MANAGEMENT DISCUSSION AND ANALYSIS OF THE TRACK RECORD PERIOD

Investors should read the following discussion and analysis in conjunction with the consolidated financial statements of the Group as at 31 December 2004, 31 December 2005 and 31 December 2006, all of which is set forth in the Accountants' Report included as Appendix I to this document (the "Financial Information"). Except for the Financial Information, the remainder of the Group's financial information, has been extracted or derived from the management accounts. Investors should read the whole of the Accountants' Report and not rely merely on the information contained in this section.

The Directors confirm that they have performed sufficient due diligence on the Group to ensure that, up to the date of this document, there has been no material adverse change in the financial position or prospects of the Group since 31 December 2006 and there is no event since 31 December 2006 which would materially affect the information shown in the Accountants' Report set out in Appendix I.

For the purposes of this section, unless the context otherwise requires, references to "2004", "2005" and "2006" refer to the Group's financial year ended 31 December of such year.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the Track Record Period. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

During the Track Record Period, and up to date of this document there were the following changes in the interest held in subsidiaries and associates:

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

- Chaopi Trading entered into two equity transfer agreements with Chaoyang Auxillary to acquire an additional approximately 11.11% and 12.50% equity interest in Chaopi Huaqing and Chaopi Flavourings (at a consideration determined by an independent valuer), respectively, in June 2004. Upon the completion of the equity transfers, Chaopi Trading owned a total interest of approximately 52.22% and 56.25% in Chaopi Huaqing and Chaopi Flavourings, respectively. The Group accounted for Chaopi Huaqing and Chaopi Flavourings as associates for the period from January 2004 to June 2004 and accounted for as subsidiaries by the purchase method of accounting thereafter.

- the Company transferred of its entire 10% equity interest in Chaopi Shuanglong to Chaopi Trading in June 2004 for approximately RMB1,611,000 so as to consolidated the Group's equity holding in Chaopi Shuanglong in Chaopi Trading.

- In June 2004, the Company transferred its approximately 35.07% equity interest in Yiyuantang for approximately RMB14,984,000 and its entire equity interest of approximately 62.73% in Tengyuan for approximately RMB9,038,000 to Chaoyang Auxillary. Yiyuantang and Tengyuan ceased to be an associated company and subsidiary of the Company respectively thereafter. The Group accounted for Yiyuantang as an associated company for the period from January 2004 to June 2004.

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

- On 25 July 2005, Chaopi Trading acquired an approximately 7.33% equity interest in Chaopi Shuanglong from Shenzhen Yunzhongyuan Trading Company Limited and thereby increasing its equity interest in Chaopi Shuanglong to approximately 59.0%.

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

- On 7 February 2007, Chaopi Zhongde was incorporated and is principally engaged in wholesale of general merchandise and provision of storage services. At the time of its incorporation, Chaopi Zhongde was wholly held by Chaopi Trading. On 18 April 2007, Chaopi Trading transferred 20% of Chaopi Zhongde's equity to 北京中得高雅經貿有限公司 (Beijing Zhongde Gaoya Jingmao Company Limited) and thereby reducing its equity interest in Chaopi Zhongde to 80.00%.

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

- On 23 April 2007, Chaopi Trading acquired 25.00%, 12.50% and 3.50% equity interests in Chaopi Qingdao from 王春林 (Wang Chunlin), 劉東 (Liu Dong) and 王曉娟 (Wang Xiaojuan) respectively and thereby increasing its equity interest in Chaopi Qingdao to 100.00%.

- On 23 April 2007, Chaopi Trading acquired 25.00%, 12.50% and 3.50% equity interests in Chaopi Shijiazhuang from 王春林 (Wang Chunlin), 段雲洪 (Duan Yunhong) and 王曉娟 (Wang Xiaojuan) respectively and thereby increasing its equity interest in Chaopi Shijiazhuang to 100.00%.

- On 24 April 2007, the equity holders of Chaopi Huaqing resolved at a meeting of its equity holders to (i) increase the registered capital of Chaopi Huaqing from RMB9,000,000 to RMB18,000,000 and the said equity holders were offered to subscribe for the increase in registered capital pro-rata to their holdings of equity in Chaopi Huaqing, and (ii) declare a dividend of RMB2,700,000. The said dividend of RMB2,700,000 was re-invested by the equity holders as registered capital, and the balance of the increase in registered capital was contributed by the said equity holders by way of cash payments. Accordingly, Chaopi Trading has contributed RMB3,507,000 to Chaopi Huaqing by way of cash payments as further registered capital to maintain its holdings of equity in Chaopi Huaqing and acquired a further interest of approximately 1.21% in Chaopi Huaqing, and as a result thereof, Chaopi Trading held approximately 53.43% of Chaopi Huaqing's equity.

OVERVIEW OF OPERATION

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. Under the Group's directly-operated Retail Outlets, there are five hypermarkets, 40 supermarkets and 39 convenience stores, while under 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.

Major Factors Affecting the Group's Results of Operations

Retail industry in the PRC

The opening up of PRC retail industry upon the PRC's accession to the WTO in December 2001 had provided a liberal regulatory environment for foreign players, in particular for those with efficient supply chain management systems in China. The Group has faced stiffer competition from new foreign entrants into the PRC market. Apart from the foreign entrants to the PRC market, the Group also faces intense competition from domestic players. The combination of the above may affect the Group's profit margins and future growth.

Location of stores, rental exposure and renewal of tenancies

The Group's retail distribution business depends significantly on its ability to deploy retail outlets at prime and convenient locations where there is a high population density and pedestrian flow. Given the scarcity of these prime and convenient locations and their relatively high rental, particularly, in Chaoyang District, there is no assurance that the Group could secure or obtain such locations on favourable terms to the Group. Failure to successfully deploy the Group's Retail Outlets at such prime and convenient locations may affect the Group's sales, and hence may affect the Group's financial position and future growth.

In addition, the Group's Retail Outlets may be resumed by the State for various purposes. The resumption of lands for Retail Outlets located at prime location may again lead to reduced sales.

Direct distribution by suppliers and manufacturers

The Group's wholesale distribution business depends significantly on its ability to secure long term relationships with suppliers and manufacturers. However, as third party logistics providers become more efficient, the suppliers and manufacturers who presently have arrangements with the Group for wholesale distribution may change their sales and/or distribution format or channels, engage the services of other logistics service providers or undertake direct distribution of their daily consumer products in PRC and/or the Greater Beijing Region on their own. The loss of such wholesale distribution business may affect the Group's results.

Discontinued Operations of the Company

The discontinued operations for 2004 represented the trading of motor vehicles and the provision of related repair services operations. The trading of motor vehicles and provision of related repair services were carried out by Tengyuan. All of the equity interests in Tengyuan were disposed of in June 2004.

For details of the discontinued operations of the Company, please refer to section headed "History and Development and Reorganisation" to this document.

CRITICAL ACCOUNTING POLICIES

The Group's discussion and analysis of its financial condition and results of operations is based on the audited consolidated financial statements. The Group's significant accounting policies, and significant accounting judgements and estimates are set forth in sections II(1) and (2), respectively of the Accountants' Report in Appendix I to this document. The Group's reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of these audited consolidated financial statements. The Group bases its estimates on historical experience, the experience of other companies in the industry and on various other assumptions that the Group currently believes to be reasonable, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities and the Group's financial results. The Group's management evaluates its estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions and conditions. Critical accounting policies are those that are both most important to both the Group's financial conditions and results of operations, and require management's most difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that may change in subsequent periods.

The selection of critical accounting policies, the judgment and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Group's audited consolidated financial statements. The Group believes that the following critical accounting policies involve the most significant judgments and estimates used in the preparation of its audited consolidated financial statements.

Revenue recognition

The Group operates in various distribution sectors and its revenue recognition policies vary from sector to sector. Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised:

(i) *Sales of merchandise and produce*: Revenue is recognised when the significant risks and rewards of ownership of the merchandise and produce have passed to the buyer and the amount of revenue can be measured reliably.

(ii) *Income from suppliers*: Income from suppliers comprise promotion income, display space leasing fees and warehouse storage space income. Revenue is recognised according to the underlying contract terms and as these services are provided in accordance therewith.

(iii) *Rental income*: Rental income from leasing of investment properties and counters under operating leases is recognised on a time proportion basis over the lease terms.

(iv) *Interest income*: Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

(v) *Dividend income*: Dividend income is recognised when the equity/shareholders' right to receive payment has been established.

Depreciation

Property, plant and equipment, except for the construction in progress, are depreciated on a straight-line basis over the estimated useful life of the asset, after taking into account its estimated residual value. The Group reviews the estimated useful life of the asset regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The estimated useful lives are based on our historical experience with similar assets and have taken into account anticipated technological changes. The depreciation expense for future periods will be adjusted if there are significant changes from previous estimates.

Impairment of trade and other receivables

The Group provides for impairment of trade and other receivables when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. If there is objective evidence that an impairment loss on trade and other receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If the financial condition of the customers were to deteriorate, actual impairment might be higher than expected, which would adversely affect the operating results and financial condition through the recording of a higher impairment.

Inventory write down policy

Inventories are stated at the lower of cost and net realisable value. Cost of inventories, except for motor vehicles, is determined on the first-in first-out basis for all inventory. Cost of motor vehicles is determined on an individual basis. The assessment of the write down amount requires management's estimate. Allowances of inventory are provided by a general provision on the inventory balance and obsolete inventories based on specific identification, taking into account future demand and market conditions.

TRADING RECORD

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

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

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

RESULT OF OPERATIONS

The following table shows the line items of the Group's income statements from continuing operations expressed as a percentage of revenue during the Track Record Period:

	Year ended 31 December		
	2004	2005	2006
	% of total Revenue		
Revenue	100.0	100.0	100.0
Cost of sales	(88.7)	(87.9)	(87.5)
Gross profit	11.3	12.1	12.5
Other income and gains	4.3	3.5	5.0
Selling and distribution costs	(8.9)	(9.0)	(9.3)
Administrative expenses	(2.4)	(2.1)	(2.4)
Other expenses	(0.2)	(0.5)	(0.7)
Finance costs	(0.6)	(0.5)	(0.6)
Share of profits and losses of associates	0.1	–	–
Profit before tax	3.6	3.5	4.5
Tax	(1.2)	(1.1)	(1.6)
Profit before minority interests	2.4	2.4	2.9
Minority interests	(0.3)	(0.6)	(0.7)
Profit attributable to equity holders of the parent	2.1	1.8	2.2

Set out below is a discussion on the revenue and expense items in the Group's consolidated income statements from continuing operations.

Revenue and cost of sales

The Group's revenue is mainly generated from sale of merchandise and produce through retailing and wholesaling distribution businesses. During the Track Record Period, revenue from retailing distribution business of directly-operated stores contributes approximately 56.3%, 50.0% and 50.7% respectively of the Group's revenue. Revenue from wholesaling distribution business contributes approximately 43.6%, 49.9% and 49.2% of the Group's revenue. Cost of sales of the Group represents costs of goods sold.

The following table shows a breakdown of the Group's revenue by business segment during the Track Record Period:

	Year ended 31 December								
	2004			2005			2006		
	Continuing operations	Discontinued operation(1)	Total	Continuing operations	Discontinued operation(1)	Total	Continuing operations	Discontinued operations(1)	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(2)	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

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

(2) *"Others" represent income generated from a subsidiary, Xinyang Tongli, which is engaged in the production of plastic packaging materials and installation and maintenance of commercial equipment, e.g. large refrigerators in the Retail Outlets. Xinyang Tongli has a spare capacity to serve the independent third parties during the Track Record Period apart from serving its Retail Outlets.*

Gross profit and gross profit margin

The table below shows a breakdown of the Group's gross profit and gross profit margin of retailing and wholesaling distribution businesses during the Track Record Period.

	Year ended 31 December					
	2004		2005		2006	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB'000)	*(%)*	*(RMB'000)*	*(%)*	*(RMB'000)*	*(%)*
Retailing from directly-operated Retail Outlets						
– Hypermarkets	84,799	13.0	92,127	13.3	102,261	14.6
– Supermarkets	167,482	13.9	177,477	14.7	205,397	14.5
– Convenience Stores	20,115	13.6	23,823	14.8	26,164	14.8
	272,396	13.6	293,427	14.2	333,822	14.5
Wholesaling	130,557	8.4	205,557	10.0	229,375	10.3

Other income and gains

Other income and gains of the Group mainly represent (i) income from suppliers for display space leasing fee, promotion income, information system service income, merchandise storage and delivery income, (ii) rental income from leasing of investment properties and counters, (iii) net compensation on demolished properties, (iv) gain on exchange of items of property, plant and equipment, and (v) interest income.

The gross rental income of the Group from leasing of investment properties and counters amount to approximately RMB34.5 million, RMB37.0 million and RMB40.3 million respectively during the Track Record Period. The said gross rental income derived from (1) the sub-leases of certain third party counters and other designated areas of the Retail Outlets and (2) leases of investment properties of the Group.

During the Track Record Period, the Group sub-leased certain counters and designated areas in the Retail Outlets to third party individuals or enterprises who are all Independent Third Parties. The third party counters and designated areas offer ancillary services to the customers of the Retail Outlets such as ornaments processing, shoes and watches repairing restaurants, fast food outlets, photo shops and banks. The rentals received from the sub-leasing of third party counters and other designated areas during the Track Record Period were approximately RMB29.0 million, RMB31.5 million and RMB34.8 million respectively. The Group recorded the rental income received from the leased counters and other designated areas in other income and gains. The third party counters and leased designated areas operate independently from the Group and accordingly their turnovers are not accounted for by the Group. There is no profit sharing arrangement between the Group and the third party counter and leased designated areas operators. In respect of the third party counters, the leasehold agreements specify amongst others the following terms: (i) the location and area of the counter; (ii) the operations to be performed in the counter; (iii) a fixed amount of monthly rental; and (iv) fixed leasehold term (usually one year). However, according to the leasehold agreements, the third party counter operators have to cooperate with the promotional activities organised by the Group from time to time.

The Group also leased certain of its investment properties for rental income during the Track Record Period. 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.

During the Track Record Period, in order to strengthen the pedestrian flow of its Retail Outlets, the Group has leased three investment properties, one situated in the Group's main office complex and one inside a hypermarket, to two reputable food chain operators for long term which will be expired in 2009 and 2020 respectively. The remaining one is a composite building and was leased to various individual tenants as offices for medium term.

Selling and distribution costs

Selling and distribution costs of the Group mainly represent salary and welfare, depreciation, energy fee, rental expenses, repair and maintenance, transportation expenses, packaging expenses and advertising expenses.

Administrative expenses

Administrative expenses of the Group mainly represent salary and welfare, social security costs (including contribution to pension fund), depreciation expenses, entertainment expenses, contribution to housing fund and union and education fees.

Other expenses

Other expenses of the Group primarily represent impairment of trade and other receivables, impairment loss of construction in progress, various taxes and surcharges and foreign exchange loss.

Finance costs

Finance costs of the Group represent interest on bank loans, interest on borrowings from employees and from other enterprises.

Share of profits and losses of associates

Share of profits and losses of associates of the Group represents share of profits and losses from Chaopi Huaqing, Chaopi Flavourings, Chaopi Tianxing, Chaopi Ziguang and Yiyuantang during the Track Record Period.

Tax

The Group is not subject to Hong Kong profits tax as the Group had no assessable profit arising in or derived from Hong Kong during the Track Record Period.

The Group is normally subject to Corporate Income Tax of the PRC ("CIT") at a rate of 33% on its assessable profit. Apart from CIT, the Group is subject to value-added tax ("VAT") which is the principal indirect tax on the sales of tangible goods ("Output VAT"). Output VAT is calculated at a rate ranging from 0% to 17.0% of the sales value of goods and is payable by the customer in addition to the sales value of goods. The Group pays VAT on its purchases ("Input VAT") which is deducted against Output VAT in arriving at the net VAT amount payable. All VAT paid and collected is recorded through the VAT payable account, the net Input VAT receivable is included in prepayments, deposits and other receivables on the balance sheet.

OPERATION STATISTICS OF DIRECTLY-OPERATED STORES

	Year ended 31 December		
	2004	**2005**	**2006**
Revenue by store format *(RMB'000)*			
– Hypermarkets	653,687	694,362	700,997
– Supermarkets	1,208,077	1,205,007	1,419,103
– Convenience Stores	147,506	161,204	177,206
	2,009,270	2,060,573	2,297,306

	Year ended 31 December		
	2004	2005	2006
Revenue per operating area per day *(RMB)*			
– Hypermarkets	46.2	49.2	49.9
– Supermarkets	48.1	46.9	46.7
– Convenience Stores	49.7	55.3	57.5
Average daily transaction volume			
– Hypermarkets	38,904	39,289	38,257
– Supermarkets	136,213	130,286	146,428
– Convenience Stores	44,075	49,071	53,334
Average value per transaction *(RMB)*			
– Hypermarkets	45.9	48.4	50.2
– Supermarkets	25.0	27.8	28.4
– Convenience Stores	9.3	9.0	9.2

Directly-operated supermarkets have been the major revenue contributor to the Group's retail business of directly-operated Retail Outlets. Revenue from directly-operated supermarkets accounted for approximately 60.1%, 58.5% and 61.8% respectively, with revenue from directly-operated hypermarkets accounted for approximately 32.5%, 33.7% and 30.5% respectively and with revenue from directly-operated convenience stores accounted for approximately 7.4%, 7.8% and 7.7% respectively, of the Group's total revenue from retailing distribution business of directly-operated Retail Outlets during the Track Record Period.

Revenue from directly-operated hypermarkets, supermarkets and convenience stores of the Group increased by approximately 1.0%, 17.8% and 9.9%, respectively in 2006. The increase in revenue from supermarkets was mainly due to the 14 new supermarkets set up in 2006 and the same store sales growth of approximately 10.4%. The increase in revenue from convenience stores was primarily attributable to the four new convenience stores set up in 2006 and the same store sales growth of approximately 7.0%.

Revenue from directly-operated hypermarkets and convenient stores of the Group increased by approximately 6.2% and 9.3% whereas revenue from supermarkets decreased by approximately 0.3% in 2005. The decrease in revenue from directly-operated supermarkets was primarily attributable to the combination of the effects of the closures of four supermarkets and openings of four new supermarkets in 2005. The increase in revenue from hypermarkets was mainly attributable to the increase in revenue of the Wangjing hypermarket. The increase in revenue from convenience stores was mainly due to the closures of certain shops operated by the Group's competitors.

2006 compared to 2005

Revenue

In 2006, the Group's revenue increased by approximately 9.9% from approximately RMB4,121.7 million in 2005 to approximately RMB4,531.0 million in 2006. The increase in revenue was partly attributable to the increase in retail distribution business of directly-operated Retail Outlets by approximately 11.5% from approximately RMB2,060.6 million in 2005 to approximately RMB2,297.3 million in 2006. The increase was mainly due to the combination results of the opening of 14 directly-operated supermarkets during 2006 and the overall same store sales growth of approximately 6.6%.

For wholesale distribution business, the Group's revenue increased by approximately 8.3% from RMB2,057.4 million in 2005 to approximately RMB2,228.5 million in 2006. The increase was mainly attributable to (i) the full year sales contribution in 2006 of three subsidiaries, namely Chaopi Jinglong, Chaopi Shijiazhuang and Chaopi Qingdao which were set up during 2005, (ii) the tremendous expansion of wholesale business arising from the rapid expansion of domestic retail business resulting in increase in demand of the Group's product, and (iii) continuously optimization of product mix.

Cost of sales, gross profit and gross profit margin

The Group's cost of sales increased by approximately 9.5% from approximately RMB3,621.7 million in 2005 to approximately RMB3,966.4 million in 2006 which was in line with the increase in revenue. The Group's gross profit increased by approximately 12.9% from approximately RMB500.1 million in 2005 to approximately RMB564.6 million in 2006, primarily due to the increase in revenue by approximately 9.9%. Gross profit margin was approximately 12.5% in 2006 and approximately 12.1% in 2005. The increase in gross profit margin was mainly attributable to increase in total purchase volume with lower costs negotiated with suppliers, higher gross profit margin generated by self-operated live and fresh produce and continuously optimization of product mix.

Other income and gains

The Group's other income and gains increased by approximately 56.0% from approximately RMB143.7 million in 2005 to approximately RMB224.3 million in 2006. The increase was mainly attributable to an increase in income from suppliers of approximately RMB41.5 million and bank interest income of approximately RMB29.1 million. The increase in income from suppliers was mainly due to a combination effect of (i) an increase in average fee standard for store display and promotion income with continuous increase in purchase, and (ii) an increase in about 30 new suppliers joined the Group's supply chain in 2006. The increase in interest income was primarily due to the one-off bank interest income of approximately RMB23.0 million earned from the over-subscription of the Company's H shares (the "Over-subscription"). Other income and gains as a percentage of revenue was approximately 5.0% in 2006 as compared to approximately 3.5% in 2005.

Selling and distribution costs

The Group's selling and distribution costs increased by approximately 13.3% from approximately RMB369.8 million in 2005 to approximately RMB419.1 million in 2006. The increase was primarily due to a combination effect of (i) an increase in salary and welfare of approximately RMB17.3 million due to a general increase in salary and more staff were recruited for the 19 new Retail Outlets set up in 2006, (ii) an increase in depreciation of approximately RMB3.5 million was mainly contributed by the fixed assets acquired for the 19 new Retail Outlets set up in 2006, (iii) an increase in energy fee of approximately RMB6.6 million was because of the 19 new Retail Outlets set up in 2006 as well as an increase in unit costs of utilities, (iv) an increase in rental expenses of approximately RMB10.5 million was mainly because of the 19 new Retail Outlets set up in 2006, and (v) an increase in transportation expenses of approximately RMB9.5 million was due to the expansion of wholesale networks and the increase in delivery of merchandises to the Group's retail outlets as well as the increase of gasoline unit price. Selling and distribution costs as a percentage of revenue was approximately 9.3% in 2006 as compared to approximately 9.0% in 2005.

Administrative expenses

The Group's administrative expenses increased by approximately 21.4% from approximately RMB88.9 million in 2005 to approximately RMB108.0 million in 2006. Such increase was mainly attributable to (i) an increase in salary and welfare of approximately RMB6.3 million as a result of a general increase in salary and the increase in performance bonus paid to the Group's management in 2006, (ii) an increase in social security costs of approximately RMB4.5 million which was in line with the increase in salary, and (iii) an increase in entertainment, audit fee, office supplies, utilities, etc. of approximately RMB6.5 million. Administrative expenses as a percentage of revenue was approximately 2.4% in 2006 as compared to approximately 2.1% in 2005.

Other expenses

The Group's other expenses increased from approximately RMB20.5 million in 2005 to approximately RMB30.0 million in 2006. The increase was mainly attributable to an increase in various taxes and surcharges of approximately RMB4.2 million as a result of an increase in rental income and income from suppliers, and a foreign exchange loss of approximately RMB6.4 million arising from the depreciation of Hong Kong Dollar against RMB in respect of the listing proceeds received from the initial public offering of the Company' H Shares.

Finance costs

The Group's finance costs increased from approximately RMB19.1 million in 2005 to approximately RMB26.3 million in 2006. The increase was mainly attributable to an increase in interest-bearing bank and other borrowings and interest rates in 2006. Finance costs as a percentage of revenue was approximately 0.6% in 2006 as compared to approximately 0.5% in 2005.

Share of profits and losses of associates

The Group share of net loss of associates increase from RMB32,000 in 2005 to approximately RMB139,000 in 2006. The increase in loss was mainly attributable to the increase in operating losses of the two associates, Chaopi Ziguang and Chaopi Tianxing in 2006.

Tax

Income tax paid by the Group increased by approximately 57.1% from approximately RMB47.2 million in 2005 to approximately RMB74.1 million in 2006. The increase was mainly attributable to an increase in taxable income. The Group effective corporate income tax rate increased from approximately 32.4% in 2005 to approximately 36.1% in 2006. The increase in effective tax rate to 36.1% in 2006 was mainly attributable to expenses not deductible for CIT included impairment of trade and other receivables of approximately RMB5.5 million and impairment loss of property, plant and equipment of approximately RMB2.1 million.

Minority interests

The Group's minority interests increased from approximately RMB23.2 million in 2005 to approximately RMB31.8 million in 2006. The increase is in line with the overall increase in profits generated by the subsidiaries in 2006.

Profit attributable to equity holders of the parent

The Group's profit attributable to equity holders of the parent increased by approximately RMB24.5 million or 32.6% from approximately RMB75.1 million in 2005 to approximately RMB99.6 million in 2006. The Group's profit attributable to equity holders of the parent to revenue increased from approximately 1.8% in 2005 to approximately 2.2% in 2006. Excluding the effect of the one-off bank interest income earned from the Over-subscription and the foreign exchange loss as aforementioned, the Group's profit attributable to equity holders of the parent and net profit margin was approximately RMB90.5 million (representing approximately 20.5% increase comparing to last year) and approximately 2%, respectively in 2006.

2005 compared to 2004

Revenue

In 2005, the Group's revenue increased by approximately 15.5%, from approximately RMB3,568.9 million in 2004 to approximately RMB4,121.7 million. The increase in revenue was partly attributable to the increase in retail distribution business of directly-operated Retail Outlets by approximately 2.6% from approximately RMB2,009.3 million in 2004 to approximately RMB2,060.6 million in 2005. The combination result of the increase in sales of the Wangjing hypermarket and the opening of four directly-operated supermarkets, two in January 2005, one in July 2005 and one in December 2005; and the closure of four directly-operated supermarkets in April, May, August and December 2005 respectively has contributed to the above increment.

For wholesale distribution business, the Group's revenue increased by approximately 32.2% from RMB1,555.9 million in 2004 to approximately RMB2,057.4 million in 2005. The increase was mainly to the consolidation of the results of Chaopi Huaqing and Chaopi Flavourings, the establishment of Chaopi Qingdao, Chaopi Shijiazhuang and Chaopi Jinglong and the increase in demand of the Group's products. If the revenue of Chaopi Huaqing, Chaopi Flavourings and the newly established companies are not considered, the Group's revenue from wholesale distribution business increased from approximately RMB1,250.4 million in 2004 to approximately RMB1,474.7 million in 2005, representing a year-on-year growth of approximately 17.9%.

Cost of sales, gross profit and gross profit margin

The Group's cost of sales increased by approximately 14.4% from approximately RMB3,164.9 million in 2004 to approximately RMB3,621.7 million in 2005 which was in line with the increase in revenue. The Group's gross profit increased significantly by approximately 23.8% from approximately RMB404.0 million in 2004 to approximately RMB500.1 million in 2005, primarily due to the increase in revenue by approximately 15.5%. Gross profit margin was approximately 12.1% in 2005 and approximately 11.3% in 2004.

The increase in gross profit margin for the respective business segments was mainly attributable to the increase in purchase volume in 2005 with lower purchase costs negotiated with suppliers.

The gross profit margin of the wholesale business increased from approximately 8.4% in 2004 to 10.0% in 2005 mainly because Chaopi Trading and certain of its subsidiaries have obtained the exclusive distribution rights of certain products, including edible oil and household products, in the Beijing region. Since Chaopi Trading and certain of its subsidiaries are the sole distributors of those products in the Beijing region, they are able to negotiate for higher prices from its customers.

Other income and gains

The Group's other income and gains decreased by approximately 7.1% from approximately RMB154.7 million in 2004 to approximately RMB143.7 million in 2005. The decrease was mainly due to a combination effect of (i) an increase in income from suppliers by approximately RMB18.2 million as a result of increased purchase volume, and (ii) a gain on exchange of items of property, plant and equipment of approximately RMB27.5 million in 2004 and no such income was recorded in 2005. Other income and gains as a percentage of revenue was approximately 4.3% in 2004 as compared to approximately 3.5% in 2005.

Selling and distribution costs

The Group's selling and distribution costs increased by approximately 16.3% from approximately RMB317.9 million in 2004 to approximately RMB369.8 million in 2005. The increase was primarily due to (i) an increase in salary and welfare by approximately RMB15.4 million mainly due to consolidation of the staff costs of Chaopi Huaqing and Chapoi Flavourings and the increase in average salary, (ii) an increase in rental expenses by approximately RMB5.3 million from approximately RMB34.2 million in 2004 to approximately RMB39.5 million in 2005, (iii) an increase in depreciation expenses by approximately RMB7.6 million mainly due to the additions of leasehold improvements and machinery and (iv) an increase in repair and maintenance expenses by approximately RMB6 million. Selling and distribution costs as a percentage of revenue was approximately 8.9% in 2004 as compared to approximately 9.0% in 2005.

Administrative expenses

The Group's administrative expenses increased slightly from approximately RMB88.3 million in 2004 to approximately RMB88.9 million in 2005. Such increase was mainly due to the increase in depreciation expense mainly attributable to the additions of office equipment. Administrative expenses as a percentage of revenue were approximately 2.4% in 2004 as compared to approximately 2.1% in 2005. The decrease was mainly attributable to the Group's continuous effort in cost control.

Other expenses

The Group's other expenses increased from approximately RMB5.8 million in 2004 to approximately RMB20.5 million in 2005. The increase in 2005 was mainly due to the loss on disposal of fixed assets of approximately RMB1.5 million in 2005, the increase in impairment of trade and other receivables of approximately RMB7.9 million and increase in business tax, city construction tax and surcharges of approximately RMB5.1 million.

Finance costs

The Group's finance costs decreased slightly from approximately RMB21.0 million in 2004 to approximately RMB19.1 million in 2005. Finance costs as a percentage of revenue were approximately 0.6% in 2004 and approximately 0.5% in 2005.

Share of profits and losses of associates

The Group's share of profits and losses of associates decreased sharply from a profit of approximately RMB2.2 million in 2004 to a loss of approximately RMB32,000 in 2005. Such decrease was primarily due to the disposal of an associate, Yiyuantang, in July 2004, and the consolidation of the results of two former associates, Chaopi Huaqing and Chaopi Flavourings, since July 2004.

Tax

Income tax paid by the Group increased by approximately 7.0%, from approximately RMB44.1 million in 2004 to approximately RMB47.2 million in 2005, primarily due to the increase in taxable income. The Group effective corporate income tax rate decreased slightly from approximately 34.5% in 2004 to approximately 32.4% in 2005. In 2005, the effective tax rate of the Group was 32.4% mainly due to the combination effect of expenses not deductible for CIT included impairment of trade and other receivables of approximately RMB6.5 million and advertising expenses of approximately RMB3.0 million not eligible for CIT deduction but offset by the net compensation on demolished properties of approximately RMB9.9 million received from Government, was exempted from CIT.

Minority interests

The Group's minority interests increased significantly from approximately RMB10.6 million in 2004 to approximately RMB23.2 million in 2005, primarily due to the share of net profit by minority shareholders of Chaopi Huaqing and Chaopi Flavourings for the six months in 2004 from July 2004 to December 2004 but for the whole year in 2005. Please see the paragraph headed "The Reorganisation" in the section headed "Statutory and general information" in Appendix V to this document.

Profit attributable to equity holders of the parent

The Group's profit attributable to equity holders of the parent increased by RMB1.9 million from approximately RMB73.2 million in 2004 to approximately RMB75.1 million in 2005. The Group's profit attributable to equity holders of the parent to revenue decreased slightly from approximately 2.1% in 2004 to approximately 1.8% in 2005. The decrease was mainly attributable to the gain on exchange of items of property, plant and equipment of approximately RMB18.4 million (net of tax) which was non-recurring in nature in 2004. Excluding the effect of such non-recurring item, the Group's profit attributable to equity holders of the parent to revenue was approximately 1.5% in 2004.

UNAUDITED CONSOLIDATED INCOME STATEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2007

On 9 May 2007, the Company announced the following unaudited consolidated results of the Group for the three months ended 31 March 2007, which has been reviewed by the Audit Committee and approved by Board of Directors, together with the comparative unaudited consolidated figures for the three months ended 31 March 2006:

	For the three months ended 31 March	
	2007	**2006**
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue	1,565,590	1,272,496
Cost of sales	(1,367,524)	(1,121,057)
Gross profit	198,066	151,439
Other income and gains	72,919	57,026
Selling and distribution costs	(127,883)	(99,640)
Administrative expenses	(39,103)	(30,633)
Other expenses	(11,203)	(3,838)
Finance costs	(7,595)	(3,478)
Profit before tax	85,201	70,876
Tax	(30,360)	(26,188)
Profit for the period	54,841	44,688
Attributable to:		
Equity holders of the parent	43,298	36,308
Minority interests	11,543	8,380
	54,841	44,688
Earnings per share-basic	RMB11.3 cents	RMB14.7 cents

Revenue

The Group's revenue increased by approximately 23.0% from approximately RMB1,272.5 million in the first quarter of 2006 to approximately RMB1,565.6 million in the three months ended 31 March 2007 was primarily due to the increase in retail and wholesale revenue by approximately 19.3% and 27.0%, respectively. The increase in retail revenue from approximately RMB655.6 million in the first quarter of 2006 to approximately RMB782.5 million during the three months ended 31 March 2007 was mainly attributable to the contribution from the 13 supermarkets which were set up during the period from the second quarter of 2006 to the first quarter of 2007 and the Jiugong hypermarket, and the overall same store sales growth of approximately 13.1%. The increase in the wholesale revenue was mainly because of (i) the tremendous expansion of wholesale business arising from the rapid expansion of domestic retail business resulting in increase in demand of the Group's products, (ii) increase in number of regional sole distributorships, (iii) more inventories with selling prices anticipated to be increased in 2007 were stored in advance to accommodate the upcoming market demand especially the Spring Festival, and (iv) continuously optimization of product mix.

Cost of sales, gross profit and gross profit margin

The Group's cost of sales increased by approximately 22.0% from approximately RMB1,121.1 million in the first quarter of 2006 to approximately RMB1,367.5 million in the three months ended 31 March 2007 was in line with the increase in revenue. During the three months ended 31 March 2007, the gross profit of the Group was approximately RMB198.1 million, representing an increase of approximately 30.8% compared with approximately RMB151.4 million of last corresponding period. The increment was in line with the increase in revenue. The increase in gross profit margin from approximately 11.9% in the first quarter of 2006 to approximately 12.7% during the three months ended 31 March 2007 was mainly attributable to (i) better bargaining power with suppliers as an increase in purchase volume, (ii) higher gross profit margin generated by self-operated live and fresh produce of retail business, (iii) increase in wholesale regional sole distributorships with relatively higher gross profit margin, (iv) more inventories with selling prices anticipated to be increased in 2007 were stored in advance by the wholesale subsidiaries to accommodate the upcoming market demand especially the Spring Festival, and (v) continuously optimization of product mix.

Other income and gains

The Group's other income and gains increased by approximately 27.9% from approximately RMB57.0 million in the first quarter of 2006 to approximately RMB72.9 million in the three months ended 31 March 2007. The increase was mainly attributable to an increase in income from suppliers of approximately RMB15.0 million. The increase in income from suppliers was mainly due to a combination effect of (i) an increase in average fee standard for store display and promotion income with continuous increase in purchase, (ii) an increase in suppliers joined the Group's supply chain in 2007, and (iii) the overall increase in the number of Retail Outlets in the first quarter of 2007 led to an increase in volume and scale of promotion and display activities.

Selling and distribution costs

The Group's selling and distribution costs increased by approximately 28.3% from approximately RMB99.6 million in the first quarter of 2006 to approximately RMB127.9 million in the three months ended 31 March 2007. The increase was primarily due to a combination effect of (i) an increase in salary and welfare of approximately RMB8.1 million due to a general increase in salary and more staff were recruited for the new Retail Outlets set up from the second quarter of 2006 to the first quarter of 2007, (ii) an increase in energy fee of approximately RMB3.5 million was because of the set up of the new Retail Outlets as aforementioned as well as an increase in unit costs of utilities, (iii) an increase in rental expenses of approximately RMB4.4 million was mainly because of the set up of the new Retail Outlets as aforementioned, (iv) an increase in transportation expenses of approximately RMB1.2 million was due to the expansion of wholesale networks and the increase in delivery of merchandises to the Group's retail outlets as well as the increase of gasoline unit price, and (v) increase in repair and maintenance expenses of approximately RMB2.7 million due to the overall increase in Retail Outlets.

Administrative expenses

The Group's administrative expenses increased by approximately 27.6% from approximately RMB30.6 million in the first quarter of 2006 to approximately RMB39.1 million in the three months ended 31 March 2007. Such increase was mainly attributable to an increase in salary and welfare of approximately RMB7.4 million as a result of a general increase in salary and the increase in performance bonus paid to the Group's management in the first quarter of 2007.

Other expenses

The Group's other expenses increased from approximately RMB3.8 million in the first quarter of 2006 to approximately RMB11.2 million in the three months ended 31 March 2007. The increase was mainly attributable to a foreign exchange loss of approximately RMB5.7 million arising from the depreciation of Hong Kong Dollar against RMB in respect of the listing proceeds received from the initial public offering of the Company' H Shares.

Finance costs

The Group's finance costs increased from approximately RMB3.5 million in the first quarter of 2006 to approximately RMB7.6 million in the three months ended 31 March 2007. The increase was mainly attributable to an increase in interest-bearing bank and other borrowings and interest rates in the three months ended 31 March 2007.

Tax

Income tax paid by the Group increased by approximately 15.9% from approximately RMB26.2 million in the first quarter of 2006 to approximately RMB30.4 million in the three months ended 31 March 2007. The increase was mainly attributable to an increase in taxable income.

Minority interests

The Group's minority interests increased from approximately RMB8.4 million in the first quarter of 2006 to approximately RMB11.5 million in the three months ended 31 March 2007. The increase is in line with the overall increase in profits generated by the subsidiaries in the three months ended 31 March 2007.

Profit attributable to equity holders of the parent

The Group's profit attributable to equity holders of the parent increased by approximately RMB7.0 million or 19.3% from approximately RMB36.3 million in the first quarter of 2006 to approximately 43.3 million in the three months ended 31 March 2007. The increase was mainly attributable to the increase in revenue of approximately 23.0% resulting in an increase in gross profit of approximately 30.8% and an increase in other income and gains of approximately 27.9%.

For ease of reference to understand the Group's result from continuing operations for the Track Record Period after adjusting for certain non-recurring events, we set out below a statement of adjustment for non-recurring events:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Profit attributable to the equity holders of the parent before adjusting for non-recurring events	73,167	75,098	99,577
Add/(Less):			
Net gain on exchange of items of property, plant and equipment *(1)*	(18,416)	–	–
Net interest from Over-subscription *(2)*	–	–	(15,466)
Net exchange loss *(3)*	–	–	6,366
	(18,416)	–	(9,100)
Profit attributable to the equity holders of the parent after adjusting for non-recurring events	54,751	75,098	90,477

Notes:

1. Pursuant to an agreement entered into with an independent third party real estate developer in June 2002, the Company agreed to relinquish one of its properties for re-development purpose, in exchange for a property with similar area from the property developer upon completing the re-development. Upon relinquishment, the carrying amount of the property was approximately RMB22.4 million. The re-development was completed in December 2004 and a property of similar area was transferred and taken possession by the Company. Based on the valuation on 31 August 2005 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, the exchanged property was valued at RMB49.9 million on an open market, existing use basis. Approximately RMB27.5 million, representing an excess of the fair value of the exchange property of approximately RMB49.9 million over the then carrying amount of the property was recorded as income. Accordingly, an amount of approximately RMB18.4 million (net of tax), was credited to the consolidated income statements. As such net gain on exchange of fixed assets was non-recurring in nature and shall therefore not be interpreted as part of the recurring revenue of the Group.

2. The interest was obtained from the Over-subscription of the Company's H shares from the GEM Listing which was a one-off event and thus shall not be interpreted as part of the recurring revenue of the Group.

3. The exchange loss arising from the depreciation of Hong Kong Dollar against RMB in respect of the listing proceeds received from the GEM Listing which shall not be interpreted as part of the recurring event of the Group.

ANALYSIS OF FINANCIAL POSITION

Summary of Consolidated Balance Sheets

The following illustrates major balance sheet items and key financial ratios of the Group during the Track Record Period.

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	700,353	889,749	1,123,480
Current assets	1,082,930	1,252,434	1,994,434
Current liabilities	1,241,717	1,531,249	1,741,124
Non-current liabilities	161,976	178,230	302,145
Total equity	379,590	432,704	1,074,645
Minority interests	57,097	73,920	89,672

Key Financial Ratios

	Year ended 31 December		
	2004	**2005**	**2006**
Inventory turnover days(1)(5)	41	37	41
Debtor turnover days – consolidated(2)(5)	31	38	37
Debtor turnover days – wholesale distribution business(2)(5)(6)	72	75	76
Creditor turnover days(3)(5)	66	64	64
Net gearing ratio(4) (%)	101.5	128.6	13.8

1. $\frac{\text{Average inventories}}{\text{Cost of sales}} \times 365 \text{ days}$

2. $\frac{\text{Average trade receivables}}{\text{Turnover}} \times 365 \text{ days}$

3. $\frac{\text{Average trade payables}}{\text{Cost of sales}} \times 365 \text{ days}$

4. $\frac{\text{Interest-bearing bank and other borrowings – Pledged deposits – Cash and cash equivalents}}{\text{Total equity}} \times 100\%$

5. Results from continuing and discontinued operations were used in computing the respective ratios.

6. As the Group involves in both retail and wholesale distribution businesses, additional disclosure is made solely for wholesale distribution business during the Track Record Period.

The Group's inventory turnover days decreased from 41 days in 2004 to 37 days in 2005, primarily due to management's continuous efforts to improve the product mix in its Retail Outlets which results in a lower number of slow-moving inventory items and the improvements in inventory information management system. The Group's inventory turnover days increased from 37 days in 2005 to 41 days in 2006, primarily due to the increase in inventories of the retail business as a result of the self-operation of live and fresh produce and more inventories with purchase prices anticipated to increase shortly were acquired and stored for the wholesale business.

The Group is able to identify obsolete inventory through its information management system. Inventory counts of full coverage are carried out quarterly.

The Group's debtor turnover days for wholesale distribution business increased from 72 days in 2004 to 75 days in 2005, primarily due to the increase in wholesale distribution business by Chaopi Trading and its subsidiaries which sometimes allow its customers with long term relationship to extend the normal credit period of not more than 60 days. In view of keen competition in the wholesale distribution business in the Greater Beijing Region, the management of the wholesale distribution business has allowed its major customers frequently to settle the outstanding trade payables beyond the normal credit period of 60 days in order to maintain client relationships and to remain its competitiveness in the market. The Group's debtor turnover days for wholesale distribution business maintained at the about same level during 2005 and 2006. The aging analysis of trade receivables of the Group during the Track Record Period is as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Within 2 months	339,745	400,397	434,941
2 months to 6 months	54,500	50,360	37,108
6 months to 1 year	4,774	2,457	638
1 year to 2 years	226	1,858	391
	399,245	455,072	473,078

Trade receivables are recognised and carried at original invoice amount less an impairment for any uncollectible amounts. A provision for impairment is made when there is objective evidence that the Group will not be able to collect all the amounts due under the original terms of an invoice. Impaired debts are recognised when they are assessed as uncollectible. During the Track Record Period, the Group had made impairment for trade and other receivables from continuing operations of approximately RMB0.9 million, RMB8.8 million and RMB6.6 million respectively. The increase of impairment in 2005 was mainly due to impairment of approximately RMB7.3 million made for long outstanding balances owed by certain customers of the Group's wholesale distribution business.

The Group's creditor turnover days remained stable during the Track Record Period.

As at 31 December 2006, the Group has trade payables of approximately RMB6.1 million overdue for over one year. The amount is mainly related to the outstanding payable to suppliers for the goods purchase. The outstanding balance of trade payables of approximately RMB6.1 million overdue for over one year as at 31 December 2006 comprised over 450 suppliers and each with insignificant balance of which the majority were under RMB10,000. The credit period originally given by these suppliers was normally not more than 60 days. The reasons for the Group not to settle such balances are mainly because the Group may withhold such payments as some suppliers have disputes on certain expenses and expenditures (such as the income from suppliers) which should pay the Group, and some suppliers may request for settlement (due to insignificant amount concerned) together with another transactions. The Group will settle such long outstanding trade payables once the disputes are properly resolved and valid documents could be provided to the Group for requesting settlement.

The net gearing ratio increased from 101.5% in 2004 to 128.6% in 2005 was mainly attributable to the increase in interest-bearing bank and other borrowings to finance the construction of the Jiuxianqiao Community Shopping Centre. The decrease to 13.8% in 2006 was mainly due to the IPO proceeds from the GEM Listing and the enlargement of share capital base in 2006.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Group generally finance its operations through a combination of shareholders' equity, internally generated cash flows and borrowings from banks, employees and other enterprises. The Directors believe that on a long-term basis, the Group's liquidity will be funded from operations and, if necessary, additional equity financing or bank borrowings.

As at 31 December 2006, the Group had net current assets of approximately RMB253.3 million. Current assets mainly comprised of cash and cash equivalents of approximately RMB841.7 million, inventories of approximately RMB499.6 million, trade receivables of approximately RMB473.1 million and prepayments, deposits and other receivables of approximately RMB163.1 million. Current liabilities mainly comprised of trade payables of approximately RMB746.7 million, interest-bearing bank and other borrowings of approximately RMB726.4 million and other payables and accruals of approximately RMB223.7 million.

Cash flows

The Group has historically been able to satisfy its working capital needs from cash flow from operations and the proceeds from bank loans and borrowings from employees and other enterprises.

The following table summarises the Group's cash flows during the Track Record Period:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Net cash inflow from operating activities	42,243	96,559	134,351
Net cash outflow from investing activities	(120,750)	(239,487)	(544,507)
Net cash inflow from financing activities	60,655	186,804	729,705
Net (decrease)/increase in cash and cash equivalents	(17,852)	43,876	319,549
Cash and cash equivalents at beginning of year	194,717	176,865	220,741
Cash and cash equivalents at end of year	176,865	220,741	540,290

Cash Flows from Operating Activities

The Group's net cash inflow from operating activities increased by approximately 39.1% from approximately RMB96.6 million in 2005 to approximately RMB134.4 million in 2006. The increase in net cash inflow from operating activities principally reflects (i) an increase in operating profit before working capital changes by approximately 20.7% from approximately RMB218.5 million in 2005 to approximately RMB263.6 million in 2006, (ii) a decrease in prepayments, deposits and other receivables of approximately RMB2.0 million, (iii) an increase in trade payables of approximately RMB104.7 million mainly due to the increase in purchase in 2006, and (iv) an increase in other payables and accruals of approximately RMB12.5 million as compared the figures for 2005 to those for 2006.

However, the increase in net cash inflow from operating activities was partly off-set by (i) an increase in inventories of approximately RMB117.5 million as a result of increase in inventory level as at the end of 2006, (ii) an increase in trade receivables of approximately RMB15.3 million, (iii) an increase in other long term lease prepayments of approximately RMB17.5 million, (iv) a decrease in the amount due to Chaoyang Auxillary of approximately RMB11.9 million, (v) a decrease in other long term payables of approximately RMB8.8 million, (vi) an increase in interest paid of approximately RMB5.7 million, and (vii) an increase in corporate income tax paid of approximately RMB10.7 million as compared the figures for 2005 to those of 2006.

The Group's net cash inflow from operating activities increased by approximately 128.6% from approximately RMB42.2 million in 2004 to approximately RMB96.6 million in 2005. The increase in net cash inflow from operating activities principally reflects (i) an increase in operating profit before working capital changes by approximately 37.7% from approximately RMB158.7 million in 2004 to approximately RMB218.5 million in 2005, (ii) a decrease in net amount due from related parties of approximately RMB3.5 million, (iii) a decrease in other long term lease prepayment of approximately RMB4.7 million, (iv) an increase in other payables and accruals of approximately RMB67.1 million mainly due to quality guarantee deposits of approximately RMB77.0 million were received for the construction of the Jiuxianqiao Community Shopping Centre in 2005, (v) an increase in net amount due to Chaoyang Auxillary of approximately RMB13.7 million and (vi) a decrease in interest paid of approximately RMB5.2 million as compared the figures for 2004 to those for 2005.

However, the increase in net cash inflow from operating activities was partly off-set by (i) an increase of inventories of approximately RMB32.9 million to cope with anticipated demand, (ii) an increase in trade receivables, prepayments, deposits and other receivables of approximately RMB97.4 million mainly attributable to the increase in debtors of the wholesale business and the increase in prepayments to suppliers for securing timely supply of products, (iii) a decrease in trade payables of approximately RMB7.8 million, (iv) a decrease in other long term payables of approximately RMB11 million and (v) an increase in PRC corporate income tax paid of approximately RMB15.8 million due to the increase in taxable income as compared the figures for 2004 to those for 2005.

Cash Flows from Investing Activities

Net cash outflow from investing activities during the Track Record Period has been primarily used for purchase items of property, plant and equipment, lease prepayments for land use rights and various projects for the expansion of Distribution Outlets. Such purchases amounted to approximately RMB156.7 million, RMB236.5 million and RMB278.0 million for each of the three years ended 31 December 2006.

Net cash outflow from investing activities significantly increased from approximately RMB239.5 million in 2005 to approximately RMB544.5 million in 2006. The increase was due to a combination of (i) an increase of approximately RMB41.5 million in cash to purchase items of property, plant and equipment for the Group's expansion of Retail Outlets, (ii) an increase in pledged time deposits of approximately RMB3.6 million, and (iii) an increase in non-pledged time deposits with original maturity of more than three months when acquired of approximately RMB301.4 million in 2006, and partially off-set by an increase in interest received of approximately RMB29.0 million in 2006.

Net cash outflow from investing activities increased from approximately RMB120.8 million in 2004 to approximately RMB239.5 million in 2005. The increase was due to a combination of (i) an increase of approximately RMB151.1 million in cash used to purchase items of property, plant and equipment, and (ii) pledged time deposits of approximately RMB13.3 million incurred in 2005, and partially off set by a decrease in purchases of lease prepayments for land use rights of approximately RMB71.3 million in 2005.

Cash Flows from Financing Activities

The Group's net cash inflow from financing activities significantly increased from approximately RMB186.8 million in 2005 to approximately RMB729.7 million in 2006. The increase in net cash inflow from financing activities was primarily due to a combination of (i) the net proceeds received from the issue of H shares of approximately RMB586.9 million in 2006, and (ii) an increase in new bank loans and other borrowings of approximately RMB149.8 million was mainly due to the increase in bank loans for the construction of the Jiuxianqiao Community Shopping Centre and the increase in working capital demand of Chaopi group for operation expansion in 2006, off-set by (iii) an increase in repayment of bank loans and other borrowings of approximately RMB162.6 million, and (vi) an increase in dividends paid of approximately RMB27.4 million in 2006.

The Group's net cash inflow from financing activities increased significantly from approximately RMB60.7 million in 2004 to approximately RMB186.8 million in 2005. The increase in net cash inflow from financing activities was primarily due to a combination of (i) an increase in new bank loans and other borrowings by approximately RMB53.6 million in 2005, (ii) a cash contribution of minority equity holders of approximately RMB7.1 million in 2005, (iii) a decrease of repayment of bank loans and other borrowings by approximately RMB127.8 million, (iv) proceeds of government grants of approximately RMB4.1 million received in 2005, offset by (v) one-off proceeds from change of capital contribution by Chaoyang Auxillary of approximately RMB57.0 million in 2004 and (vi) increase in dividends paid to minority shareholders of approximately RMB7.4 million in 2005.

Net current assets

Details of the current assets and liabilities of the Group as at 30 April 2007 are as follows:

	As at 30 April 2007 *(RMB'000)* (Unaudited)
CURRENT ASSETS	
Inventories	483,005
Trade receivables	546,896
Prepayments, deposits and other receivables	201,398
Cash and cash equivalents	612,065
Total current assets	1,843,364
CURRENT LIABILITIES	
Trade payables	700,325
Tax payable	3,626
Other payables and accruals	245,118
Interest-bearing bank and other borrowings	615,625
Deferred income-current portion	267
Total current liabilities	1,564,961
NET CURRENT ASSETS	278,403

Net tangible assets

The following statement shows the Group's net tangible assets as at 31 December 2006 which has been derived based on the audited consolidated net assets of the Group as at 31 December 2006, shown in the accountants' report of the Group set out in Appendix I to this document.

Net tangible assets of the Group as at 31 December 2006 *(Note 1)*	RMB982,629,000
Net tangible asset value per share *(Note 2)*	RMB2.555

Notes:

1. The tangible assets of the Group as at 31 December 2006 is arrived at based on the Group's audited consolidated net assets of approximately RMB1,074,645,000 and deducting intangible assets and minority interests of approximately RMB2,344,000 and RMB89,672,000, respectively from the Accountants' Report set out in the section headed "Accountants' Report" in Appendix I to this document.

2. The net tangible asset value per Share has been arrived at based on the 384,620,000 Shares in issue at the date of this document as if such Shares were outstanding through the financial year ended 31 December 2006.

Foreign currency risk

The Group collects 100% of revenue in RMB, some of which need to be converted into foreign currencies to pay dividends to the Shareholders upon Main Board Listing. Therefore the Group has a certain level of exposure to foreign exchange fluctuations. The RMB is not a freely convertible currency. However, the PRC Government may take actions that could cause future exchange rates to vary significantly from current or historical exchange rates. Fluctuations in exchange rates may adversely affect the value, translated or converted into Hong Kong dollars, of our net assets, earnings and any dividends we declare. See "Risk factors – Risks relating to the PRC – Changes in foreign exchange regulations and fluctuation of the RMB".

Interest rate risk

The Group is exposed to risks resulting from fluctuations in interest rates on debt. The Group undertakes debt obligations to support general corporate purposes, including capital expenditures and working capital needs. The loans of the Group bear interest at rates that are subject to adjustment by our lenders in accordance with changes in relevant PBOC regulations. If the PBOC increases interest rates, our finance cost will be increased. In addition, to the extent that the Group may need to raise debt financing in the future, upward fluctuations in interest rates will increase the cost of new debt.

INDEBTEDNESS

Borrowings

As at the close of business on 30 April 2007, being the latest practicable date for this indebtedness statement prior to the printing of this document, the Group had outstanding borrowings of RMB826.5 million, comprising (i) secured short-term bank loans of RMB237.0 million, (ii) unsecured short-term bank loans of RMB140.0 million, of which RMB20.0 million loans were entrusted loans from a commercial entity, an Independent Third Party, (iii) secured current portion of long-term bank loans of approximately RMB28.6 million, (iv) secured long-term bank loans of approximately RMB110.9

million, (v) secured current portion of long-term borrowings from BITIC of RMB210.0 million, and (vi) unsecured long-term borrowings from BITIC of RMB100 million. The Group's borrowings are bearing interest at commercial rates ranging from 5.25% to 6.39% per annum.

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

Employee Loans

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

Under such arrangements, the Group paid interest to its employees at a rate lower than the Group's then prevailing bank loan interest rate (being a differential of approximately 0.5% per annum (on average) during the relevant period), whilst, the employees received interest which was at a rate higher than that generally offered for cash deposited with banks in the PRC (being a differential of approximately 2.0% per annum (on average) during the relevant period).

The Employee Loans were not made by way of monthly deductions from salaries, and were entirely voluntary in nature. Such Employee Loans were made at no fixed dates and were repayable on demand. No employee's employment or continued employment with the Group had ever been made conditional upon the participation of the Employee Loans arrangement with the Company.

As at 31 December 2003, the Group had unsecured Employee Loans of approximately RMB181 million, involving approximately 2,169 employees.

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

Hence, in 2004, the Company assessed different financing alternatives to repay the Employee Loans and to rationalise its financing arrangements such that they would be in compliance with the applicable PRC laws.

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

BITIC Loans and Employee Investments

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

Prior to granting the First BITIC Loan, BITIC had conducted credit due diligence on the Company. The First BITIC Loan was secured by a guarantee from the Company's controlling shareholder, Chaoyang Auxillary. Such guarantee from the Company's controlling shareholder has also covered all subsequent BITIC Loans extended to the Company, whilst other BITIC Loans which were extended to Chaopi Trading was secured by a corporate guarantee from the Company itself. The guarantee from the Company's controlling shareholder was, upon GEM Listing, replaced by a corporate guarantee from the Company and the pledge of the Company's 71.7% equity interest in Chaopi Trading. An annual interest rate of approximately 4.72% was offered by BITIC at that time for the First BITIC Loan, which was lower than the then prevailing interest rate for bank loans of approximately 5.31%, as quoted by PBOC.

In the process of obtaining the First BITIC Loan, the Company introduced BITIC to certain employees of the Group, as these employees, being members of the public, were amongst one of the trust deposit customer groups that, the Company believes, BITIC would, in its ordinary course of business, consider canvassing for funds. BITIC, as a professional and independent service provider, offered an investment proposal to those interested employees of the Group to invest in a trust loan programme such that the investments would be used to fund the BITIC Loans to be provided by BITIC to the Group from time to time (such investment and the further investments made by employees of the Group under this programme shall together be referred to as the "Employee Investments"). One attractive feature of the Employment Investments is that they offer a higher yield to the participating employees of the Group ("Participating Employees"). The Employment Investments made with BITIC in June 2004 carried an annual yield rate of approximately 4.0%, which was significantly higher than the 1.98% deposit interest rate quoted by the PBOC at that time.

Immediately before obtaining the First BITIC Loan, BITIC provided a one-day bridging loan of RMB90 million to the Company through Chaoyang Auxillary. The Company used such bridging loan together with its internal resources to fully repay the Employee Loans. Contemporaneous with the repayment of the Employee Loans, approximately 1,701 Participating Employees voluntarily made Employee Investments with BITIC in an aggregate amount of RMB130 million. In respect of the Employee Investments made by the Participating Employees, investment agreements ("Employee Investment Agreements") were entered into between certain employee representatives ("Employee Representatives") and BITIC. The Company understands that the Employee Representatives came to hold such position due to that personal relationship with the relevant Participating Employees and that was verbally agreed by the relevant Participating Employees. The Employee Representatives were charged with the responsibility of implementing the Employee Investments (including, without limitation, the execution of the Employee Investment Agreements, the collection and deposit of investment funds and other administrative dealings with BITIC) for and on behalf of the Participating Employees. The Company further understands that the Employee Representatives were selected by reason of convenience as well as due to their experience in financial and/or administrative matters, as all of them have held positions in the finance and/or other administrative departments within the Group for a long time. Each Employee Representative was given the role of representing their Participating Employees. By adopting such an arrangement, it was believed that the administrative process with BITIC could hence be undertaken more efficiently and effectively.

In the case of the first tranche of Employee Investments of RMB130 million as described above, Employee Investment Agreements were entered into between 30 Employee Representatives and BITIC. Although no formal written agreement was made between the relevant Participating Employees and the Employee Representatives at the time when the respective tranches of Employee Investments were made, a confirmation letter was subsequently executed in May 2006 by each of the first batch of 1,701 Participating Employees in respect of the first tranche of Employee Investments of RMB130 million as well as at other times by other subsequent Participating Employees in respect of subsequent tranches of Employee Investments and extensions thereof, in each case confirming and ratifying the role and authority of the Employee Representatives with retrospective effect ("Confirmation Letters"). The Directors confirm that, from the Group's perspective, any participation in the Employee Investments has always been and will continue to be entirely voluntary and personal, and any decision of an employee to participate in or withdraw from the Employee Investments would not affect his/her employment with the Group. Indeed, it was noted that out of the employees who held Employee Loans immediately prior to the full repayment of the Employee Loans in June 2004 as described above, approximately 844 employees ("Non-Participating Employees") had on their own accord decided not to participate in the Employee Investments. The portion of the Employee Loans previously attributed to these Non-Participating Employees amounted to approximately RMB66.8 million. The Directors further confirm that, as at the Latest Practicable Date, all of such Non-Participating Employees either remained in employment with the Group or have otherwise left the Group for reasons wholly unrelated to the Employee Investments, such as retirement.

Pursuant to the Employee Investment Agreements, the first tranche of the Employee Investments had an initial maturity period of two years. Pursuant to the supplemental agreements entered on 24 June 2006 between the Employee Representatives and BITIC and on 26 June 2006 between BITIC and the Group respectively, the maturity period of this first tranche of the Employee Investments as well as the due date of the First BITIC Loan were respectively extended from 24 June 2006 to 24 December 2007. However, out of the original 1,701 Participating Employees in this first tranche of the Employee Investments, 818 employees opted not to extend his/her investment and withdrew an aggregate investment sum of approximately RMB32.64 million upon their maturity on 24 June 2006. The aggregate investment sum in the extended first tranche of the Employee Investments, despite the addition of 23 Participating Employees investing an aggregate of approximately RMB2.64 million, was hence reduced to RMB100 million, and such size of the extended First BITIC Loan was hence also reduced to RMB100 million.

It is a general term of the Employee Investment Agreements that, unless certain events occur (such as any liquidation, dissolution, revocation of licence or prior consent of BITIC, collectively as the "Termination Events"), the Participating Employees are not permitted to withdraw from their Employee Investments prior to their maturity. Any losses incurred by BITIC arising out of any breach, variation or termination of the Employee Investment Agreements shall be borne by the relevant Employee Representatives, unless otherwise caused by a Termination Event or by BITIC. To the best knowledge, information and belief of the Directors, there has been no such withdrawal or termination of any Employee Investment Agreements. However, Participating Employees are permitted by private arrangements to assign their entitlements in the Employee Investments to other employees of the Group who thereby became Participating Employees. To the best knowledge, information and belief of the Directors, the investment sums involved in such private assignments were not substantial or material when compared to the aggregate investment sum under all the Employee Investments as a whole.

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

On 16 August 2004, a second tranche of Employee Investments of an aggregate investment sum of RMB50 million was made by 913 Participating Employees pursuant to supplemental agreements to the Employee Investment Agreements executed by 29 Employee Representatives. This second tranche of Employee Investments was lent to the Group by BITIC. Pursuant to supplemental agreements entered into in November 2005 between the Employee Representatives and BITIC and between BITIC and the Group respectively, the term of this second tranche of Employee Investments as well as the due date of the corresponding BITIC Loans were respectively extended from 15 November 2005 to 16 February 2007.

On 29 December 2004, a third tranche of Employee Investments of an aggregate investment sum of RMB40 million was made by 147 Participating Employees pursuant to the Employee Investment Agreements executed by 15 Employee Representatives. This third tranche of Employee Investments was lent to the Group by BITIC. Pursuant to supplemental agreements entered in 26 December 2005 between the Employee Representatives and BITIC and between BITIC and the Group respectively, the term of this third tranche of Employee Investments as well as the due date of the corresponding BITIC Loans were respectively extended from 29 December 2005 to 29 December 2006.

On 1 April 2005, a fourth tranche of Employee Investments of an aggregate investment sum of RMB62.3 million was made by 973 Participating Employees pursuant to the supplemental agreements to the Employee Investment Agreements executed by 28 Employee Representatives. This fourth tranche of Employee Investments was lent to the Group by BITIC, and has a maturity date of 1 October 2006.

On 29 December 2005, a fifth tranche of Employee Investments of an aggregate investment sum of RMB20 million was made by 124 Participating Employees pursuant to the supplemental agreements to the Employee Investment Agreements executed by 15 Employee Representatives. This fifth tranche of Employee Investments was lent to the Group by BITIC, and has a maturity date of 29 December 2006.

On 29 September 2006, a sixth tranche of Employee Investments of an aggregate investment sum of RMB40 million was made by 191 Participating Employee pursuant to the supplemental agreements to the Employee Investment Agreements executed by 10 Employee Representatives. This sixth tranche of Employee Investments was lent to the Group by BITIC, and has a maturity date of 29 June 2008.

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

BITIC Loans and Employee Investments

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

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

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

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

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

Other Borrowings

In addition, apart from bank loans, Employee Loans and the BITIC Loans, the Group had borrowings from various commercial entities or government bodies under the jurisdiction of SASAC of the Chaoyang District during the Track Record Period. All of those borrowings from various commercial entities and government bodies were repaid before the GEM Listing. Based on the PRC legal opinion, the loans from the various commercial entities and government bodies did not comply with the relevant PRC Laws and the relevant loan agreements were not enforceable.

Chaoyang Auxillary has undertaken to indemnify the Company against any costs and penalties that the Group may suffer due to the non-compliance with the relevant PRC Laws in respect of borrowings from the said employees, the fact that the relevant loan agreements were not enforceable, and that the Group may be subject to a maximum penalty of 5% of the amount of the total borrowings.

In view of the lengthy bank loan application procedures to obtain funds in a timely manner to cope with the Group's fund requirement for its rapid business expansion and at a lower cost compared to bank loan, the Group accepted the borrowings from employees, BITIC and other commercial entities and government bodies under the jurisdiction of SASAC of the Chaoyang District during the Track Record Period.

Going forward, the Company will only obtain borrowings which are in compliance with the relevant PRC laws. All future borrowings must be reviewed by the legal unit of the Company to ensure compliance with the relevant PRC laws.

Security

As at 31 December 2006, the Group had an aggregate interest-bearing bank and other borrowings of approximately RMB1,006.4 million, consisted of secured short-term bank loans of approximately RMB343.4 million, unsecured short-term bank loans of RMB208 million, secured current portion of long-term bank loans of RMB25 million, secured current portion of long-term borrowings from BITIC of RMB150 million, secured long-term bank loans of RMB120 million, secured long-term borrowings from BITIC of RMB60 million and unsecured long-term borrowings from BITIC of RMB100 million. The Group's secured bank loans and other borrowings are secured by:

- the Company's corporate guarantee and pledge of 71.7% equity interest in Chaopi Trading owned by the Company.

- certain of the Company's buildings, construction in progress, investment properties and lease prepayments for land use rights with an aggregate net book value of approximately RMB547.9 million as at 31 December 2006.

- certain of the Group's pledged time deposits of approximately RMB16.9 million as at 31 December 2006.

Contingent liabilities

As at 30 April 2007, the Group had no material contingent liabilities.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The following table sets forth the aggregate amounts, as at 31 December 2006, of the Group's capital commitments principally for the construction and acquisition of fixed assets, investment commitment and future contractual operating lease commitments on a consolidated basis:

(i) Capital commitments

	Total
	RMB'000
Authorised, but not contracted for	16,307
Contracted, but not provided for	84,864
	101,171

(ii) Investment commitment

At 31 December 2006, the Group had commitment authorised but not contracted for amounting to RMB6,132,000 in respect of capital contribution to a subsidiary.

(iii) Operating lease commitments – as lessee

		Payment due by period		
	Total	**Within one year**	**Within two to five years (inclusive)**	**After five years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Operating lease commitments	955,674	60,260	270,896	624,518

Save as otherwise disclosed above, and apart from normal trade payables, the Group did not have any outstanding mortgages, charges, debentures or other loan capital, bank overdrafts, liabilities under acceptances, acceptance credits loan or other similar indebtedness, hire purchase, commitments, guarantees or any other material contingent liabilities.

NO MATERIAL ADVERSE CHANGE

Save as described in the paragraph headed "Indebtedness" and "Commitments And Contractual Obligations" above, the Directors have confirmed that there has been no material change in the Group's financial or trading position since 31 December 2006 (being the date to which the Group's latest audited consolidated financial results were prepared, as set out in the Accountants' Report on the Group in Appendix I to this document).

DISCLOSURE UNDER THE MAIN BOARD LISTING RULES

The Directors confirm that as at the Latest Practicable Date, there were no circumstances which would give rise to any disclosure requirement under Rules 13.12 to 13.19 of the Main Board Listing Rules.

DIVIDEND AND WORKING CAPITAL

Dividend

During the Track Record Period, the Company's shareholders had approved the following dividend distributions:

1. a special dividend declared for the year ended 31 December 2004 of RMB3,000;

2. a dividend of RMB16 cents per Share for the year ended 31 December 2004 in the aggregate amount of approximately RMB39,502,000; and

3. a dividend of RMB22.9 cents per Share for the year ended 31 December 2005 in the aggregate amount of approximately RMB56,367,000.

During the annual general meeting held on 18 May 2007, a dividend of RMB15.0 cents per Share for the year ended 31 December 2006 in the aggregate amount of approximately RMB57,693,000 was approved to distribute by the Company's shareholders.

The above dividends had been paid before Main Board Listing.

The Company may distribute dividends by way of cash or by other means that the Board consider appropriate. A decision to distribute any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including our results of operations, cash flows, financial condition, the payment by the Company's subsidiaries of cash dividends to the Company, future prospects and other factors that the Directors may consider important.

In accordance with the articles of association of the Company, the profit after tax of the Company for the purpose of profit distribution will be the lesser of (i) the profit determined in accordance with PRC GAAP and (ii) the profit determined in accordance with HKFRSs.

In any case, the Company will pay dividends out of after-tax profits only after it has made the following allocations:

- recovery of accumulated losses, if any;
- allocations to the statutory surplus reserve fund equivalent to 10% of its profit, as determined under PRC GAAP;
- allocations to the statutory public welfare fund equivalent to between 5% and 10% of its after-tax profit, as determined under PRC GAAP (abolished from 1 January 2006); and
- allocations, if any, to a discretionary surplus reserve fund that are approved by the Shareholders in a Shareholders' meeting.

The minimum allocations to the statutory funds are 15% of the after-tax profit, as determined under PRC GAAP during the Track Record Period and change to 10% from 1 January 2006. When the statutory surplus reserve fund reaches and is maintained at or above 50% of the Company's registered capital, no further allocations to this statutory fund will be required. Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years.

The payout ratio of the profit that are available for distribution from the non-wholly owned subsidiaries is close to 100% based on the respective profit available for distribution prepared in accordance with the PRC GAAP. In addition, the Company directly, or indirectly through Chaopi Trading where the Company holds 76.42% of its equity interest, holds majority equity interests in these non-wholly owned subsidiaries. Therefore, the Directors confirm that the Company directly, or indirectly through Chaopi Trading, can elect majority members to the board of directors of each of those non-wholly owned subsidiaries. The respective boards of directors can in turn elect the chairman and appoint the general manager of their respective non-wholly owned subsidiaries. Hence, the Directors confirm that the Company (by itself or through Chaopi Trading) has direct control and influence of the dividend payout policy of each non-wholly subsidiary. Accordingly, the Directors do not foresee any significant difficulties in securing dividends from the Company's non-wholly owned subsidiaries for the payment of dividends to the shareholders of the Company. Going forward, the Directors confirm that the Group intends to pursue the current practice of the subsidiaries in respect of the distribution of dividends to the Company, subject to the best interests of the Group, and capital requirements of each of the subsidiaries from time to time.

Working Capital

As at 31 December 2006, the Group had bank loans of approximately RMB696.4 million and other borrowings of RMB310.0 million from BITIC. The Directors are of the opinion that, taking into account the internally generated financial resources of the Group, its currently available facilities from banks and BITIC and the proceeds from the GEM Listing, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this document.

DISTRIBUTABLE RESERVES

According to the Company's Articles of Association, the amount of retained profits available for distribution to the Shareholders of the Company is the lower of the amount determined in accordance with the PRC GAAP and the amount determined in accordance with HKFRSs. The Company's maximum distributable reserves as at 31 December 2006, which represent the Group's reserves as determined in accordance with PRC GAAP after deduction of the minimum transfers to the statutory surplus reserve and the proposed 2006 final dividend, amounted to approximately RMB26.2 million.

PROPERTY INTERESTS

Vigers Appraisal & Consulting Limited, an independent firm of professional valuers, has valued the Group's property interests as at 31 March 2007 and is of the opinion that the property interests is valued at an aggregate amount of approximately RMB742.4 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set forth in Appendix III to this document.

As at 31 March 2007, the lessors of Chaopi Trading's Distribution Center in Beijing had not obtained the relevant building ownership certificate. In addition, the tenancy agreements entered into by Chaopi Trading and the lessors in respect of the Distribution Center had not been registered with the relevant PRC authorities as required under the PRC laws and regulations.

Though the wholesale distribution business contributed to over 40% of revenue of the Group during each of the Track Record Period, the Directors consider that the defects in title would not have an adverse impact to the Group should Chaopi Trading be evicted from such premises due to (i) such Distribution Center being a warehouse in nature; (ii) the dry product Logistic Centre can support part of such Distribution Center's function; (iii) such Distribution Center is located in rural area of Chaoyang District and a site with similar area and location can be easily identified, and (iv) most of the fixed assets installed, for example loading systems, are movable in nature and the costs incurred for relocation would be minimal.

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

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

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

For the leased properties which have not yet completed the PRC registration as mentioned, the Company will:

(a) in respect of the leased properties numbered 51 in the section headed "Property Valuation" in Appendix III to this document, complete the registration of the such tenancies with the PRC authorities on or before 30 June 2007, failing which it would terminate such tenancies within 12 months thereafter. The revenue of this outlet in 2006 was only RMB4.8 million. The Directors confirm the cost of relocation is minimal as most of the fixed assets in this outlet are movable in nature. As the Directors consider sites with similar area and location could be easily identified, the impact to the Group for such relocation is minimal;

(b) in respect of the leased properties numbered 42, 47, 55 and 98 in the section headed "Property Valuation" in Appendix III to this document, complete the registration of such tenancies with the PRC authorities on or before 31 December 2007, failing which it would terminate such tenancies within 12 months thereafter;

(c) in respect of the leased properties numbered 40, 43, 44, 48, 52, 54, 63 and 99 in the section headed "Property Valuation" in Appendix III to this document, procure the relevant lessors to obtain the relevant building ownership certificates and complete the registration of such tenancies with the PRC authorities on or before 31 December 2008, failing which it would terminate such tenancies within 12 months thereafter;

(d) in respect of the leased property numbered 14 in the section headed "Property Valuation" in Appendix III to this document, based on an undertaking from the relevant lessor, complete the registration of such tenancy with the PRC authorities on or before 6 July 2011, failing which it would terminate such tenancy within 12 months thereafter;

(e) in respect of the leased properties numbered 56 and 100 in the section headed "Property Valuation" in Appendix III to this document, procure the relevant lessors to obtain the relevant building ownership certificates and complete the registration of such tenancies with the PRC authorities on or before 31 December 2009, failing which it would terminate such tenancies within 12 months thereafter; and

(f) in respect of the leased properties numbered 57, 58 and 61 in the section headed "property valuation" in Appendix III to this document, which has not yet commenced operation, procure the relevant lessors to obtain the relevant building ownership certificates and complete the registration of such tenancies with the PRC authorities on or before 31 December 2009, failing which it would terminate such tenancies within 12 months thereafter.

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

In view of (i) the insignificant revenue generated by these 16 Retail Outlets in operation; (ii) sites with similar area and location as the 16 Retail Outlets could be easily identified; and (iii) nearly all of the assets in the 16 Retail Outlets are movable in nature and the costs incurred for relocation would be minimal, the Directors consider the properties where the 16 Retail Outlets situated are not crucial to the Group's activities and the cost incurred for such relocation is minimal.

CONSTRUCTION IN PROGRESS

As at 31 December 2006, the Group's construction in progress of approximately RMB414.0 million mainly represented the construction costs and related expenditures in relation to the Jiuxianqiao Community Shopping Centre, the Changping hypermarket and the extension of the dry product Logistics Centre with carrying values of approximately RMB313.6 million, RMB41.3 million and RMB49.6 million, respectively. The source of funding is from internally generated resources, borrowings from banks, BITIC Loans and proceeds from the GEM Listing. The Jiuxianqiao Community Shopping Centre is currently under internal decoration and will have its opening in the fourth quarter of 2007. The construction of the Changping hypermarket is in the process of planning and design which is expected to be completed before mid 2009. The extension of the dry product Logistics Centre is currently in the process of handling the procedures of related land use rights before the implementation of planning and design tasks which are anticipated to take a long duration of time. Accordingly, its expected completion date cannot be estimated at this stage.