comprise principally retail operators and trading companies.
- (4) The Logistics Centres consolidate orders for, warehouse and provide daily consumer products to, the Retail Outlets.
- (5) The dry product Logistics Centre may support the supply capacity of the Distribution Centres in case of a sudden increase in wholesale business.
- (6) Suppliers may deliver to the Logistics Centres or the Retail Outlets.

CUSTOMERS

Under the Group's retail distribution business, the majority of the Group's customers are individual residents in the area near the relevant store. Customers typically settle payments in cash for merchandise purchased from the Group. As such, 100% of the revenue from retail distribution business during the Track Record Period were received in cash, representing 56.3%, 50.0% and 50.7% of the Group's revenue from continuing operations respectively.

Under the Group's wholesale distribution business, the majority of the Group's customers are retail store operators, retail chain store operators and wholesale operators. During the Track Record Period, the Group had granted credit terms of not more than 60 days to the customers of wholesale distribution business. Accordingly, during the Track Record Period, 43.7%, 50.0% and 49.3% of the Group's revenue from continuing operations were settled in credit terms respectively.

The aggregate turnover attributable to the Group's five largest customers represented less than 16% of the audited turnover of the Group for each of the three years ended 31 December 2006.

During the Track Record Period, sales to the Group's twenty largest customers represented approximately 20.8%, 30.5% and 31.2% of the Group's turnover respectively. To the best knowledge of the Directors, sales to State owned enterprises represented approximately 14.7%, 12.2% and 8.7% of the sales to the Group's twenty largest customers for each of the three years ended 31 December 2006.

FRANCHISE OPERATIONS

Due to the success of the branding of the Group's hypermarkets, supermarkets and convenience stores, the Group has received invitations from interested parties to franchise "京客隆" retail outlets. As at 30 April 2007, there were one supermarket and 85 convenience stores operating under the Group's franchise arrangements. As at 30 June 2006, there were 101 Retail Outlets (comprising five supermarkets and 96 convenience stores) operated under the Group's franchise arrangements. The decrease in number of franchised Retail Outlets was mainly due to the following: (1) the franchise agreements of three supermarket were terminated upon expiry; (2) one franchised supermarket was converted into a directly-operated supermarket; (3) the franchise agreements of 28 convenience stores were rescinded, while franchise agreements of 17 convenience stores were newly entered into during the period from 1 July 2006 to 30 April 2007. All such supermarkets and convenience stores are also operated under the logo of "京客隆".

BUSINESS

The Directors are of the opinion that franchising the “京客隆” brand is an effective way to expand the reach of the Group’s distribution network geographically without utilising a substantial amount of the Group’s resources. In addition, the Directors believe that, through franchise arrangements, the Group can further enhance public recognition of its “京客隆” brand.

The Group received franchise fee of approximately RMB1.3 million, RMB1.7 million and RMB1.8 million respectively, during the Track Record Period. The maximum amount of franchise fees for each convenience store and supermarket is approximately RMB20,000 and RMB90,000 respectively and are on a fixed one-off basis. In addition, the Group received monthly fees based on a percentage of the store’s revenue, or at a fixed amount up to a maximum of RMB4,800. The franchisees are responsible for the fixed assets and operating expenses of the franchise stores.

The franchise Retail Outlets purchase products from the Company or other suppliers approved by the Company. The sales to franchise Retail Outlets from the Company was approximately RMB52.1 million, RMB55.5 million and RMB43.1 million, respectively, during the Track Record Period. Revenue on goods sold to franchisees is recognised when the significant risks and rewards of ownership of goods have passed to franchisees and the amount of revenue can be measured reliably. As such, such goods sold are owned by franchisees.

For the goods supplied to a franchisee, it is contractually stipulated that the risk of damage, loss or non-conformance passes to the franchisee when the goods are accepted on delivery. All convenience store franchisees pay on a cash-on-delivery basis.

There are several criteria the Group will focus on when selecting franchisees:

1. Whether the franchisee is entitled or possesses the legal capacity to conduct the proposed franchised business;
2. Whether the franchisee is able to conduct the proposed franchised business independently with sufficient human resources;
3. Whether the franchisee occupies an outlet which is suitable for the operation of the proposed franchised business; and
4. Whether the franchisee agrees with the operation rationale of the Group and is willing to be bound by the Group’s operational policies.

The term of a franchise is usually five years, which can be extended with the mutual consent of both parties before the expiry of the franchise agreement. The franchisee is responsible for the daily operations and management of its store, and to ensure that the franchise store projects a unified branding image in line with the Group’s brand policy. In addition, the franchisee has an obligation to order exclusively from the Company. The Group would charge a franchise fee to each of the franchisee which would be recorded as “franchise fee” under the other income and gains in the income statement. The basis of the franchise fee depends on the size of the franchise store. There is no unsold goods return policy.

The main difference between a supermarket and convenience store franchise is payment credit terms. For a supermarket franchisee, it is given credit payment terms of approximately a week, while there are no credit terms for a convenience store franchisee.

BUSINESS

The Group will provide certain support to the franchisees such as training programs to educate them on the Group's information management systems, store decoration, financial planning, operational guidance and staff training. The costs to provide information management systems, store decoration, financial planning and staff training to the franchisees amounted approximately RMB0.4 million, RMB0.3 million and RMB0.2 million, respectively, during the Track Record Period. The Group has received fees in advance from its franchisees for providing such activities and any related costs incurred will be debited to the receipt in advance account.

Franchise operations of Shou Lian's retail network

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. 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 license 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.

Shou Lian is a daily consumer products retail chain operator. At the time of signing the co-operation agreement, Shou Lian's retail network included hypermarkets, supermarkets, discount shop and convenience stores in Beijing. Except for the discount shop, Shou Lian's retail outlets are operated under the brandnames of “小白羊”, “億客隆” and “星座興石”. Shou Lian only engaged in retail but not wholesale distribution business and has been operating retail outlets in Beijing since 2002.

Set out below are the major terms of the capital increase agreement:

Date	:	10 February 2007
Parties	:	(1) Shou Lian (as issuer) (2) The Company (as subscriber)
Equity to be issued	:	RMB50 million (equivalent to approximately HK\$49.85 million) of new equity capital to be issued by Shou Lian (representing approximately 11.04% of its Enlarged Total Equity)
Conditions	:	Completion is conditional upon the satisfaction of certain conditions, of which only the following is yet to be fulfilled, namely, 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.

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.

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Set out below are the major terms of the co-operation agreement:

- Date : 10 February 2007
- Parties : (1) Xi You
(2) Shou Lian
(3) The Company
- Other terms : (i) During the period from 28 February 2007 to 28 February 2010 (both days inclusive) (“Delegation Period”), Shou Lian’s retail network will be operated, on terms of the Group’s franchise arrangement, under the Group’s “京客隆” brandname. The sourcing and logistics requirements of Shou Lian’s retail network will be supported by the Logistics Centres.
- (ii) 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.
- (iii) The Company is granted a right of first refusal (“Right of First Refusal”), exercisable during the Delegation Period, for the purchase of 45.30% of the enlarged total equity of Shou Lian held by Xi You (“Xi You Delegated Equity”) at a price, which shall not be more than its par value, to be agreed between the Company and Xi You.
- (iv) The Company is granted a purchase right (the “Purchase Right”), exercisable during the Delegation Period, to purchase, at the Company’s option, the Xi You Delegated Equity at a price, which shall not be more than its par value, to be agreed between the Company and Xi You. The Purchase Right will be exercisable on 28 February of 2008, 2009 and 2010.
- (v) During the Delegation Period, the Company shall exercise the voting rights attached to the Xi You Delegated Equity in accordance with Xi You’s direction.
- (vi) Apart from the RMB50 million capital contribution to Shou Lian, the Company will make an additional cash deposit in the sum of RMB50 million with a bank in the PRC, and the same bank will make a loan (the “Designated Loan”) to Shou Lian for the purpose of financing the working capital of Shou Lian. Shou Lian will pay interest and handling charge to the bank such that the Company will receive interest from its cash deposit at a rate equal to its average cost of borrowings at the time of the Designated Loan.

The Group will account for its interest in Shou Lian as long-term investment after its capital contribution of RMB50 million to Shou Lian, representing an approximately 11.04% of the enlarged equity capital of Shou Lian.

According to the co-operation agreement, Shou Lian's retail network is to be operated, on terms of the Group's franchise arrangements, under the Group's "京客隆" brandname. The Company has entered into franchise agreement with Shou Lian to integrate Shou Lian's retail network into its centralized information management system (through the Group's intranet system) by way of system switching. The Group will integrate the sourcing and logistics of Shou Lian with its centralized sourcing and logistics systems and connect the Shou Lian's retail outlets to the Group's two Logistics Centres. Those Shou Lian's retail outlets which have completed system switching will operate as the Group's franchise Retail Outlets under the Group's "京客隆" brandname.

DEVELOPMENT OF IN-HOUSE BRANDNAMES

The Group has developed four in-house brandnames – “曼妙 (“Manmiao”)”, “惠廉 (“Huilian”)”, “蜜屋 (“Miwu”)” and “京客隆 (“Jingkelong”)” for which the Group would outsource to manufacturing suppliers, which are all Independent Third Parties, to produce the daily consumer products for sale only through the Retail Outlets. The Directors believe that the in-house brandnames allow the Group to improve its profitability through the expansion of the earnings base and the generation of additional quality revenue streams.

As at 31 December 2006, there are 16 suppliers to which the Group outsources for the production of approximately 216 daily consumer products, ranging from food products to home-use products. The typical outsourcing terms provide that the products will be competitively priced in relation to the current market prices, and the Group will receive an annual rebate as a fraction of the size of the orders in the relevant year. According to the agreements between the Company and the suppliers, the suppliers have agreed to offer the Company the lowest production prices within the Beijing region. The total purchases during Track Record Period were approximately RMB10.5 million, RMB21.1 million and RMB28.0 million respectively.

The Directors intend to position the in-house brandnames as quality brandnames offering value for money products to consumers, and also as alternatives to other popular brandnames offering similar daily consumer products. The recommended retail prices for the in-house branded products are directly controlled by the Group, which are set by taking into account the costs, the competitors' selling prices and the Group's marketing strategies for each specific in-house branded product. The Directors intend to continue to introduce other own branded products in the future.

During the Track Record Period, sales of the in-house branded products in the Retail Outlets amounted to approximately RMB25.0 million, RMB29.0 million and RMB24.3 million, respectively, which represented approximately 0.7%, 0.7% and 0.6%, respectively of the total revenue from continuing operations of the Group for the respective relevant year.

INFORMATION MANAGEMENT SYSTEMS

The Group has two separate and independent information management systems for its retail and wholesale distribution networks. The Directors believe that an efficient information management system significantly improves product procurement, delivery schedules, inventory management and merchandising, helps to maintain lower but effective levels of inventories and allows for better overall sales performance. In this respect, the Group has invested over RMB21 million during the Track Record Period in various information system hardware and software and related services.

BUSINESS

For the retail distribution network, the Group's information management system includes a POS system, automatic replenishment system, logistics management system and accounting and finance system. For the wholesale distribution network, the Group utilises a information management system which includes a warehouse management system and accounting and finance system.

The Group also utilises a bar code system to identify different merchandise. By scanning through a barcode scanner, item information can be displayed on-screen immediately and this enhances Retail Outlet checking-out efficiency. In addition, checking-out information is book to the database immediately such that figures can be seen real-time, and this enhances the efficiency of clearing and data collection.

Incoming merchandise to the dry product Logistics Centres are assigned with the Group's own codings in addition to the barcodes originally printed thereon. Orders placed with the Logistics Centres must match with both the barcodes and the self-codings assigned for retrieval of the required commodities.

The POS system of its retail distribution network enables the Group to achieve real-time gathering and processing of sales information from all Retail Outlets upon completion of each transaction. The sales information is processed to produce various financial and business operations reports with regard to the business operations of the Group and of each Retail Outlet on a regular basis to facilitate the Group's management decisions on matters such as pricing and inventory.

The Group adopts prudent data protection and system security policies. The Group backs up its data onto storage devices daily. Data back-up of the Logistics Centres and the directly-operated Retail Outlets is centralised at the Group's headquarters to allow timely recovery of their databases in the event of accidental loss. For certain core information, a double back-up policy is practised. Spare backup of the core information is stored on devices physically located away from the headquarters to avoid total loss upon disastrous events. To ensure safety of its information management systems, the Group segmentises its systems into areas of different security levels and rights of access. The Group also connects its Retail Outlets to its headquarters and the Logistics Centres through VPN which ensures that the system security of its headquarters and the Logistics Centres from interruptions in individual Retail Outlets.

The Group has also conducted feasibility study on the development of internet purchase system to enable customers to make purchases on the Internet and the enterprise data resources excavation system to make better use of its information resources.

The investment in the information management systems during the Track Record Period was recorded in fixed assets, intangible assets and expenses in the Accountants' Report set out as Appendix I of this document.

INTERNAL CONTROL – CASH AND INVENTORY

The Group has set out a detailed policy on stock taking. In carrying quarterly and year end stock take to monitor the inventory levels of all the merchandise, the responsible staff will be penalized if a loss of a certain percentage of the total stock value is reached. For expired and damaged product, it would be delivered back to the Logistics Centers and replaced by the suppliers and/or manufacturers as majority of the inventories in questions were refundable or exchangeable with suppliers. The Directors confirmed that there have been no significant returns or exchanges or subsequent to the end of the Track Record Period.

BUSINESS

The average inventory turnovers of the Group during the Track Record Period were approximately 41 days, 37 days and 41 days respectively. A general provision of 0.5% on inventory is usually maintained by the Group. As at 31 December 2004, 2005 and 2006, the Group has a provision of approximately RMB3.3 million, RMB2.5 million and RMB2.5 million respectively against obsolete and slow-moving inventories.

The information management systems of the Group are designed to record and report the expiry dates of inventories. The Group also performs regular inventory counts to identify obsolete inventories.

Given the cash-based nature of the retail industry, stringent cash control measures are therefore very important to the Group's operation. The Group has adopted strict internal control procedures for cash handling at all Retail Outlets, including recording of all sales data in the Group's information management system, daily reconciliation of sales receipts to the computer record by the Group's finance department, accountability of cashiers in case of discrepancies found in the daily reconciliation, and daily deposits of surplus cash generated at most of the Retail Outlets. In addition, the Group is in the process of installing surveillance cameras in hypermarkets and supermarkets to monitor the activities around the cashiers' counters. As at 31 December 2006, surveillance cameras have been installed in five hypermarkets and 13 supermarkets.

COMPLIANCE AND APPROVALS

Each Retail Outlet and third party counter in Retail Outlets offering ancillary services, Logistics Centres and Distribution Centres are required to obtain certain licences and/or permits from the relevant PRC governmental authorities including but not limited to (i) hygiene permit, (ii) permit for tobacco monopoly retail business, (iii) permit for circulation of publications, and (iv) animal quarantine permits, in order to sell certain categories of daily consumer products. It is an offence to sell certain products without the relevant licences and permits.

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 has been recorded.

As confirmed by the PRC legal advisers to the Company, save as disclosed above, throughout the Track Record Period, the Group has obtained all required licences and permits for its Retail Outlets, Logistics Centres, and the operations of its subsidiaries and associated companies and has not been subject to any penalties nor any compensation orders.

MERCHANDISING

The Directors believe that the quality of suppliers plays an important role in the distribution chain. Therefore, the Group has adopted a strict policy concerning supplier selection. Product quality, price competitiveness and supply capability are the three criteria the Group will focus on when selecting suppliers.

As a result of the Group's established retail and wholesale distribution network, the Group has the ability to buy in bulk and enjoys considerable purchasing power. Hence, negotiations with suppliers are jointly conducted by Chaopi Trading and the Company. The Directors believe that the resultant increased bargaining power will enable the Group to enjoy economies of scale, leading to lower costs as well as being able to capture the profit margins at the retail level. In this respect, the Directors believe that, by maintaining a positive and stable relationship with suppliers, the costs of merchandising could be further reduced.

In addition, Chaopi Trading and its subsidiaries and associated companies supply daily consumer products on a wholesale basis to the Company, which accounts for 15.6%, 16.6% and 16.7% of the Company's total purchase during the Track Record Period, hence ensuring stability in the sourcing of products for the Group's retail distribution network, even during peak seasons.

During the Track Record Period, approximately 77%, 81% and 73% of the Group's merchandise respectively is purchased directly from the manufacturers while the remaining 23%, 19% and 27% of the merchandise respectively is purchased from wholesalers. By purchasing directly from the manufacturers, the Group can further take advantage of bulk purchase rates and ensure that the quality, quantity and cost of the products are able to meet the pricing and merchandising strategies of the Group.

QUALITY CONTROL AND ASSURANCE

The Directors recognise the importance of quality control to maintain the success of the Group's distribution network. The Group places strong emphasis on the quality of products that it receives from the suppliers and manufacturers.

In addition, the Group has adopted the following quality control policy, which sets out the steps that will be taken prior to placing an order for any product:

- a. The merchandise management department will conduct research on a particular product that the Group plans to source including obtaining samples and approval documents;
- b. The merchandise management department will verify the information provided in accordance with relevant legal requirements and corporate quality management policy;
- c. The merchandise management department also pays close attention to suppliers that have attracted governmental or public concern about their quality standards. Site inspections will be carried out at the suppliers' premises, if deemed necessary. The merchandise management department will also complete a 《供應商渠道評估表》 (supplier assessment form) in its evaluation of the suppliers' quality standards;

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- d. All Logistics Centres, Distribution Centres and Retail Outlets perform a series of checks upon the receipt of the merchandise. The checks include the delivery method, appearance, smell, packaging, date of production, expiry date, net weight and brand logo. Insofar as fresh produce, dairy products and meats are concerned, approval documents and certificates have to be available for verification before they can be officially received.

AWARDS AND ACHIEVEMENTS

The Group has received many awards and recognition in the PRC for the development of its business. The Directors confirm that the awards and recognition received were not based on any reports commissioned by the Group. The following table sets out some of the major awards and industry rankings of the Group:

Awards and certificates	Year of Award	Issuing organization
中國百強連鎖企業第38名 (Ranked 38th amongst the top 100 PRC chain enterprises)	2006	中國連鎖經營協會 (China Chain Store and Franchise Association)
中國百家快速消費品連鎖零售企業第27名 (Ranked 27th amongst the top 100 fast moving consumer goods retail chain)	2006	中國連鎖經營協會 (China Chain Store and Franchise Association)
北京十大商業品牌 (Beijing top 10 commercial brand)	2006	北京日報報業集團/ 北京市商業聯合會 (Beijing Daily Group/ Beijing Chamber of Commerce)
北京市百強企業第35名 (Ranked 35th amongst the top 100 enterprises in Beijing, PRC)	2006	北京企業聯合會/ 北京市企業家協會 (Beijing Enterprises Confederation/ Beijing Enterprise Directors Association)
中國名優數據庫優秀企業 (PRC outstanding enterprise for advanced database)	2006	中國企業聯合會 (China Enterprise Confederation)

In addition, the quality assurance infrastructure and the quality control procedures adopted by the Group have demonstrated its commitment to internationally recognised quality management system standard. Hence, the Company, the 56 directly-operated Retail Outlets and the dry product Logistics Centre were awarded the ISO9001:2000 certification in August 2005. Moreover, the live and fresh produce Logistics Centre obtained ISO9000 quality management system accreditation, ISO14001 environmental management system accreditation and the food safety management system certification in October 2006.

MARKETING AND PROMOTION

The Directors believe in the importance of building a good corporate image and maintaining public recognition of the Group's logos of “京客隆” and “朝批” as well as the Group's in-house branded products. Therefore, the Group's marketing strategies focus on offering high quality and competitively priced products as well as excellent customer services, so as to foster a loyal customer base.

As part of the Group's marketing strategy to promote consumer loyalty to its Retail Outlets, 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. In relation the Jingkelong cards and the membership reward cards launched by the Group, the Jingkelong card is a stored value card which allows a consumer to use as a substitute to cash and offers the benefits of a convenient and hassle-free way of shopping. No deposit is required for Jingkelong Card. The membership reward card allows a consumer to accumulate points in exchange for certain rewards upon reaching a certain threshold of points. The points accumulated in the membership reward cards are subject to a 1-year expiry period. The rewards year runs from 1 April to 31 March. The points accumulated and eligible to be rewarded during the relevant period are accrued and reported as expenses for that period. They are neither debit nor credit cards. Upon selling a Jingkelong Card to customer, the “receipt-in-advance” account will be credited with corresponding value. When customers utilise such card for consumption at Jingkelong's directly-operated Retail Outlets, the Group will record sales revenue for the trading amount and the corresponding cost of sales. At the same time, the credit stored in the Jingkelong Card will be deducted by the sales value, while the “receipt-in-advance” account will be debited by similar value.


To further enhance its customer service, the Group has established an internet website for communication with customers and provides assistance to its customers through customer postbox.

To show its commitment to the society and strengthen the customer relationships, the Group also provides free delivery services to the elderly and disabled customers according to their requests for nearby Retail Outlets.

Through careful implementation of various marketing and promotion activities, the Directors believe that Retail Outlets will be able to maintain a competitive position in the retail chain business. The Group's total marketing and advertising expenditure on public media and advertising campaigns during the Track Record Period was approximately RMB11.1 million, RMB14.3 million and RMB16.9 million, respectively, accounting for approximately 0.3%, 0.3% and 0.4%, respectively, of the revenue from continuing operations.

INTELLECTUAL PROPERTY RIGHTS

The Directors believe that trademarks are important to the business of the Group as these trademarks will enable the customers to differentiate the Group  北京京客隆 from the Group's competitors.

All Retail Outlets, whether directly owned or franchise operated, are managed and operated under the logo of “ 京客隆”. In addition, the Group has developed four in-house brandnames – “ 曼妙 (“Manmiao”)”, “ 惠廉 (“Huilian”)”, “ 蜜屋 (“Miwu”)” and “ 北京京客隆 京客隆 (“Jingkelong”)”. Details of the registered trademarks and registering trademarks of the Group are set out in the section headed “Statutory and general information – intellectual property rights of the Group” in Appendix V to this document.

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RELATIONSHIPS WITH MAJOR SUPPLIERS OF THE GROUP (OTHER THAN INTRA-GROUP)

The five largest suppliers to the Group accounted for approximately 18.1%, 16.9% and 17.3%, respectively, of the total purchases of the Group during the Track Record Period. All of the five largest suppliers have had relationships of over five years with the Group. The largest supplier to the Group accounted for approximately 5.0%, 3.7% and 3.9%, respectively, of the total purchases of the Group during the Track Record Period.

The following table sets out the top five suppliers during the Track Record Period:

Percentage of total purchases (%)

Supplier	Products supplied	Year ended 31 December		
		2004	2005	2006
四川省宜賓五糧液集團 進出口有限公司 (Sichuan Wuliangye Group Company Limited)	alcoholic beverage	N/A*	N/A*	3.8
上海雀巢產品服務有限公司 北京分公司 (Shanghai Nestle Company)	food and beverage	5.0	3.7	3.3
北京金六福酒有限公司 (Beijing Jinliufu Wine Company)	alcoholic beverage	3.9	N/A*	3.9
北京紅星股份有限公司 (Beijing Red Star Company)	alcoholic beverage	3.5	3.6	3.1
北京蒙牛宏達乳製品 有限責任公司 (Beijing Mengniu Dairy Products Company)	milk products, ice-cream and other dairy products	3.0	N/A*	N/A*
天津嘉里糧油工業有限公司 (Tianjin Kerry Edible Oil Industrial Company)	edible oil	N/A*	3.1	N/A*
萊陽魯花濃香花生油有限公司 北京分公司 (Laiyang Luhwa Peanut Oil Company)	edible oil	N/A*	3.7	3.2
北京市朝陽煙草公司 (Beijing Chaoyang Tobacco Company)	tobacco	2.7	2.8	N/A*

* *not among the top five suppliers*

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Although the Group obtains a significant portion of the merchandise from the above suppliers, the Directors are of the view that the Group is not dependent on any one major supplier as the Directors believe that the Group would be able to obtain the merchandise from alternative suppliers should any of the above suppliers cease to be the Group's supplier.

During the Track Record Period, purchases from the Group's twenty largest suppliers represented approximately 36.8%, 40.0% and 40.6% of the Group's purchases respectively. To the best knowledge of the Directors, purchases from State owned enterprises represented approximately 28.3%, 31.1% and 41.1% of the purchases from the Group's twenty largest suppliers during the Track Record Period.

COMPETITION

The Group operates in a highly competitive industry and the Group expects to face intense competition from existing competitors as well as new market entrants in the future. In April 2004, the MOC, promulgated a new law entitled "The Regulations on Management of Foreign Investment in the Commercial Sector". It lowered most of the entry barriers faced by foreign investors in accessing the PRC domestic retail and wholesale market, such as significantly reducing the registered capital requirement and expanding the allowable business scope. As China must further open its domestic retail and wholesale segments to international competition, the Directors believe that the competition of the retail and wholesale distribution businesses will intensify as foreign players enter to compete in this market.

Top international retail companies such as Carrefour and Wal-mart, have begun to enter into China's market. Some of these companies have already set up more than 20 stores in some big cities in China. With their excellent financial and management resources, distribution and logistics management and technical expertise, their market share is increasing continuously. In this respect, the entrance of foreign retail chain stores will pose great pressure to their counterparts in China. Furthermore, the Group also faces intense competition from domestic retail chain operators, local retail operators and wholesale operators.

According to the PRC Chain Store Almanac 2005, in 2004, there were 103 retail chain store operators in the PRC, of which 13 of them had sales exceeding RMB1 billion, representing 12.6% of the PRC retail chain industry. The top domestic retail chain operators in Beijing are Beijing Hualian and Wumart Group.

The table below set out the top supermarket chain operators in Beijing in terms of sales in 2006.

Top Supermarket Chain Operators in Beijing in 2006

	Types of Retail Outlets	Number	(Sales of Retail Outlets in RMB million)
物美集團 (Wumart Group) (including 北京美廉美 (Beijing Mei Lian Mei))	Hypermarkets/Supermarkets/ Convenience Stores	751	25,520
北京京客隆 (Beijing Jingkelong)	Hypermarkets/Supermarkets/ Convenience Stores	171	6,134 ⁽¹⁾
北京超市發 (Beijing Chao Shi Fa)	Supermarkets	51	1,681
北京順天府 (Beijing Shun Tian Fu)	Supermarkets	20	992

Source: China Chain Store & Franchise Association

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Note:

- (1) The figure reported by the China Chain Store & Franchise Association represents the aggregated sales of members of the Group before any elimination of intra-group transactions, audit adjustments and GAAP adjustments. Therefore the figure is not the same as the consolidated revenue amount appears in Appendix I to this document.

The Directors believe that the principal competitive factors that will distinguish the Group from other chain store operators, international players as well as local retail operators and wholesale operators are:

1. **Price and product range:** The Directors believe that the competitive pricing of its products and its ability to offer “value-for-money” products and services give the Group an advantage over its competitors. Additionally, the Group further distinguishes itself by offering an extensive selection of products, including in-house brand products, hence providing the convenience of one-stop shopping solution for consumers. Product knowledge of its sales staff as well as its local knowledge of its customers’ shopping preferences are all critical factors which have contributed to its success in competing with its rivals.
2. **Store locations:** The Directors believe that having prime store locations for its Retail Outlets is the key to maximising sales of the Retail Outlets and thus the profitability of the Group. Through its tenancy agreements with Chaoyang Auxillary, the Directors believe that the Group has been able to obtain strategically located properties on favorable terms that would otherwise be unavailable to it.
3. **Brand recognition:** The Group has undertaken various promotional and marketing activities, including the launching of the Jingkelong card and the membership reward card, aimed at strengthening brand awareness among consumers. Additionally, through its franchisee stores, the Directors believe that the Group has been able to build up its brandname principally in the Greater Beijing Region.
4. **Efficient employment of advanced technologies:** The Directors believe that the Group’s investment in improving its information management systems has allowed the Group to improve product procurement, delivery schedules, inventory and inventory management and turnover days, thus minimising the cost of maintaining levels of inventories and allowing for better space allocations and overall sales performance.
5. **Complementary wholesale and retail distribution networks:** The infrastructure of extensive wholesale and retail distribution channels enables the Group to maintain a stable supply of daily consumer products to its Retail Outlets, even for certain popular seasonal products during peak seasons. At the same time, it also facilitates the timely collection of first-hand feedback on market trends and end consumer preferences, which enables the Group to implement market-driven merchandising and stocking at the wholesale level. The Directors believe that these advantages are not available to those distribution operators who do not possess complementary capabilities on both retail and wholesale capabilities.

The Group’s competitiveness can be proven by its increase in turnover and profit, and expanding retail and wholesale network, as well as the introduction of products bearing its in-house brandnames. The Group’s principal competitive strengths and the business strategies based on which these strengths are divided are set out in the paragraphs headed “Business – competitive strengths” and “Future Plans and Prospects – strategies” of this document.

PRICING POLICY

The Directors believe that it is important for the Group's continued success to maintain a steady supply of quality daily consumer products at competitive prices.

At the retail level, the pricing policy for each retail format varies according to each retail format's business model and its emphasis on products and services offered. The emphasis of the pricing policy for the hypermarket business is on the overall strategy of providing a "one-stop" shopping experience. The emphasis of the pricing policy for the supermarket business is on the provision of a balanced product mix and the ability to offer "quick-sell" promotions. The idea of promoting the convenience store business as one's "local corner store" has meant that the emphasis of the pricing policy for this aspect of the Group's retail business is on the provision of a friendly, fast and convenient shopping service.

With the above in mind, the Group's merchandising division implements such policy by:

- jointly conducting some negotiations with the Company and Chaopi Trading, taking full advantage of the Group's economies of scale to secure favourable terms and prices from the Group's suppliers and manufacturers;
- maintaining a good communication channel with the Group's suppliers and manufacturers in order to capture first mover advantage on new products and to discuss ways of promoting sales;
- conducting evaluation of competitors' performance and market research into customer trends with a view to formulating the Group's merchandising strategies.

INSURANCE

The Group maintains insurance policies which cover the Group's fixed assets and inventories at the Retail Outlets, Logistics Centres and Distribution Centres against damages or loss caused by theft, fire and bursting of water pipes. The Directors consider that the Group's insurance coverage is adequate and the Directors confirmed that the Group had no insurance claim under such policies in the past.

The Group makes social insurance contributions (including industrial accidents and retirement benefits) in accordance with the applicable PRC laws and 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. The amount of such contributions made by the Group during the three years ended 31 December 2006 were approximately RMB25.8 million, RMB25.4 million and RMB28.7 million, respectively.

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According to the Company's PRC legal advisers, 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. Since the Group has duly made all necessary social insurance contributions, any claims of its employees in respect of social insurance will be paid by the relevant social security authorities instead of the Group.

COMPLIANCE WITH REGULATORY REQUIREMENTS

The Group have set up and will continue the following measures for the ongoing compliance of the regulatory requirements in the PRC and Hong Kong:

- Li Chunyan has been appointed as the compliance officer of the Group.
- Regular meetings and seminars within the Group to provide updates on the latest business development of the Group and regulatory requirements in relation to the retail and wholesale distribution industries.
- Regular meetings and seminars within the Group on regulatory requirements applicable to companies listed on the Stock Exchange and update on any amendments thereto from time to time.
- Regular conversations with the compliance adviser for the update of regulatory requirements.
- Consult the compliance adviser for any proposed transactions or events that may be subject to the disclosure and approval requirements under the Main Board Listing Rules.
- All management and staff are required to report to the Directors and the compliance officer(s) promptly any events that may be subject to the various regulatory requirements in the PRC and Hong Kong.