Prior to the GEM Listing, the Group had business relations with certain entities, which, under the GEM Listing Rules, were considered to be connected persons of the Company immediately upon the GEM Listing. Such entities will continue to be connected persons of the Company after the Main Board Listing, and they are: (i) Chaoyang Auxillary, (ii) 北京加增食品有限公司 (Beijing Jiazeng Foodstuff Company Limited) ("Jiazeng Foodstuff"), (iii) 北京武夷峰茶葉銷售有限公司 (Beijing Wuyifeng Tea Leaves Sales Company Limited) ("Beijing Wuyifeng"), (iv) 北京應廣達食品有限公司 (Beijing Yingguangda Foodstuff Company Limited) ("Beijing Yingguangda"), (v) Tianjin Jinganghua, (vi) 北京中聯建裝飾工程有限公司 (Beijing Zhonglianjian Construction Company Limited) ("Beijing Zhonglianjian"), (vii) Chaopi Jinglong and (viii) Chaopi Flavourings. Chaopi Jinglong and Chaopi Flavourings are non-wholly owned subsidiaries of the Company, and, for the reasons set out below, are deemed connected persons of the Company. The transactions set out below between the Group and the above entities will become continuing connected transactions of the Company, within the meaning of the Main Board Listing Rules, upon the Main Board Listing.

I. CONTINUING CONNECTED TRANSACTIONS OF THE COMPANY

1. Lease of properties by Chaoyang Auxillary to the Company

Pursuant to a lease agreement dated 30 April 2004, a supplemental lease agreement dated 12 March 2005 and a supplemental lease agreement (no. 2) dated 25 July 2005, another three lease agreements dated 25 July 2005, 24 March 2006 and 4 April 2006 respectively and a confirmation letter dated 19 March 2007 (together the "JKL Lease Agreements") entered into between the Company and Chaoyang Auxillary (being the holding company of the Company), Chaoyang Auxillary has agreed to lease to the Company certain properties situated in the Chaoyang District, Beijing, including buildings, related public amenities and facilities, carparking spaces, areas for the loading and unloading of machines, sign board spaces and the land on which the abovementioned properties are situated (together, the "JKL Properties", being the properties numbered 15-21, 23-25, 28-30, 32-34, 62-64, 66, 68-73, 75-76, 78-80, 82, 86-98, 101-102 and 105 referred to in the section headed "Summary of valuation – Group III – Property interests rented and occupied by the Group in the PRC" in the letter from Vigers Appraisal & Consulting Limited in Appendix III to this document) for terms of between 10 years to 20 years commencing 1 January 2004, 1 July 2005 and 1 July 2006 (as the case may be) with fixed annual rentals (inclusive of the relevant business and property taxes) for four to six year periods (as the case may be). For the year ended 31 December 2004, the aggregate rental paid to Chaoyang Auxillary was RMB7,845,359. The initial aggregate annual rental was RMB7,845,359 for the period from 1 July 2005 to 30 June 2006. As the Company ceased to rent four properties, one from 1 April 2005, one from 1 January 2006 and two from 16 November 2006, the aggregate rental was reduced such that the aggregate rental for the period from 1 January 2005 to 31 March 2005 was RMB1,961,340, the aggregate rental for the period from 1 April 2005 to 31 December 2005 was RMB5,502,150, and the aggregate rental for the year ended 31 December 2006 was RMB7,062,000; whereas the aggregate annual rental from 1 January 2007 to 31 December 2008 will be RMB6,713,205. Such annual rentals, exclusive of relevant property tax, shall be increased after each aforesaid fixed rental period at a rate of 5% or 20% (as the case may be). Accordingly, the rental shall be RMB6,985,610 per annum for the period from 1 January 2009 to 30 June 2010, RMB7,022,110 per annum for the period from 1 July 2010 to 31 December 2013, RMB7,308,135 per annum for the period from 1 January 2014 to 30 June 2016, RMB7,089,135 per annum for the period from 1 July 2016 to 31 December 2018, and RMB7,389,460 per annum for the period from 1 January 2019 to 31 December 2023. Accordingly, these amounts are set as the respective annual caps for this continuing connected transaction.

For the purpose of enabling the Company to comply with the requirement of Rule 20.35(1) of the GEM Listing Rules (and, after the Main Board Listing, Rule 14A.35(1) of the Main Board Listing Rules) that the term of the agreement shall not be more than three years should the JKL Lease Agreements (or any part thereof) not be approved by the independent Shareholders by 31 December 2008 (or when an approval for any subsequent period is sought) in compliance with the requirements of the GEM Listing Rules (and, after the Main Board Listing, Rule 14A.35(1) of the Main Board Listing Rules), whilst allowing the Group to enjoy security of tenure in respect of the JKL Properties, the Company has been granted a right to terminate the lease of any particular property under the JKL Lease Agreements without paying any compensation by giving no less than six months' prior written notice to Chaoyang Auxillary. Both the Company and the Sponsor confirm such arrangements are beneficial to the Group and in the interests of the shareholders of the Company and the Company as a whole, as the Group has more flexibility in its leasing arrangements and is able to secure the use of these premises at a low rate favourable to the prevailing market rent as at the commencement dates of the relevant JKL Lease Agreements. The Sponsor has confirmed that it is a normal business practice for lease agreements of this kind to have a duration of more than three years.

The JKL Properties, which are located in the Chaoyang District, Beijing are principally used by Group to operate its 15 supermarkets, 27 convenience stores and the live and fresh produce Logistics Centre. The gross area of the JKL Properties is approximately 86,766 sq.m.

Under the JKL Lease Agreements, the Company was granted a first right to purchase any of the JKL Properties on the same terms and conditions as those offered by an Independent Third Party should Chaoyang Auxillary decide to sell any such JKL Properties. In addition, under the JKL Lease Agreements, the Company has an option to renew the lease upon its expiry on terms no less favourable than those under the JKL Lease Agreements and by reference to the then prevailing market conditions.

At the time of the GEM Listing, Vigers Appraisal & Consulting Limited, the independent property valuer appointed by the Company, had reviewed the terms of the JKL Lease Agreements, and confirmed that on the basis as mentioned above, the aggregate monthly rentals above (being exclusive of property tax, business tax and additives, property management fees and other outgoings) under the JKL Lease Agreements were at a low rate favourable to the prevailing market rent as at the commencement dates of the relevant JKL Lease Agreements, which is considered by the Directors to be in the interests of the Company and the shareholders of the Company as a whole.

2. Supply of cooked food by Jiazeng Foodstuff to the Company

Pursuant to a supply agreement dated 6 April 2006 entered into between the Company and 北京朝陽新龍福利食品加工廠 (Beijing Chaoyang Xinlong Fuli Foodstuff Processing Company ("Chaoyang Xinlong"), Chaoyang Xinlong has agreed to supply, on a non-exclusive basis, to the Group various types of cooked food (such as ham and bacon) for sale to its customers. The legal representative of Chaoyang Xinlong is Mr. Ma Jiazeng ("Mr. Ma"). Mr. Ma holds an equity interest of 59.7% in Beijing Jiazeng which is a Promoter holding approximately 0.82% of the issued shares of the Company as at the date of this document. Chaoyang Xinlong first supplied cooked food to the Company in 1994. Chaoyang Xinlong was then principally engaged in the wholesale distribution of cooked food. Subsequent to the supply agreement, the Company understands that Mr. Ma rationalised his business and transferred the business under Chaoyang Xinlong to Jiazeng Foodstuff where he holds an equity interest of 90%. On 8 August 2006, the Company, Chaoyang Xinlong and Jiazeng Foodstuff entered into a supplemental agreement where the rights and obligations of Chaoyang Xinlong under the supply agreement was transferred to Jiazeng Foodstuff.

During the Track Record Period, Beijing Jiazeng (a Promoter) and 北京市朝陽紫金肉食加工廠 (Beijing Chaoyang Zijin Meat Processing Company ("Chaoyang Zijin"), of which Mr. Ma is also its legal representative) also supplied cooked food to the Group. Beijing Jiazeng and Chaoyang Zijin began to supply cooked food to the Group in 2002. Since Chaoyang Xinlong, Jiazeng Foodstuff, Beijing Jiazeng and Chaoyang Zijin were all under the management of Mr. Ma, the Company agreed with them that in order to streamline the Group's procurement requirement, the Group would only source cooked food from Jiazeng Foodstuff going forward. Accordingly, as from 1 January and 21 July 2005, the Group ceased sourcing cooked food from Beijing Jiazeng and Chaoyang Zijin, respectively, and the Group shifted such procurement requirements to Chaoyang Xinlong and subsequently to Jiazeng Foodstuff. During the Track Record Period, the Group did not source cooked food exclusively from Chaoyang Xinlong, Beijing Jiazeng, Chaoyang Zijin and Jiazeng Foodstuff, but from up to 54 suppliers in total. As at the Latest Practicable Date, the Group sourced cooked food from 28 suppliers.

The term of the supply agreement (as supplemented as aforesaid) will expire on 31 December 2008. Upon its expiry, the Company has the right to renew the supply agreement on terms no less favourable than those under the current agreement. In addition, under the supply agreement, Jiazeng Foodstuff has agreed that the consideration payable by the relevant member of the Group for the supply of the same cooked food will not be higher, on the same per unit price basis, than the consideration paid to it by any other third party and will not be higher than the then prevailing market prices.

For the three financial years ended 31 December 2006, Chaoyang Xinlong, Beijing Jiazeng, Chaoyang Zijin and Jiazeng Foodstuff supplied the Group with cooked food based on the then prevailing market prices, aggregating approximately RMB18,030,000 and RMB20,535,000 and RMB16,090,000 for the respective years and representing approximately 0.57%, 0.57% and 0.41% of the Group's costs of sales (for continuing operations) for each of the three financial years ended 31 December 2006, respectively. The cooked food supplied by Chaoyang Xinlong, Beijing Jiazeng, Chaoyang Zijin and Jiazeng Foodstuff to the Group representing approximately 16.7%, 17.3% and 11.9% of the Group's total costs of purchase of cooked food from its suppliers for each of the three financial years ended 31 December 2006, respectively. Due to their internal restructuring in 2004, the Group reduced the amount of cooked food (in RMB terms) sourced from Chaoyang Xinlong, Beijing Jiazeng and Chaoyang Zijin by approximately 12.19% in

2004 (compared to 2003), but, in 2005, the amount of such sourcing increased to the level before the restructuring in 2004. In 2006, due to fierce competition in the cooked food market, the Group increased the amount of cooked food (in RMB terms) sourced from other suppliers and reduced the amount of cooked food (in RMB terms) sourced from Chaoyang Xinlong and Jiazeng Foodstuff by approximately 21.65% in 2006 (compared to 2005).

It is estimated that the total consideration payable by the Group to Jiazeng Foodstuff in relation to the purchase of cooked food for each of the two financial years ending 31 December 2008 will not exceed RMB29,200,000 and RMB33,530,000 respectively. Accordingly, at the time of the GEM Listing, these amounts were set as the caps for these continuing connected transactions.

The above caps have been estimated primarily based on (i) the quantity of the cooked food ordered and the consideration for the supply of such cooked food paid by the Group to Jiazeng Foodstuff (together with Chaoyang Xinlong, Beijing Jiazeng and Chaoyang Zijin) during the Track Record Period, which was temporarily affected by the said restructuring of the said three enterprises, (ii) the Group's expansion plan to open (1) two and two hypermarkets, (2) eight and eight supermarkets, and (3) eight and eight convenience stores in each of the two years ending 31 December 2008, respectively ("Expansion Plan"), which the Directors believe will lead to higher sale volume of cooked food and hence the Group's demand of such products from Jiazeng Foodstuff; (iii) the estimated growth rate of the sale of such products by the Group of approximately 81.48% and 15% per annum for each of the two financial years ending 31 December 2008, respectively, subsequent to the restructuring of Chaoyang Xinglong, Beijing Jiazeng and Chaoyang Zijin as referred above; and (iv) the integration of the retail network of Shou Lian under the co-operation agreement with Xi You and Shou Lian, pursuant to which, amongst others, the Company will operate Shou Lian's retail network under the Group's franchise arrangements.

3. Supply of tea leaves by Beijing Wuyifeng

Pursuant to a supply agreement dated 5 April 2006 entered into between the Company and Beijing Wuyifeng, a PRC company owned by Mr. Xia Wensheng ("Mr. Xia") as to 80% of its capital, Beijing Wuyifeng has agreed to supply, on a non-exclusive basis, to the Group various types of tea leaves for sale to the Group's customers. Mr. Xia is a Promoter and as at the date of this document held an equity interest of approximately 0.54% in the Company. Beijing Wuyifeng has been supplying tea leaves to the Group since 1999. Beijing Wuyifeng is principally engaged in the wholesale distribution of tea leaves. During the Track Record Period, the Group did not source tea leaves exclusively from Beijing Wuyifeng, but from up to 17 suppliers in total. As at the Latest Practicable Date, the Group sourced tea leaves from seven suppliers.

The term of the agreement will expire on 31 December, 2008. Upon its expiry, the Company has the right to renew the supply agreement on terms no less favourable than those under the current agreement. In addition, under the agreement, Beijing Wuyifeng has agreed that the consideration payable by the Company for the supply of the same tea leaves will not be higher, on the same per unit price basis, than the consideration paid to it by any other third party and will not be higher than the then prevailing market prices.

For the three financial years ended 31 December 2006, Beijing Wuyifeng supplied the Group with tea leaves based on the then prevailing market prices, aggregating approximately RMB3,798,900, RMB5,654,000 and RMB4,644,000 for the respective years and representing approximately 0.12%, 0.16% and 0.12% of the Group's costs of sales (for continuing operations); and approximately 53.3%, 82.1% and 55.5% of the Group's total costs of purchase of tea leaves from its suppliers for each of the three financial years ended 31 December 2006, respectively.

It is estimated that the total consideration payable by the Group to Beijing Wuyifeng in relation to the purchase of tea leaves for each of the two financial years ending 31 December 2008 will not exceed RMB7,500,000 and RMB8,700,000 respectively. Accordingly, at the time of the GEM Listing, these amounts were set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the quantity of the tea leaves ordered and the consideration for supply of such tea leaves paid by the Group to Beijing Wuyifeng during the Track Record Period, (ii) the Group started to sell the tea leaves it sources from Beijing Wuyifeng in one additional hypermarket and one additional supermarket in the second half of 2005, which accounted for the increase of approximately 48.9% in 2005, (iii) the Group's Expansion Plan (referred to in paragraph 2 above) of adding more Retail Outlets to its network, and (iv) the estimated growth rate of the sale of such products by the Group of approximately 61.50% and 16% per annum for each of the two financial years ending 31 December 2008, respectively.

4. Supply of raw meat by Beijing Yingguangda

Pursuant to a supply agreement dated 3 April 2006 entered into between the Company and Beijing Yingguangda, a PRC company owned by Mr. Gao Jiaqiang ("Mr. Gao") as to 66.67% of its capital, Beijing Yingguangda has agreed to supply, on a non-exclusive basis, to the Group various types of raw meat for sales to the Company's customers. Mr. Gao is a Promoter and as at the date of this document held an equity interest of approximately 0.54% in the Company. Beijing Yingguangda has been supplying raw meat to the Group since 2000. Beijing Yingguangda is principally engaged in the wholesale distribution of raw meat. During the Track Record Period, the Group did not source raw meat exclusively from Beijing Yingguangda, but from up to nine suppliers in total. As at the Latest Practicable Date, the Group sourced raw meat from three suppliers.

The term of the agreement will expire on 31 December 2008. Upon its expiry, the Company has the right to renew the supply agreement on terms no less favourable than those under the current agreement. In addition, under the agreement, Beijing Yingguangda has agreed that the consideration payable by the Group for the supply of the same raw meat will not be higher, on the same per unit price basis, than the consideration paid to it by any other third party and will not be higher than the then prevailing market prices.

For the three financial years ended 31 December 2006, Beijing Yingguangda supplied the Group with raw meat based on the then prevailing market prices, aggregating approximately RMB34,472,000, RMB36,766,000 and RMB7,438,000 for the respective years and representing approximately 1.09%, 1.02% and 0.19% of the Group's costs of sales (for continuing operations); and approximately 57.6%, 57.7% and 12.6% of the Group's total costs of purchase of raw meat from its suppliers for each of the three financial years ended 31 December 2006, respectively.

It is estimated that the total consideration payable by the Group to Beijing Yingguangda in relation to the purchase of raw meat for each of the two financial years ending 31 December 2008 will not exceed RMB16,600,000 and RMB16,600,000 respectively. Accordingly, at the time of the GEM Listing, these amounts were set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the quantity of the raw meat ordered and the consideration for supply of such raw meat paid by the Group to Beijing Yingguangda during the Track Record Period, (ii) the Group's Expansion Plan (referred to in paragraph 2 above) of adding more Retail Outlets to its network. (iii) the Company's anticipation that the purchases from Yingguangda for 2007 and 2008 is expected to be approximately 123.2% higher than 2006, as the Group's live and fresh produce Logistics Centre opened in the first half of 2005 in Chaoyang District, Beijing, was fully operational in 2006 and which, with its live pig stock processing capability, will enable the Group to change the stock mix of its purchasing needs and (iv) the anticipation of the purchase from Beijing Yingguangda will increase in 2007 and to remain unchanged in 2008 (as compared to 2007) in view of the integration of the retail network of Shou Lian under the co-operation agreement with Xi You and Shou Lian, pursuant to which, amongst others, the Company will operate Shou Lian's retail network under the Group's franchise arrangements.

5. Provision of interior decoration services by Tianjin Jinganghua

Tianjin Jinganghua has been providing interior decoration (including signboard installation) services to the Group since 1998. Tianjin Jinganghua is a Promoter and as at the date of this document held an equity interest of approximately 1.35% in the Company. Although the Company is satisfied with the quality of and delivery of the services by Tianjin Jinganghua over the years, with a view to encouraging competition amongst the Group's contractors for the provision of interior decoration services in the future, the Company and Tianjin Jinganghua entered into a services agreement dated 3 April 2006, which agreement is valid until 31 December 2008, under which the Company has agreed, but at the Company's sole discretion and without obligation on its part, to invite Tianjin Jinganghua, on a non- exclusive basis, to submit quotations for the provision of interior decoration (including signboard installation) services to the Group. In the event that the quotation submitted by Tianjin Jinganghua is comparable to or lower than those given by the other contractors solicited by the Group, the Group would consider engaging Tianjin Jinganghua to undertake such services. Tianjin Jinganghua is principally engaged in the provision of interior decoration services. During the Track Record Period and as at the Latest Practicable Date, the Group only engaged Tianjin Jinganghua for the provision of interior decoration (including signboard installation) services.

In addition, under the agreement, Tianjin Jinganghua has agreed that the quotation for services that it may submit to the Group for the provision of interior decoration services will be comparable to or lower than that it provides to any other party and will not be higher than the then prevailing market prices.

For the three financial years ended 31 December 2006, Tianjin Jinganghua provided interior decoration services to the Group based on the then prevailing market prices, aggregating approximately RMB1,313,000, RMB2,659,000 and RMB5,246,000 for the respective years and representing approximately 0.04%, 0.07% and 0.13% of the Group's costs of sales (for continuing operations); and 100%, 100% and 100% of the Group's total consideration paid by the Group on interior decoration services for each of the three financial years ended 31 December 2006, respectively.

It is estimated that the total consideration payable by the Group to Tianjin Jinganghua in relation to the provision of interior decoration services for each of the two financial years ending 31 December 2008 will not exceed RMB6,300,000 and RMB7,350,000 respectively. Accordingly, at the time of the GEM Listing, these amounts were set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the costs of the services provided and the consideration paid by the Group to Tianjin Jinganghua during the Track Record Period, and (ii) the estimation by the Group of the rate of upgrading of its premises and the opening of additional Retail Outlets in accordance with the Expansion Plan (as referred to in paragraph 2 above).

6. Provision of construction, repair and renovation services by Beijing Zhonglianjian

Beijing Zhonglianjian has been providing construction, repair and renovation services to the Group since 2000. Beijing Zhonglianjian is a PRC company owned by Mr. Li Shun Xiang as to 55% of its registered capital. Mr. Li Shun Xiang is a Promoter and as at the date of this document held an equity interest of approximately 1.35% in the Company. Although the Company is satisfied with the quality of and delivery of the services by Beijing Zhonglianjian over the years, with a view to encouraging competition amongst the Group's contractors for the provision of construction, repair and renovation services in the future, the Company and Beijing Zhonglianjian entered into a services agreement dated 3 April 2006, which is valid until 31 December 2008, under which the Company has agreed, but at the Company's sole discretion and without obligation on its part, to invite Beijing Zhonglianjian, on a non-exclusive basis, to submit quotations for the provision of construction, repair and renovation services to the Group. In the event that the quotation submitted by Beijing Zhonglianjian is comparable to or lower than those given by the other contractors solicited by the Group, the Group would consider engaging Beijing Zhonglianjian to undertake such services. Beijing Zhonglianjian is principally engaged in the provision of construction, repair and renovation services. During the Track Record Period, the Group did not only engage Beijing Zhonglianjian for the provision of construction, repair and renovation services, but engaged nine contractors in total for the provision of such services. As at the Latest Practicable Date, the Group engaged eight contractors for the provision of construction, repair and renovation services.

In addition, under the agreement, Beijing Zhonglianjian has agreed that the quotation for services that it may submit to the Group for the provision of construction, repair and renovation services will be comparable to or lower than that it provides to any third party and will not be higher than the then prevailing market prices.

For the three financial years ended 31 December 2006, Beijing Zhonglianjian provided the Group with construction, repair and renovation services based on the then prevailing market prices, aggregating approximately RMB10,469,000, RMB2,572,000 and RMB2,575,000 for the respective years and representing approximately 0.33%, 0.07% and 0.06% of the Group's costs of sales (for continuing operations); and approximately 17.9%, 1.3% and 2.7% of the Group's total consideration paid by the Group on construction, repair and renovation services for each of the three financial years ended 31 December 2006, respectively.

It is estimated that the total consideration payable by the Group to Beijing Zhonglianjian in relation to the provision of construction, repair and renovation services for each of the two financial years ending 31 December 2008 will not exceed RMB3,780,000 and RMB4,540,000 respectively. Accordingly, at the time of the GEM Listing, these amounts were set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the costs of the services provided and the consideration paid by the Group to Beijing Zhonglianjian during the Track Record Period, (ii) the decrease in the transaction value with Beijing Zhonglianjian of approximately 75.4% in 2005 was due to the fact that the Group continued to engage more contractors for the provisions of construction, repair and renovation services in 2005, (iii) the Group's desire to encourage competition amongst the Group's contractors for the provision of construction, repair and renovation services and hence to cap the value of the transactions with Beijing Zhonglianjian, despite the fact that the Group expects to open more hypermarkets, supermarkets and convenience stores from 2007 to 2008 pursuant to the Expansion Plan (referred to in paragraph 2 above), and (iv) the amount of work that the Group has invited and may invite Beijing Zhonglianjian to submit quotations (based on the Company's policy to encourage competition amongst the Group's contractors for the provision of construction, repair and renovation services).

7. Supply of flavourings, grain, flour, edible oil products (other than certain edible oil products of which Chaopi Jinglong has been appointed a distributor by the relevant manufacturers) and other food stuff (the "Chaopi Flavourings Products") by Chaopi Flavourings

Pursuant to a supply agreement dated 3 April 2006 entered into between the Company and Chaopi Flavourings, Chaopi Flavourings has agreed to supply, on a non-exclusive basis, to the Group various types of the Chaopi Flavourings Products for sale to its customers. Mr. Li Jun Wei is a director of each of Chaopi Flavourings and Chaopi Jinglong and holds approximately 30.84%, 31.78% and 0.73% of the equity in Chaopi Flavourings, Chaopi Jinglong and Chaopi Trading, respectively. Accordingly, Chaopi Flavourings is a connected person of the Company. Chaopi Flavourings has been supplying the Chaopi Flavourings Products to the Group since 2001. Chaopi Flavourings is principally engaged in the wholesale distribution of the Chaopi Flavourings Products.

The term of the agreement will expire on 31 December 2008. Upon its expiry, the Company has the right to renew the supply agreement on terms no less favourable than those under the current agreement. In addition, under the agreement, Chaopi Flavourings has agreed that the consideration payable by the Group for the supply of the same Chaopi Flavourings Products will not be higher, on the same per unit price basis, than the consideration paid to it by any other third party and will not be higher than the then prevailing market prices.

For the three financial years ended 31 December 2006, Chaopi Flavourings supplied the Group with the Chaopi Flavourings Products based on the then prevailing market prices, aggregating approximately RMB53,303,000, RMB42,759,000 and RMB45,144,000 (which amounts have excluded the estimated sales of the Jiali Products (as referred to in paragraph 8 below), as Chaopi Jinglong was established in May 2005 to take over the business of the wholesale distribution of such products, and, accordingly, for the purpose of the preparation of the relevant caps in this paragraph 7, such estimated sales of the Jiali Products have been excluded as aforesaid in order to provide an appropriate comparison) and representing approximately 1.68%, 1.18% and 1.14% of the Group's costs of sales (for continuing operations); and approximately 8.5%, 6.6% and 5.1% of the Group's total costs of purchase of similar type of Chaopi Flavourings Products from its suppliers for each of the three financial years ended 31 December 2006, respectively.

It is estimated that the total consideration payable by the Group to Chaopi Flavourings in relation to the purchase of the Chaopi Flavourings Products for each of the two financial years ending 31 December 2008 will not exceed RMB73,300,000 and RMB84,300,000 respectively. Accordingly, at the time of the GEM Listing, these amounts were set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the quantity of the Chaopi Flavourings Products and the consideration for the supply of the Chaopi Flavourings Products paid by the Group to Chaopi Flavourings during the Track Record Period, (ii) the decrease in sourcing in 2005 (in RMB terms) of approximately 19.8%, which was mainly due to the increase in purchases from other suppliers to accommodate the market demand for more variety of edible oil products, (iii) after the new division (in the form of Chaopi Jinglong) was set up in May 2005 to trade in Jiali Products (as defined in paragraph 8 below), Chaopi Flavourings, with more operating capacity (as resources being freed up after it ceased to carry the Jiali Products), has carried, and it will continue to carry, more products in the future, and (iv) the Group's Expansion Plan (referred to in paragraph 2 above) of adding more Retails Outlets to its network, and the integration of the retail network of Shou Lian under the co-operation agreement with Xi You and Shou Lian, pursuant to which, amongst others, the Company will operate Shou Lian's retail network under the Group's franchise arrangements which the Directors believe will lead to an increase in sales of the Chaopi Flavourings Products and hence the Group's demand for such products will also increase.

8. Supply of edible oil and other food stuff ("Jiali Products") sourced from 嘉里糧油商務拓展(深圳)有限公司 (Jiali Liang You Commerce Development (Shenzhen) Limited Company) ("Jiali") and/or its related entities (together the "Jiali Group") by Chaopi Jinglong

Pursuant to a supply agreement dated 3 April 2006 entered into between the Company and Chaopi Jinglong, Chaopi Jinglong has agreed to supply, on a non-exclusive basis, to the Group the Jiali Products for sale to its customers. Mr. Li Jun Wei is a director of each of Chaopi Flavourings and Chaopi Jinglong and holds approximately 30.84%, 31.78% and 0.73% of the equity in Chaopi Flavourings, Chaopi Jinglong and Chaopi Trading, respectively. Accordingly, Chaopi Jinglong is a connected person of the Company.

The term of the agreement will expire on 31 December 2008. Upon its expiry, the Company has the right to renew the supply agreement on terms no less favourable than those under the current agreement. In addition, under the agreement, Chaopi Jinglong has agreed that the consideration payable by the Group for the supply of the same Jiali Products will not be higher, on the same per unit price basis, than the consideration paid to it by any other party and will not be higher than the then prevailing market prices. Chaopi Jinglong is principally engaged in the wholesale distribution of the Jiali Products.

Prior to the establishment of Chaopi Jinglong in May 2005, Chaopi Flavourings had been supplying the Jiali Products to the Group. To further rationalise the business of the sale of flavourings products and cope with the expansion of edible oil products, in May 2005, Chaopi Jinglong was established to focus on the business of trading of the products manufactured and/or sourced by the Jiali Group and they are currently, principally, edible oil products under 金龍魚品牌 (Jin Long Yu brand) and 元寶品牌 (Yuan Bao brand). For the three financial years ended 31 December 2006, Chaopi Flavourings and Chaopi Jinglong (since its establishment in May 2005) supplied the Group with edible oil products of the said brands based on the then prevailing market prices, aggregating (based on the Company's estimation) approximately RMB18,714,000, RMB14,983,000 and RMB14,551,000 and representing approximately 0.59%, 0.41% and 0.37% of the Group's costs of sales (for continuing operations); and approximately 4%, 3% and 2.9% of the Group's total costs of purchase of similar type of Jiali Products from its suppliers for each of the three financial years ended 31 December 2006, respectively. Since the establishment of Chaopi Jinglong, Chaopi Jinglong has replaced Chaopi Flavourings as the supplier of the Jiali Products to the Group, and in that connection, Chaopi Jinglong has been appointed by Jiali as one of the two distributors of the Jiali Products in Beijing.

It is estimated that the total consideration payable by the Group to Chaopi Jinglong in relation to the purchase of the Jiali Products for each of the two financial years ending 31 December 2008 will not exceed RMB43,400,000 and RMB56,400,000 respectively. Accordingly, at the time of the GEM Listing, these amounts were set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the volume of the Jiali Products and the consideration for the supply of the Jiali Products paid by the Group to Chaopi Flavourings and Chaopi Jinglong (since its establishment in May 2005) during the Track Record Period (ii) the decrease in purchases (in RMB terms) of approximately 19.9% in 2005, was mainly attributable to less products were sourced by the Group during the set up stage of Chaopi Jinglong (iii) since the Group has designated Chaopi Jinglong to trade only in the Jiali Products, the Group expects that the Jiali Group will supply more variety of products (for example, oil products of different packaging formats targeting at different customers and that it may carry other branded foodstuff such as 胡姬花品牌 (Hujihua brand) and 香滿園品牌 (Xiangmanyuan brand) products that may be introduced in the future) to Chaopi Jinglong, and (iv) the Group's Expansion Plan (referred to in paragraph 2 above) of adding more Retail Outlets to its network, and the integration of the retail network of Shou Lian under the co-operation agreement with Xi You and Shou Lian, pursuant to which, amongst others, the Company will operate Shou Lian's retail network under the Group's franchise arrangements which the Directors believe will lead to an increase in the market presence and the sale of the Jiali Products by the Group, which will in turn increase the Group's demand for such products.

II. CONTINUING CONNECTED TRANSACTIONS OF THE SUBSIDIARIES OF THE COMPANY

9. Provision of delivery and logistics services by Chaopi Trading to Chaopi Flavourings

Pursuant to a services agreement dated 3 April 2006 entered into between Chaopi Trading and Chaopi Flavourings, Chaopi Trading has agreed to provide, or procure a member of the Group to provide, delivery and logistics services to Chaopi Flavourings for the delivery of Chaopi Flavourings's products to its customers (including both the Group and other third party customers). Prior to July 2004, Chaopi Flavourings used to deliver its products to customers. As from July 2004, Chaopi Trading centralised the delivery and logistics functions of its subsidiaries and has been providing such services to Chaopi Flavourings since then.

The term of the agreement will expire on 31 December 2008. Upon its expiry, Chaopi Trading has the right to renew the supply agreement on terms no less favourable than those under the current agreement. In addition, under the agreement, the consideration payable by Chaopi Flavourings to the Group for the provision of such delivery and logistics services will not be less than (i) the prevailing market fees, and (ii) the consideration charged by the Group for the provision of similar services to any other party.

During the period from July 2004 to 31 December 2004, the two financial years ended 31 December 2006, Chaopi Trading provided delivery and logistics services to Chaopi Flavourings based on its estimated costs in the provision of such services, being 1.5% (from July 2004 to June 2006) and revised to 2.1% (represented an estimated cost at the rate of 1.9% plus an approximately 10% premium) from July 2006 of Chaopi Flavourings's sales plus an annual RMB100,000 long distance surcharge, aggregating approximately RMB2,202,000, RMB6,130,000 and RMB7,443,000 respectively and representing approximately 0.69%, 1.66% and 1.78%, respectively of the Group's distribution costs (for continuing operations) for each of the three financial years ended 31 December 2006. As indicated above, Chaopi Trading only began to centralise the delivery and logistics functions of its subsidiaries in July 2004, therefore Chaopi Trading did not undertake any such service or charge Chaopi Flavouring any fee before July 2004. As indicated above, Chaopi Jinglong was established in May 2005 to focus on the business of trading of the Jiali Products, which products were previously carried by Chaopi Flavourings. Accordingly, the above-mentioned consideration paid by Chaopi Flavourings to Chaopi Trading did not include any estimated fee for the delivery and logistics services provided in respect of the Jiali Products, which as from May 2005, have been carried by Chaopi Jinglong.

It is estimated that the total consideration payable by Chaopi Flavourings to the Group in relation to the provision of the aforesaid delivery and logistics services for each of the two financial years ending 31 December 2008 will not exceed RMB10,391,000 and RMB11,934,000 respectively. Accordingly, at the time of the GEM Listing, these amounts were set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the delivery and logistics services for the Chaopi Flavourings Products required by Chaopi Flavourings from Chaopi Trading and the consideration paid during the Track Record Period, (ii) for the two financial years ending 31 December 2008, Chaopi Trading will continue to charge 2.1% of Chaopi Flavouring's sales plus an annual RMB100,000 long distance surcharge, and (iii) as Chaopi Trading only began to centralise the delivery and logistics functions of its subsidiaries (both internally between its subsidiaries, and externally with all such subsidiaries' respective customers in July 2004), the aggregate service charge of RMB2,202,000 for 2004 was not representative of a normal year, because it was only the aggregate charge for half a year, and hence the relatively higher charges in 2005 and 2006.

10. Provision of delivery and logistics services by the Chaopi Trading to Chaopi Jinglong

Pursuant to a services agreement dated 3 April 2006 entered into between Chaopi Trading and Chaopi Jinglong, Chaopi Trading has agreed to provide, or procure a member of the Group to provide, delivery and logistics services to Chaopi Jinglong for the delivery of Chaopi Jinglong's products to its customers (including both the Group and other third party customers). Chaopi Trading has been providing such services to Chaopi Jinglong since the latter's establishment in May 2005.

The term of the agreement will expire on 31 December 2008. Upon its expiry, Chaopi Trading has the right to renew the supply agreement on terms no less favourable than those under the current agreement. In addition, under the agreement, the consideration payable by Chaopi Jinglong to the Group for the provision of such delivery services will not be less than (i) the prevailing market fees, and (ii) the consideration charged by the Group for the provision of similar services to any other third party.

As indicated above, Chaopi Jinglong was established in May 2005 to focus on the business of trading of the Jiali Products, which products were previously carried by Chaopi Flavourings. Accordingly, the consideration mentioned below was paid by Chaopi Flavourings and Chaopi Jinglong since its establishment in May 2005 in connection with the Jiali Products to Chaopi Trading. During the period from July 2004 to 31 December 2004, the two financial years ended 31 December 2005 and 2006, Chaopi Trading provided delivery and logistics services in respect of the Jiali Products based on its estimated costs in the provision of such services, being 1.5% (from July 2004 to June 2006) and revised to 2.1% (represented an estimated cost at the rate of 1.9% plus an approximately 10% premium) from July 2006 of the sales of the Jiali Products plus an annual RMB100,000 long distance surcharge, aggregating approximately RMB1,101,000, RMB2,270,000 and RMB2,679,000 respectively and representing approximately 0.35%, 0.61% and 0.64%, respectively of the Group's distribution costs (for continuing operations) for each of the three financial years ended 31 December 2006. As indicated above, Chaopi Trading only began to centralise the delivery and logistics functions of its subsidiaries in July 2004, therefore Chaopi Trading did not undertake any such service or charge any fee before July 2004.

It is estimated that the total consideration payable by Chaopi Jinglong to the Group in relation to the provision of the aforesaid delivery and logistics services for each of the two financial years ending 31 December 2008 will not exceed RMB4,162,000 and RMB4,771,000 respectively. Accordingly, at the time of the GEM Listing, these amounts were set as the caps for these continuing connected transactions.

The above caps were estimated primarily based on (i) the delivery and logistics services of the Jiali Products required by Chaopi Flavourings and Chaopi Jinglong from Chaopi Trading and the consideration paid during the Track Record Period, (ii) for the two financial years ending 31 December 2008, Chaopi Trading will continue to charge 2.1% of Chaopi Jinglong's sales plus an annual RMB100,000 long distance surcharge, (iii) as Chaopi Trading only began to centralise the delivery and logistics functions of its subsidiaries (both internally between its subsidiaries, and externally with all such subsidiaries' respective customers in July 2004), the aggregate service charge of RMB1,101,000 for 2004 was not representative of a normal year, because it was only the aggregate charge for half a year, and hence the relatively higher charges in 2005 and 2006, and (iv) the Group's Expansion Plan (referred to in paragraph 2 above) of adding more Retail Outlets to its network, and the integration of the retail network of Shou Lian under the co-operation agreement with Xi You and Shou Lian, pursuant to which, amongst others, the Company will operate Shou Lian's retail network under the Group's franchise arrangements.

11. Lease of properties by Chaoyang Auxillary to Chaopi Trading

Pursuant to a lease agreement dated 30 April 2004 and a supplemental lease agreement dated 25 July 2005 (together the "Chaopi Lease Agreements") entered into between Chaoyang Auxillary and Chaopi Trading, Chaoyang Auxillary has agreed to lease to Chaopi Trading certain properties situated in Chaoyang district, Beijing, the PRC, including buildings, related public amenities and facilities, carparking spaces, areas for the loading and unloading of machines, sign board spaces and the land (together, the "Chaopi Properties", being the properties numbered 106-110 referred to in the section headed "Summary of valuation – Group III – Property interests rented and occupied by the Group in the PRC" in the letter from Vigers Appraisal & Consulting Limited in Appendix III to this document) for a term of 20 years commencing 1 January 2004 with a fixed annual rental (inclusive of the relevant business and property taxes) for each five year period. The initial aggregate annual rental was RMB2,054,654 for the period from 1 January 2004 to 31 December 2008. As Chaopi Trading ceased to rent one property as from 1 July 2005, the aggregate rental was reduced such that the aggregate rental for the period from 1 January 2005 to 30 June 2005 was RMB1,027,327, and the aggregate rental for the period from 1 July 2005 to 31 December 2005 was RMB549,313; whereas the aggregate annual rental for each of the financial years from 2006 to 2008 is RMB1,098,626. Such annual rentals, exclusive of relevant property tax, shall be increased, once every five years, at a rate of 5%. Accordingly, the rental shall be RMB1,144,411 per annum for the period from 1 January 2009 to 31 December 2013, RMB1,192,485 per annum for the period from 1 January 2014 to 31 December 2018 and RMB1,242,963 per annum for the period from 1 January 2019 to 31 December 2023. Accordingly, at the time of the GEM Listing, these amounts were set as the respective annual caps for this continuing connected transaction.

For the purpose of enabling Chaopi Trading to comply with the requirement of Rule 20.35(1) of the GEM Listing Rules (and, after the Main Board Listing, Rule 14A.35(1) of the Main Board Listing Rules) that the term of the agreement shall not be more than three years should the lease agreement (or any part thereof) not be approved by the independent Shareholders by 31 December 2008 (or when approval for any subsequent period is sought) in compliance with the requirements of the GEM Listing Rules (and, after the Main Board Listing, Rule 14A.35(1) of the Main Board Listing Rules), whilst allowing the Group to enjoy security of tenure in respect of the Chaopi Properties, Chaopi Trading has been granted a right to terminate the lease of any particular property under the Chaopi Lease Agreements without paying compensation by giving no less than six months' prior written notice to Chaoyang

Auxillary. Both the Company and the Sponsor believe such arrangements are beneficial to the Group and in the interests of the shareholders of the Company and the Company as a whole, as the Group has more flexibility in its leasing arrangements and is able to secure the use of these premises at a low rate favourable to the prevailing market rent as at the commencement date of the tenancy. The Sponsor has confirmed that it is a normal business practice for lease agreements of this kind to have a duration of more than three years.

The Chaopi Properties, which are located in the Chaoyang district, Beijing, the PRC are for office and warehouse uses, and they have a total gross floor area of approximately 20,823 sq.m.

Under the Chaopi Lease Agreements, Chaopi Trading was granted a first right to purchase any of the Chaoyang Properties on same terms and conditions as those offered by any Independent Third Party should Chaoyang Auxillary decide to sell or mortgage any such Chaopi Properties. In addition, under the Chaopi Lease Agreements, Chaopi Trading has an option to renew the lease upon its expiry on terms no less favourable than those under the Chaopi Lease Agreements and by reference to the then prevailing market conditions.

At the time of the GEM Listing, Vigers Appraisal & Consulting Limited, being the independent property valuer appointed by the Company, had reviewed the terms of the Chaopi Lease Agreements, and confirmed that on the basis as mentioned above, the aggregate monthly rentals above (being exclusive of property tax, business tax and additives, property management fees and other outgoings) under the Chaopi Lease Agreements were at a low rate favourable to the prevailing market rent as at the commencement date of the tenancy, which is considered by the Directors to be in the interests of the Company and the shareholders of the Company as a whole.

12. Lease of property by Chaoyang Auxillary to Xinyang Tongli

Pursuant to a lease agreement dated 1 July 2004 and a supplemental lease agreement dated 25 July 2005 (together the "Xinyang Lease Agreements") entered into between Chaoyang Auxillary and Xinyang Tongli, Chaoyang Auxillary has agreed to lease to Xinyang Tongli certain property situated in Chaoyang district, Beijing, the PRC (the "Xinyang Property", being the property numbered 115 referred to in the section headed "Summary of valuation – Group III – Property interests rented and occupied by the Group in the PRC" in the letter from Vigers Appraisal & Consulting Limited in Appendix III to this document) for a term of 20 years commencing 1 January 2004 for an initial annual rental (inclusive of the relevant business and property taxes) of RMB16,257. Such annual rental, exclusive of relevant property tax, shall be increased, once every five years, at a rate of 5%, and therefore the rental shall be RMB16,257 per annum for the period from 1 January 2004 to 31 December 2008, RMB16,931 per annum for the period from 1 January 2009 to 31 December 2013, RMB17,639 per annum for the period from 1 January 2014 to 31 December 2018 and RMB18,383 per annum for the period from 1 January 2019 to 31 December 2023. Accordingly, at the time of the GEM Listing, these amounts were set as the respective annual caps for this continuing connected transaction.

For the purpose of enabling Xinyang Tongli to comply with the requirement of Rule 20.35(1) of the GEM Listing Rules (and, after the Main Board Listing, Rules 14A.35(1) of the Main Board Listing Rules) that the term of the agreement shall not be more than three years should the lease agreement (or any part thereof) not be approved by the independent Shareholders by 31 December 2008 or when approval for any subsequent period is sought in compliance with the requirements of the GEM Listing Rules (and, after the Main Board Listing, Rules 14A.35(1) of the Main Board Listing Rules), whilst allowing the Group to enjoy security of tenure in respect of the Xinyang Property, Xinyang Tongli has been granted a right to terminate the lease of any particular Xinyang Property under the lease agreement without paying compensation by giving no less than six months' prior written notice to Chaoyang Auxillary. Both the Company and the Sponsor believe such arrangements are beneficial to the Group and in the interests of the shareholders of the Company and the Company as a whole, as the Group has more flexibility in its leasing arrangements and is able to secure the use of these premises at a low rate favourable to the prevailing market rent as at the commencement date of the tenancy. The Sponsor has confirmed that it is normal business practice for lease agreements of this kind to have a duration of more than three years.

The Xinyang Property, which is located in the Chaoyang district, Beijing, the PRC, is for commercial, office, warehouse and industrial uses, and it has a gross floor area of approximately 1,362 sq.m.

Under the Xinyang Lease Agreements, Xinyang Tongli was granted a first right to purchase any of the Xinyang Property on same terms and conditions as those offered by an Independent Third Party should Chaoyang Auxillary decide to sell or mortgage any such Xinyang Property. In addition, under the Xinyang Lease Agreements, Xinyang Tongli has an option to renew the lease upon its expiry on terms no less favourable than those under the Xinyang Lease Agreements and by reference to the then prevailing market conditions.

At the time of the GEM Listing, Vigers Appraisal & Consulting Limited, being the independent property valuer appointed by the Company, had reviewed the terms of the Xinyang Lease Agreements, and confirmed that on the basis as mentioned above, the aggregate monthly rentals above (being exclusive of property tax, business tax and additives, property management fees and other outgoings) under the Xinyang Lease Agreements were at a low rate favourable to the prevailing market rent as at the commencement date of the tenancy, which is considered by the Directors to be in the interests of the Company and the shareholders of the Company as a whole.

III. CONTINUING CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND ITS SUBSIDIARIES

13. Provision of loan financing by the Company to Chaopi Flavourings

During the Track Record Period, Chaopi Trading used to provide a loan facility to Chaopi Flavourings to finance its working capital requirements with respect to its business of the wholesale distribution of the Chaopi Flavourings Products (as referred to in paragraph 7 above) and Chaopi Flavourings paid interest to Chaopi Trading based on Chaopi Trading's borrowing cost.

For the two financial years ended 31 December 2005, the estimated highest loan amounts outstanding from Chaopi Flavourings (with respect to its business of the wholesale distribution of the Chaopi Flavourings Products) to Chaopi Trading were approximately RMB33,333,000 and RMB26,667,000, respectively. Chaopi Flavourings paid interest in the sum of approximately RMB1,233,000 and RMB1,207,000 for the two financial years ended 31 December 2005, respectively, which were calculated based on Chaopi Trading's average borrowing cost of approximately 5.8% per annum for each of these years. For the year ended 31 December 2006, the highest loan amount outstanding from Chaopi Flavourings to the Company with respect to the Designated Loan Arrangement as mentioned below was RMB20,000,000 and Chaopi Flavourings paid interest of approximately RMB1,088,000 based on an annual interest rate of 5.58%.

As indicated above, Chaopi Jinglong was established in May 2005 to focus on the business of trading of the Jiali Products, which products were previously carried by Chaopi Flavourings. Accordingly, the above-mentioned loan amounts and interest paid by Chaopi Flavourings to Chaopi Trading did not include any loan or interest which was estimated by the Company to be attributable to Chaopi Flavourings's business of wholesale distribution of the Jiali Products during the relevant periods, which products as from May 2005 have been carried by Chaopi Jinglong.

By the end of 2005, the Group consolidated such lending through the Company, and such lending has been made through Bank of Beijing such that (i) the Company will deposit a cash amount with the relevant bank, and (ii) Chaopi Flavourings will receive a loan from the said bank in the same amount as the deposit of the Company and Chaopi Flavourings will pay an annual handling charge (usually at the rate of approximately 0.1% to 0.3% of the principal of the loan) to the bank (the "Designated Loan Arrangement"). Designated Loan Arrangement is a common form of lending between companies in the PRC. It is estimated that the maximum of the loan amount outstanding from Chaopi Flavourings under such Designated Loan Arrangement to the Company during each of the two financial years ending 31 December 2008 will not exceed RMB40,000,000. At the time of the GEM Listing, the aforesaid amount was set as the cap for this continuing connected transaction. On 8 December 2005, Bank of Beijing, the Company and Chaopi Flavourings entered into an agreement to give effect to the above arrangement.

The above cap in relation to the maximum amount that may be outstanding from Chaopi Flavorings under the Designated Loan Arrangement was estimated primarily based on (i) the maximum amount outstanding from Chaopi Flavourings during the Track Record Period (excluding the maximum amount estimated to be attributable to the financing for the wholesale distribution of the Jiali Products) and (ii) the Company's conservative estimate that the maximum outstanding under the Designated Loan Arrangement will attain RMB40,000,000 for each of the two financial years ending 31 December 2008, respectively.

The loan provided by the Company to Chaopi Flavourings is continuing in nature and initially lasted for a year until the end of 2006 and was renewed by the Company until the end of 2007 with annual interest rate increased from 5.58% to 6.12%. The repayment of the loan shall be made by Chaopi Flavourings in a year with the revised annual interest rate of 6.12% and handling charges of 0.1% of the loan. The Directors confirm that it is in normal commercial terms as at the date of entering into the agreement. Chaopi Flavourings is solely responsible for the loan and the bank will not be responsible to repay the Company in the event that Chaopi Flavourings is unable to repay the loan. The loan arrangement complies with the relevant PRC laws and regulations. Based on the amount and risks involved in the loan, and the fact that Chaopi Flavourings is a subsidiary of the Company, the Directors are of the view that they do not have any material impact on the financial status of the Group. For the outstanding designated loans where provision has not been made, the Directors consider such amount will be recoverable given the fact that the designated loans are rendered to one of the Group's subsidiaries.

Prior to the Designated Loan Arrangement, the loan facility was provided by the Company to Chaopi Flavourings through Chaopi Trading. Chaopi Flavourings is a subsidiary of Chaopi Trading and also the Company, its business is in line with the business of the Group and its results is consolidated in the financial statements of the Group. The loan arrangement is in the interest of the Company and the shareholders of the Company as a whole as they enable Chaopi Flavourings to have adequate fund to carry on their business operation and expansion.

14. Provision of loan financing by the Company to Chaopi Jinglong

During the Track Record Period, Chaopi Trading used to provide a loan facility to Chaopi Flavourings to finance its working capital requirements with respect to its business of the wholesale distribution of the Jiali Products (as referred to in paragraph 8 above), and Chaopi Flavourings paid interest to Chaopi Trading based on Chaopi Trading's borrowing cost.

For the two financial years ended 31 December 2005, the estimated highest loan amounts outstanding from Chaopi Flavourings to Chaopi Trading (with respect to its business of the wholesale distribution of the Jiali Products) were approximately RMB16,667,000 and RMB13,333,000 respectively. Chaopi Flavourings paid interest in the sum of approximately RMB617,000 and RMB604,000 for the two financial years ended 31 December 2005, respectively, which were calculated based on Chaopi Trading's average borrowing cost of approximately 5.8% per annum for each of these years. For the year ended 31 December 2006, the highest loan amount outstanding from Chaopi Jinglong to the Company with respect to the Designated Loan Arrangement (as referred to below) was RMB20,000,000 and Chaopi Jinglong paid interest of approximately RMB1,088,000 based on an annual interest rate of 5.58%.

As indicated above, Chaopi Jinglong was established in May 2005 to focus on the business of trading of the Jiali Products, which products were previously carried by Chaopi Flavourings. Accordingly, the above-mentioned loan amounts and interest were estimated by the Company to be attributable to the business of wholesale distribution of the Jiali Products by Chaopi Flavourings, which as from May 2005 have been carried by Chaopi Jinglong.

By the end of 2005, the Group consolidated such lending through the Company, and such lending has been made in the same manner as the Designated Loan Arrangement referred to in paragraph 13 above. It is estimated that the maximum of the loan amount outstanding from Chaopi Jinglong under the Designated Loan Arrangement to the Company during each of the two financial years ending 31 December 2008 will not exceed RMB20,000,000. At the time of the GEM Listing, the aforesaid amount was set as the cap for this continuing connected transactions. On 8 December 2005, Bank of Beijing, the Company and Chaopi Jinglong entered into an agreement to give effect to the above arrangement.

The above cap in relation to the maximum loan amount that may be outstanding from Chaopi Jinglong under the Designated Loan Arrangement was estimated primarily based on (i) the maximum amount outstanding from Chaopi Jinglong and Chaopi Flavourings (with respect to its business of the wholesale distribution of the Jiali Products) during the Track Record Period, and (ii) the Company's conservative estimate that the maximum outstanding under the Designated Loan Arrangement will attain RMB20,000,000 for each of the two financial years ending 31 December 2008, respectively.

The loan provided by the Company to Chaopi Jinglong is continuing in nature and initially lasted for a year until the end of 2006 and was renewed by the Company until the end of 2007 with annual interest rate increased from 5.58% to 6.12%. The repayment of the loan shall be made by Chaopi Jinglong in a year with the revised annual interest rate of 6.12% and handling charges of 0.1% of the loan. The Directors confirm that it is in normal commercial terms as at the date of entering into the agreement. Chaopi Jinglong is solely responsible for the loan and the bank will not be responsible to repay the Company in the event that Chaopi Jinglong is unable to repay the loan. The loan arrangement complies with the relevant PRC laws and regulations. Based on the amount and risks involved in the loan, and the fact that Chaopi Jinglong is a subsidiary of the Company, the Directors are of the view that they do not have any material impact on the financial status of the Group. For the outstanding designated loans where provision has not been made, the Directors consider such amount will be recoverable given the fact that the designated loans are rendered to one of the Group's subsidiaries.

Prior to the Designated Loan Arrangement, the loan facility was provided by the Company to Chaopi Flavourings (with respect to the wholesale distribution of the Jiali Products) through Chaopi Trading. Chaopi Jinglong, established in May 2005 to focus on the business of trading of the Jiali Products, is a subsidiary of Chaopi Trading and also the Company, its business is in line with the business of the Group and its results are consolidated in the financial statements of the Group. The loan arrangement is in the interest of the Company and the shareholders of the Company as a whole as they enable Chaopi Jinglong to have adequate fund to carry on their business operation and expansion.

IV. WAIVER

At the time of the GEM Listing, the Company had applied for, and the Stock Exchange had granted to the Company, a waiver with respect to (i) the continuing connected transactions as referred to in paragraphs 1, 3, 5, 6 and 10 to 12 above) from the announcement requirement under Rule 20.47 of the GEM Listing Rules, (ii) the continuing connected transactions (as referred to in paragraphs 2, 4, 7, 8, 9 and 13 to 14 above) from both the announcement requirement under Rule 20.47 of the GEM Listing Rules and the independent shareholders' approval requirements under Rule 20.48 of the GEM Listing Rules, provided that the said continuing connected transactions are conducted in compliance with the conditions (including the respective applicable caps) imposed by the Stock Exchange.

The table below summarises the continuing connected transactions referred to in paragraphs 1 to 14 above and their respective caps (if applicable).

		Cap (RMB'000) Year ending 31 December	
Continuing connected transaction		**2007**	**2008**
1.	Lease of properties by Chaoyang Auxillary to the Company	7,134	7,134
2.	Supply of cooked food by Jiazeng Foodstuff to the Company	29,200	33,530
3.	Supply of tea leaves by Beijing Wuyifeng	7,500	8,700
4.	Supply of raw meat by Beijing Yingguangda	16,600	16,600
5.	Provision of interior decoration services by Tianjin Jinganghua	6,300	7,350
6.	Provision of construction, repair and renovation services by Beijing Zhonglianjian	3,780	4,540
7.	Supply of Chaopi Flavourings Products by Chaopi Flavourings	73,300	84,300
8.	Supply of Jiali Products by Chaopi Jinglong	43,400	56,400
9.	Provision of delivery and logistics services by Chaopi Trading to Chaopi Flavourings	10,391	11,934
10.	Provision of delivery and logistics services by Chaopi Trading to Chaopi Jinglong	4,162	4,771
11.	Lease of properties by Chaoyang Auxillary to Chaopi Trading	1,099	1,099
12.	Lease of properties by Chaoyang Auxillary to Xinyang Tongli	17	17

13.	Provision of loan financing by the Company to Chaopi Flavourings	40,000	40,000
14.	Provision of loan financing by the Company to Chaopi Jinglong	20,000	20,000

As the continuing connected transactions above will continue after the H Shares are listed on the Main Board on a recurring basis, the Directors consider that strict compliance with the announcement and/or independent shareholders' approval requirement under the Listing Rules would be unduly burdensome and impracticable. As such, the Company has received from the Stock Exchange a waiver from strict compliance with the announcement and/or independent shareholders' approval requirement set out in Chapter 14A of the Listing Rules.

In the event that any of the above continuing connected transactions exceeds its related cap, provided that the aggregate annual amount thereof does not exceed HK$10,000,000 (based on the applicable exchange rate as at the end of the relevant period) and the relevant percentage ratios (other than the profits ratio) as referred to in Rule 14A.34 of the Main Board Listing Rules as at the end of the relevant period is less than 25%, the Company would be required to comply with the reporting and announcement (which announcement would need to be published at, or as soon as practicable after, the end of the relevant annual period) requirements set out in Rules 14A.45 to 14A.47 of the Main Board Listing Rules, but would not be subject to the independent shareholders' approval requirement of Chapter 14A of the Main Board Listing Rules.

In the opinion of the Directors (including the independent non-executive Directors) and the Sponsor, the continuing connected transactions referred to above have been entered into in the ordinary course of business of the Group on normal commercial terms or, if applicable, on terms no less favourable to the Group than those available from any Independent Third Parties, which are fair and reasonable to the Group and in the interests of the Company and the shareholders of the Company as a whole. The Directors (including the independent non-executive Directors) and the Sponsor are of the opinion that the caps for the continuing connected transactions are arrived at after due and careful consideration, and are fair and reasonable.

In relation to the continuing connected transactions entered into by the Group, in addition to other relevant provisions of the Main Board Listing Rules and any conditions which may be imposed by the Stock Exchange in granting a waiver to the Company in connection therewith, the Company is required to comply with Rules 14A.35 to 14A.40 of the Main Board Listing Rules.