



18th Floor
Two International Finance Centre
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Hong Kong

29 June 2007

The Directors
Beijing Jingkelong Company Limited
DBS Asia Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Beijing Jingkelong Company Limited (the “Company”) and its subsidiaries (collectively “the Group”) for each of the three years ended 31 December 2006 (the “Relevant Years”) for inclusion in the introduction document of the Company dated 29 June 2007 in connection with the listing by way of introduction of the entire H share capital of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was established as a state-owned enterprise under the name of Beijing Guandongdian Shang Sha in the People’s Republic of China (the “PRC”) in May 1994 with a registered capital of RMB2 million. In February 1996, the Company changed its name to Beijing Jingkelong Shang Sha. In June 1997, the Company’s registered capital was increased to RMB22.19 million. In May 2002, the Company was transformed into a limited liability company with a registered capital of RMB236.66 million and was renamed as Beijing Jingkelong Supermarket Chain Company Limited. In December 2002, the Company changed its name to Beijing Jingkelong Supermarket Chain Group Company Limited. With effect from 1 November 2004, the Company was transformed into a joint stock company with limited liability by converting its net assets as at 31 December 2003, as determined in accordance with the applicable relevant PRC accounting principles and financial regulations (the “PRC GAAP”), net of dividends declared in August 2004, into 246,620,000 shares of RMB1 each, and was renamed as Beijing Jingkelong Company Limited.

On 25 September 2006, an aggregate of 132,000,000 H shares of the Company, which comprised 120,000,000 new H shares and 12,000,000 H shares converted from the Company’s domestic shares (the “Domestic Shares”), were issued to the public and listed on the Growth Enterprise Market (the “GEM”) of the Stock Exchange. On 25 September 2006, an additional 18,000,000 new H shares and 1,800,000 H shares converted from the Domestic Shares, were issued to the public and listed on the GEM of the Stock Exchange as a result of the full exercise of the over-allotment option as detailed in the Company’s prospectus dated 12 September 2006. The detailed movement of the share capital is set out in note 33 of Section II of this report. The Company has proposed to withdraw its listing from the GEM of the Stock Exchange so as to arrange its H shares to be listed on the Main Board of the Stock Exchange.

In the opinion of the directors, the parent and ultimate holding company of the Company is Beijing Chaoyang Auxillary Food Company (“Chaoyang Auxillary”), a state-owned enterprise established in the PRC.

The Group is principally engaged in the retail and wholesale distribution of daily consumer products in the region covering Beijing City and certain parts of its periphery. The retail distribution business, comprising a network of hypermarkets, supermarkets and convenience stores (collectively

the “Retail Outlets” and individually a “Retail Outlet”), operates in the distribution of live and fresh produce, dry products, beverages, processed food and daily necessities, whereas the wholesale distribution business provides the wholesale supply of daily consumer products to consumers, including the Retail Outlets and other retail operators, and trading companies.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries and associates. All of these entities are private limited liability companies, which have substantially similar characteristics to a private company incorporated in Hong Kong.

Name	Place and date of incorporation/ operations	Nominal value of paid-up and registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Subsidiaries					
Beijing Jingkelong (Langfang) Company Limited (“Jingkelong Langfang”)	Langfang, PRC 26 April 2000	RMB10,000,000	80.00	–	Retail of general merchandise
Beijing Chaopi Trading Company Limited (“Chaopi Trading”) ⁽³⁾	Beijing, PRC 31 May 2002 ⁽¹⁾	RMB192,000,000	76.42	–	Wholesale of general merchandise
Beijing Xinyang Tongli Commercial Facilities Company Limited (“Xinyang Tongli”)	Beijing, PRC 31 May 2002 ⁽¹⁾	RMB1,600,000	52.03	–	Production of plastic packing materials and installation and maintenance of commercial equipment
Beijing Jingkelong Supermarket Chain Company Limited	Beijing, PRC 5 July 2006	RMB29,000,000	100.00	–	Retail of general merchandise
Beijing Chaopi Huaqing Beverage Company Limited (“Chaopi Huaqing”) ⁽²⁾	Beijing, PRC 13 December 2000	RMB18,000,000	–	40.83	Wholesale of drinks and food
Beijing Chaopi Flavours Company Limited (“Chaopi Flavours”) ⁽²⁾	Beijing, PRC 29 April 2001	RMB23,750,000	–	40.22	Wholesale of flavourings, edible oil and food
Beijing Chaopi Shuanglong Alcohol Sales Company Limited (“Chaopi Shuanglong”) ⁽²⁾	Beijing, PRC 29 August 2002	RMB24,000,000	–	45.09	Wholesale of alcoholic beverages

Name	Place and date of incorporation/ operations	Nominal value of paid-up and registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Beijing Chaopi Jinglong Oil Sales Company Limited ("Chaopi Jinglong") ⁽²⁾	Beijing, PRC 9 May 2005	RMB18,000,000	–	41.44	Wholesale of edible oil
Shijiazhuang Chaopi Xinlong Trading Company Limited ("Chaopi Shijiazhuang")	Shijiazhuang, PRC 12 September 2005	RMB5,000,000	–	76.42	Wholesale of alcoholic beverages
Qingdao Chaopi Jinlong Trading Company Limited ("Chaopi Qingdao")	Qingdao, PRC 28 September 2005	RMB5,000,000	–	76.42	Wholesale of alcoholic beverages
Beijing Chaopi Zhongde Trading Company Limited	Beijing, PRC 7 February 2007	RMB28,000,000	–	61.14	Wholesale of general merchandise and provision of storage services
Beijing Chaopi Huilong Trading Company Limited ⁽²⁾	Beijing, PRC 8 February 2007	RMB12,000,000	–	39.05	Wholesale of general merchandise

Associates

Beijing Chaopi Tianxing Vegetables Company Limited	Beijing, PRC 31 July 2002	RMB310,000	–	27.11	Retail of fruits and vegetables
Beijing Chaopi Ziguang Trading Company Limited	Beijing, PRC 8 December 2003	RMB1,100,000	–	34.73	Wholesale of alcoholic beverages

Notes:

- (1) Represents the date of change of legal status from a state-owned enterprise to a limited liability company.
- (2) The companies are directly held by Chaopi Trading as to more than 50% equity interests and are recognised as the subsidiaries of Chaopi Trading. Since the Company holds a 76.42% equity interest in Chaopi Trading, these companies are accounted for as subsidiaries of the Company, though the equity interests attributable to the Company are less than 50%.
- (3) The Company's equity interest in Chaopi Trading of 71.7% was pledged to secure the Company's other borrowings from Beijing International Trust and Investment Company Limited ("BITIC") of RMB210 million as at 31 December 2006.

- (4) The Company, its subsidiaries and associates were all established in the PRC and have adopted 31 December as their financial year end date. The management accounts and statutory financial statements of the Company and its subsidiaries were prepared in accordance with the PRC GAAP. The statutory financial statements of the Group and of the Company for each of the three years ended 31 December 2006 prepared in accordance with the PRC GAAP were audited by Ernst & Young Hua Ming Certified Public Accountants (安永華明會計師事務所) which is not a certified public accountant firm registered in Hong Kong. The statutory financial statements of all its subsidiaries and associates, except for Jingkelong Langfang, for each of the three years ended 31 December 2006 prepared in accordance with the PRC GAAP were audited by Beijing Hua Long Certified Public Accountants Co., Ltd. (北京華龍會計師事務所有限責任公司). The auditors of Jingkelong Langfang for each of the three years ended 31 December 2006 were Langfang Huaanda Certified Public Accountants Co., Ltd. (廊坊華安達會計師事務所有限責任公司).

For the purpose of this report, the directors of the Company have prepared the financial statements of the Company and of the Group for the Relevant Years, or from their respective dates of establishment or dates of acquisition, whichever is a shorter period, in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “HK GAAP Accounts”). In preparing this report, no adjustments were considered necessary to restate the audited HK GAAP Accounts to conform to the accounting policies referred to in note 1 of Section II of this report, which are in compliance with HKFRSs.

The financial information set out in this report, including the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group for the Relevant Years and the consolidated balance sheets of the Group and the balance sheets of the Company as at 31 December 2004, 2005 and 2006 together with the notes thereto (collectively the “Financial Information”), has been prepared based on the audited HK GAAP Accounts.

The directors of the respective companies now comprising the Group are responsible for the preparation and the true and fair presentation of the respective accounts. The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information, financial statements and management accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. It is our responsibility to form an independent opinion on the Financial Information for the Relevant Years and to report our opinion to you.

Procedures Performed in Respect of the Relevant Years

The HK GAAP Accounts have been audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Years in accordance with Hong Kong Standards on Auditing issued by the HKICPA, and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKICPA.

Opinion in Respect of the Relevant Years

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of state of affairs of the Company and of the Group as at 31 December 2004, 2005 and 2006 and of the Group’s results and cash flows for each of the Relevant Years in accordance with HKFRSs.

I. FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS

The following is a summary of the consolidated income statements of the Group for the Relevant Years:

	Notes	Year ended 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
CONTINUING OPERATIONS				
REVENUE	4	3,568,865	4,121,748	4,530,975
Cost of sales		(3,164,852)	(3,621,667)	(3,966,385)
Gross profit		404,013	500,081	564,590
Other income and gains	4	154,700	143,668	224,308
Selling and distribution costs		(317,899)	(369,764)	(419,117)
Administrative expenses		(88,285)	(88,924)	(107,958)
Other expenses		(5,800)	(20,452)	(29,897)
Finance costs	6	(20,988)	(19,073)	(26,296)
Share of profits and losses of associates		2,177	(32)	(139)
PROFIT BEFORE TAX	5	127,918	145,504	205,491
Tax	9	(44,127)	(47,158)	(74,072)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		83,791	98,346	131,419
DISCONTINUED OPERATIONS				
Profit for the year from discontinued operations	11	378	–	–
PROFIT FOR THE YEAR		<u>84,169</u>	<u>98,346</u>	<u>131,419</u>
Attributable to:				
Equity holders of the parent	10	73,528	75,098	99,577
Minority interests		10,641	23,248	31,842
		<u>84,169</u>	<u>98,346</u>	<u>131,419</u>

	<i>Notes</i>	Year ended 31 December		
		2004	2005	2006
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
DIVIDENDS	12			
Final		39,502	56,367	57,693
Special		3	–	–
		<u>39,505</u>	<u>56,367</u>	<u>57,693</u>
Dividend per share (RMB)		<u>16.0 cents</u>	<u>22.9 cents</u>	<u>15.0 cents</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13			
Basic for profit for the year (RMB)		<u>29.8 cents</u>	<u>30.5 cents</u>	<u>35.1 cents</u>
Basic for profit from continuing operations (RMB)		<u>29.7 cents</u>	<u>30.5 cents</u>	<u>35.1 cents</u>

CONSOLIDATED BALANCE SHEETS

Set out below is a summary of the consolidated balance sheets of the Group as at the end of each of the Relevant Years:

	Notes	As at 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	14	600,687	795,642	1,011,199
Investment properties	15	18,704	17,813	16,922
Lease prepayments for land use rights	16	73,698	72,946	72,194
Interests in associates	18	887	918	198
Available-for-sale investments	19	350	350	3,099
Intangible assets	20	1,360	2,080	2,344
Other long term lease prepayments	21	4,667	–	17,524
		<u>700,353</u>	<u>889,749</u>	<u>1,123,480</u>
CURRENT ASSETS				
Inventories	22	348,690	382,164	499,644
Trade receivables	23	399,245	455,072	473,078
Prepayments, deposits and other receivables	24	145,831	181,130	163,102
Short term investments		1,200	–	–
Due from related parties	25	3,497	36	–
Due from Chaoyang Auxillary	26	7,602	–	–
Pledged deposits	27	–	13,291	16,919
Cash and cash equivalents	27	176,865	220,741	841,691
		<u>1,082,930</u>	<u>1,252,434</u>	<u>1,994,434</u>
CURRENT LIABILITIES				
Trade payables	28	635,375	642,030	746,690
Tax payable		25,800	26,553	44,100
Other payables and accruals	29	142,198	209,379	223,671
Interest-bearing bank and other borrowings	30	432,000	640,604	726,396
Due to Chaoyang Auxillary	26	5,811	11,880	–
Deferred income-current portion	31	–	267	267
Dividends payable		533	536	–
		<u>1,241,717</u>	<u>1,531,249</u>	<u>1,741,124</u>
NET CURRENT (LIABILITIES)/ ASSETS				
		<u>(158,787)</u>	<u>(278,815)</u>	<u>253,310</u>
TOTAL ASSETS LESS CURRENT LIABILITIES				
		<u>541,566</u>	<u>610,934</u>	<u>1,376,790</u>

		As at 31 December		
	Notes	2004	2005	2006
		RMB'000	RMB'000	RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>541,566</u>	<u>610,934</u>	<u>1,376,790</u>
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	30	130,000	150,000	280,000
Other long term payables	29	19,705	8,750	–
Deferred income	31	–	3,733	3,466
Deferred tax liabilities	32	<u>12,271</u>	<u>15,747</u>	<u>18,679</u>
Total non-current liabilities		<u>161,976</u>	<u>178,230</u>	<u>302,145</u>
Net assets		<u><u>379,590</u></u>	<u><u>432,704</u></u>	<u><u>1,074,645</u></u>
EQUITY				
Equity attributable to equity holders of the parent				
Issued capital	33	246,620	246,620	384,620
Reserves	34	36,371	55,797	542,660
Proposed final dividend	12	<u>39,502</u>	<u>56,367</u>	<u>57,693</u>
		322,493	358,784	984,973
Minority interests		<u>57,097</u>	<u>73,920</u>	<u>89,672</u>
Total equity		<u><u>379,590</u></u>	<u><u>432,704</u></u>	<u><u>1,074,645</u></u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The changes in the consolidated shareholders' equity of the Group for the Relevant Years are as follows:

Notes	Attributable to equity holders of the parent											
	Paid-in capital	Issued capital	Share premium account	Capital reserve	Available-	Statutory surplus reserve	Statutory public welfare fund	Proposed final dividend	Retained profits	Subtotal	Minority interests	Total equity
					for-sale investment revaluation reserve							
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				note 34(b)(i)	note 34(b)(ii)							
At 1 January 2004	236,660	-	-	-	-	5,776	2,888	29,133	3,644	278,101	45,903	324,004
Profit for the year	-	-	-	-	-	-	-	-	73,528	73,528	10,641	84,169
Total income and expense for the year	-	-	-	-	-	-	-	-	73,528	73,528	10,641	84,169
2003 dividend declared	-	-	-	-	-	-	-	(29,133)	-	(29,133)	-	(29,133)
Dividends paid to minority equity holders	-	-	-	-	-	-	-	-	-	-	(6,400)	(6,400)
Capitalisation of reserves upon transformation into a joint stock company	(a) (236,660)	246,620	-	-	-	(3,997)	(1,999)	-	(3,964)	-	-	-
Transfer to capital reserve	(b) -	-	-	4,426	-	-	-	-	(4,426)	-	-	-
Appropriation to reserves	-	-	-	-	-	6,532	3,266	-	(9,798)	-	-	-
Equity interest acquisition	-	-	-	-	-	-	-	-	-	-	15,307	15,307
Equity interest disposal	-	-	-	-	-	-	-	-	-	-	(6,654)	(6,654)
Equity interest transfer	-	-	-	-	-	-	-	-	-	-	(1,700)	(1,700)
Proposed final 2004 dividend	12 -	-	-	-	-	-	-	39,502	(39,502)	-	-	-
Special 2004 dividend declared	12 -	-	-	-	-	-	-	-	(3)	(3)	-	(3)
At 31 December 2004 and at 1 January 2005	-	246,620	-	4,426*	-	8,311*	4,155*	39,502	19,479*	322,493	57,097	379,590
Profit for the year	-	-	-	-	-	-	-	-	75,098	75,098	23,248	98,346
Total income and expense for the year	-	-	-	-	-	-	-	-	75,098	75,098	23,248	98,346
2004 dividend declared	-	-	-	-	-	-	-	(39,502)	-	(39,502)	-	(39,502)
Dividends paid to minority equity holders	-	-	-	-	-	-	-	-	-	-	(10,715)	(10,715)
Release of unpaid liability	-	-	-	695	-	-	-	-	-	695	-	695
Appropriation to reserves	-	-	-	-	-	10,211	5,105	-	(15,316)	-	-	-
Equity interest injection	-	-	-	-	-	-	-	-	-	-	7,132	7,132

		Attributable to equity holders of the parent											
		Share			Available- for-sale		Statutory		Proposed		Minority		Total
Notes		Paid-in capital	Issued capital	premium account	Capital reserve	investment revaluation reserve	Statutory surplus reserve	public welfare fund	final dividend	Retained profits	Subtotal	interests	equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		note 34(b)(i) note 34(b)(ii)											
		-	-	-	-	-	-	-	-	-	-	(1,972)	(1,972)
		-	-	-	-	-	-	-	-	-	-	(870)	(870)
	12	-	-	-	-	-	-	-	56,367	(56,367)	-	-	-
At 31 December 2005													
		-	246,620	-	5,121*	-	18,522*	9,260*	56,367	22,894*	358,784	73,920	432,704
Change in fair value of available-for-sale investments													
		-	-	-	-	2,749	-	-	-	-	2,749	-	2,749
Total income and expense recognised directly in equity													
		-	-	-	-	2,749	-	-	-	-	2,749	-	2,749
Profit for the year													
		-	-	-	-	-	-	-	-	99,577	99,577	31,842	131,419
Total income and expense for the year													
		-	-	-	-	2,749	-	-	-	99,577	102,326	31,842	134,168
2005 dividend declared													
		-	-	-	-	-	-	-	(56,367)	-	(56,367)	-	(56,367)
Dividend paid to minority equity holders													
		-	-	-	-	-	-	-	-	-	-	(16,090)	(16,090)
Issue of H shares upon listing													
	33(b)	-	120,000	428,597	-	-	-	-	-	-	548,597	-	548,597
Issue of H shares upon exercising the over-allotment option													
	33(c)	-	18,000	64,501	-	-	-	-	-	-	82,501	-	82,501
Share issue expenses													
		-	-	(50,868)	-	-	-	-	-	-	(50,868)	-	(50,868)
Appropriation to reserves													
		-	-	-	-	-	15,267	-	-	(15,267)	-	-	-
Transfer of unutilised statutory public welfare fund to statutory surplus reserve													
		-	-	-	-	-	9,260	(9,260)	-	-	-	-	-
Proposed final 2006 dividend													
	12	-	-	-	-	-	-	-	57,693	(57,693)	-	-	-
At 31 December 2006													
		-	384,620	442,230*	5,121*	2,749*	43,049*	-	57,693	49,511*	984,973	89,672	1,074,645

* These reserve accounts comprised the consolidated reserves of RMB36,371,000, RMB55,797,000 and RMB542,660,000 in the consolidated balance sheets as at 31 December 2004, 2005 and 2006, respectively.

Notes:

- (a) On 1 November 2004, the Company was transformed from a limited liability company into a joint stock company with limited liability by converting its net assets as at 31 December 2003, as determined in accordance with the PRC GAAP into 246,620,000 Domestic Shares of RMB1.00 each. As at 31 December 2004, the Company's authorised and issued share capital is RMB246,620,000, divided into 246,620,000 Domestic Shares of RMB1.00 each.
- (b) On 11 June 2004, the equity holders of the Company entered into an agreement whereby the mode of capital contribution by Chaoyang Auxillary in May 2002 was approved to change from buildings to cash.

In May 2002, when the Company converted from a state-owned enterprise into a limited liability company, Chaoyang Auxillary pledged to increase its investment in the Company to RMB176.5 million which included, among others, contributing buildings of approximately RMB57,046,000 into the Company. Since taking possession of the property in April 2002, the Company had not been able to register the property ownership with the relevant authorities for the aforesaid buildings so contributed by Chaoyang Auxillary under its name. To comply with the relevant rules governing capital contribution stipulated by the State Administration of Industry and Commerce, the PRC, under which an investor is required to contribute other assets to substitute the original contributed assets when the title of which is not transferred to and is registered under the name of the invitee within the time limit specified in the rules, all the equity holders of the Company agreed on 11 June 2004 to have Chaoyang Auxillary change its mode of capital contribution to cash of approximately RMB57,046,000, equivalent to the amount of the buildings originally contributed in May 2002, and take back the above-mentioned buildings upon cash contribution. The equity holders of the Company further agreed that there should be no change to the registered capital and the respective equity interests of each of the equity holders immediately after the completion of the agreement. Chaoyang Auxillary contributed cash of approximately RMB57,046,000 and took back the above-mentioned buildings in June 2004.

An amount of approximately RMB4,426,000, representing an excess of the above cash contribution of approximately RMB57,046,000 over the then carrying amount of the above-mentioned buildings of approximately RMB52,620,000 (*note 14*) on the date of completion of the agreement, was credited to the consolidated income statements and then appropriated to the capital reserve account as additional paid-in capital arising from the change of capital contribution made by Chaoyang Auxillary.

CONSOLIDATED CASH FLOW STATEMENTS

The consolidated cash flow statements of the Group for the Relevant Years are as follows:

	Notes	Year ended 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax:				
From continuing operations		127,918	145,504	205,491
From discontinued operations	11	484	–	–
Adjustments for:				
Finance costs	6	21,118	19,073	26,296
Interest income	5	(8,987)	(8,378)	(37,417)
Dividend income from available-for-sale investments	5	–	(30)	–
Excess over the cost of business combinations	4	(169)	(1,972)	–
Goodwill written off	5	186	–	–
Amortisation of intangible assets	5	1,063	312	383
Recognition of lease prepayments for land use rights	5	125	752	752
Impairment of available-for-sale investments	5	1,188	–	–
Loss on disposal of a subsidiary	36	1,410	–	–
Gain on disposal of an associate	4	(1,248)	–	–
Gain on exchange of items of property, plant and equipment	4	(27,486)	–	–
Share of profits and losses of associates		(2,685)	32	139
Gain on disposal of short term investments	4	–	(18)	–
(Gain)/loss on disposal of items of property, plant and equipment, net	5	(2,710)	1,468	555
Government grants	4	(50)	–	–
Depreciation	5	45,616	53,490	58,927
Impairment loss on items of property, plant and equipment	5	–	–	2,100
Impairment of trade and other receivables	5	909	8,818	6,640
Write down/(reversal of write down) of inventories to net realisable value	5	2,067	(569)	5
Recognition of deferred income	31	–	–	(267)
		158,749	218,482	263,604
(Increase)/decrease in inventories		40,830	(32,905)	(117,485)
Increase in trade receivables		(82,679)	(65,389)	(15,276)
(Increase)/decrease in prepayments, deposits and other receivables		(17,730)	(32,021)	1,982
(Increase)/decrease in net amounts due from related parties		(10,497)	3,461	36
(Increase)/decrease in other long term lease prepayments		(4,667)	4,667	(17,524)
(Increase)/decrease in amounts due from associates		65,846	(63)	581
Increase/(decrease) in trade payables		45,552	(7,763)	104,660
Decrease in bills payable		(23,440)	–	–
Increase in other payables and accruals		35,872	67,105	12,484
Increase/(decrease) in a net amounts due from/to Chaoyang Auxillary		(77,314)	13,671	(11,880)

	Notes	Year ended 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
Decrease in other long term payables		(37,128)	(10,955)	(8,750)
Cash generated from operations		93,394	158,290	212,432
Interest paid		(24,029)	(18,802)	(24,488)
PRC corporate income tax paid		(27,122)	(42,929)	(53,593)
Net cash inflow from operating activities		42,243	96,559	134,351
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received		8,987	8,378	37,417
Dividends received from available-for-sale investments		–	30	–
Dividends received from associates		2,735	–	–
Proceeds from disposal of short term investments		–	1,218	–
Purchases of items of property, plant and equipment		(85,046)	(236,520)	(277,979)
Purchases of investment properties		(338)	–	–
Additions to lease prepayments for land use rights		(71,322)	–	–
Purchases of intangible assets		(1,852)	(1,032)	(647)
Proceeds from disposal of items of property, plant and equipment		777	2,610	1,731
Acquisition of subsidiaries	35	12,515	–	–
Additional investment in subsidiaries		(1,628)	(880)	–
Disposal of a subsidiary	36	(1,448)	–	–
Disposal of an associate		14,985	–	–
Increase in short term investments		(1,200)	–	–
Decrease/(increase) in pledged time deposits		2,085	(13,291)	(3,628)
Increase in non-pledged time deposits with original maturity of more than three months when acquired		–	–	(301,401)
Net cash outflow from investing activities		(120,750)	(239,487)	(544,507)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from issue of H shares		–	–	586,906
Proceeds from change of capital contribution		57,046	–	–
Cash contribution of minority equity holders		2,150	7,132	–
Proceeds from government grants		50	4,076	–
New bank loans and other borrowings		643,000	696,604	846,395
Repayment of bank loans and other borrowings		(595,772)	(468,000)	(630,603)
Prepayment of share issue expenses		(3,876)	(2,800)	–
Dividends paid		(28,552)	(29,466)	(56,903)
Dividends paid to minority equity holders		(13,391)	(20,742)	(16,090)
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

	<i>Notes</i>	Year ended 31 December		
		2004	2005	2006
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	27	176,865	220,741	413,140
Non-pledged time deposits with original maturity of less than three months when acquired	27	—	—	127,150
		<u>176,865</u>	<u>220,741</u>	<u>540,290</u>

BALANCE SHEETS

Set out below is a summary of the balance sheets of the Company as at the end of each of the Relevant Years:

	Notes	As at 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	14	547,460	732,737	890,229
Investment properties	15	18,704	17,813	16,922
Lease prepayments for land use rights	16	73,698	72,946	72,194
Interests in subsidiaries	17	117,218	178,768	345,030
Intangible assets	20	1,360	2,080	2,344
Other long term lease prepayments	21	4,667	–	–
Total non-current assets		<u>763,107</u>	<u>1,004,344</u>	<u>1,326,719</u>
CURRENT ASSETS				
Inventories	22	121,779	135,019	157,054
Trade receivables	23	3,792	10,818	8,380
Prepayments, deposits and other receivables	24	63,223	89,015	61,928
Due from related parties	25	3,497	36	–
Due from Chaoyang Auxillary	26	7,602	–	–
Cash and cash equivalents	27	143,514	143,755	674,661
Total current assets		<u>343,407</u>	<u>378,643</u>	<u>902,023</u>
CURRENT LIABILITIES				
Trade payables	28	330,144	356,641	419,443
Tax payable		7,532	4,741	15,531
Other payables and accruals	29	86,273	176,357	186,276
Interest-bearing bank and other borrowings	30	206,000	326,300	462,000
Due to Chaoyang Auxillary	26	–	2,070	–
Deferred income-current portion	31	–	267	267
Dividends payable		533	536	–
Total current liabilities		<u>630,482</u>	<u>866,912</u>	<u>1,083,517</u>
NET CURRENT LIABILITIES		<u>(287,075)</u>	<u>(488,269)</u>	<u>(181,494)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>476,032</u>	<u>516,075</u>	<u>1,145,225</u>

	<i>Notes</i>	As at 31 December		
		2004	2005	2006
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>476,032</u>	<u>516,075</u>	<u>1,145,225</u>
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	30	130,000	150,000	180,000
Other long term payables	29	17,500	8,750	–
Deferred income	31	–	3,733	3,466
Deferred tax liabilities	32	<u>12,271</u>	<u>15,747</u>	<u>18,679</u>
Total non-current liabilities		<u>159,771</u>	<u>178,230</u>	<u>202,145</u>
Net assets		<u><u>316,261</u></u>	<u><u>337,845</u></u>	<u><u>943,080</u></u>
EQUITY				
Issued capital	33	246,620	246,620	384,620
Reserves	34	30,139	34,858	500,767
Proposed final dividend	12	<u>39,502</u>	<u>56,367</u>	<u>57,693</u>
Total equity		<u><u>316,261</u></u>	<u><u>337,845</u></u>	<u><u>943,080</u></u>

II. NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Financial Information, which is prepared based on the audited financial statements of the Group for the Relevant Years, has been prepared in accordance with HKFRSs and accounting principles generally accepted in Hong Kong. These financial statements have been prepared on a historical cost convention, except for available-for-sale investments, which have been measured at fair value. The accounting policies set out below have been consistently applied throughout the Relevant Years. The Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the Relevant Years. 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.

Impact of issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11, HK(IFRIC)-Int 12 and HKFRS 8 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007, 1 January 2008 and 1 January 2009, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

Subsidiaries

A subsidiary is an entity, whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and other parties have an interest.

The joint venture agreement between the ventures stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture arrangement.

A joint venture is treated as:

- (i) a subsidiary if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

- (ii) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (iii) an associate, if the Group/Company does not have unilateral control or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; and
- (iv) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The excess for associates is included in the Group's share of the associates' profit or loss in the period in which the investments are acquired.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired assets.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Buildings	20 to 25 years
Leasehold improvements	Over the lease terms
Machinery	5 to 10 years
Office equipment	5 years
Motor vehicles	5 to 8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and various infrastructure projects under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are stated at cost including transaction costs and are depreciated on the straight-line basis to write off the cost of each property over their estimated useful lives between 20 to 25 years, after taking into account their estimated residual values.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets represent the acquisition costs of software less accumulated amortisation and impairment losses. Intangible assets with finite lives are amortised over the useful economic life on the straight-line basis of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of other categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and 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). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made 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. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are recognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to Chaoyang Auxillary and interest-bearing loans and borrowings are initially started at the fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a deracination of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis for all inventories except motor vehicles, the cost of which is determined on the individual basis. Cost, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary difference except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with interests in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with interests in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) from sale of merchandise and produce, 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, comprising promotion income, display space leasing fees and warehouse storage space income, according to the underlying contract terms and as these services are provided in accordance therewith;
- (iii) rental income, on a time proportion basis over the lease terms;
- (iv) interest income, 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; and
- (v) dividend income, when the equity/shareholders' right to receive payment has been established.

Retirement benefits scheme

The Company and its subsidiaries participate in defined contribution retirement benefits schemes organised by the local government authorities in the PRC. The Company and its subsidiaries are required to make contributions to the retirement benefits schemes which are based on a certain percentage of the total salary of those employees and have no further obligation for post-retirement benefits. The contributions are charged to the income statement of the Group as they become payable in accordance with the rules of the schemes.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as a part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs capitalised. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate based on the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining qualifying assets, has been applied to the expenditure on the individual assets.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

The financial statements are presented in RMB, which is the Company's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies date are retranslated into the functional currency rates ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Estimation uncertainties

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Write down of inventories to net realisable value

Write down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write down amount requires management's estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and write down charge/reversal in the period in which such estimate has been changed.

Impairment of trade and other receivables

Impairment of trade and other receivables is made based on assessment of the recoverability of trade and other receivables. The identification of doubtful debts requires management's judgements. Where the actual outcome is different from the original estimate, such differences will impact the carrying value of the receivables and doubtful debt expenses/write-back in the period in which such estimate has been changed.

3. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of assets. No further geographical segment information is presented as the Group's customers and operations are located in the PRC.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and

returns that are different from those of the other business segments. Summary details of the business segments during the Relevant Years are as follows:

- (i) the retailing segment engages in the distribution of live and fresh produce, dry products, beverages, processed food and daily necessities through Retail Outlets;
- (ii) the wholesaling segment engages in the wholesale supply of daily consumer products to consumers including the Retail Outlets and other retail operators, and trading companies;
- (iii) the pharmaceuticals segment engages in the retailing and wholesaling of prescribed and over-the-counter pharmaceuticals;
- (iv) the automobile segment engages in the trading of motor vehicles and the provision of related repair services; and
- (v) the “others” segment comprises, principally, the production of plastic packaging materials, and installation and maintenance of commercial equipment.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices. The discontinued operations of the Group for the Relevant Years comprised the pharmaceuticals and automobile segments.

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

Year ended 31 December 2004

	Continuing operations			Discontinued operations			Consolidated RMB'000
	Retailing RMB'000	Wholesaling RMB'000	Others RMB'000	Pharmac- euticals RMB'000	Automobile RMB'000	Eliminations RMB'000	
Segment revenue:							
Sales to external customers	2,009,270	1,555,895	3,700	-	97,893	-	3,666,758
Intersegment sales	97,725	255,649	8,026	-	-	(361,400)	-
Other income and gains	146,571	7,455	674	-	114	-	154,814
Total	2,253,566	1,818,999	12,400	-	98,007	(361,400)	3,821,572
Segment results	97,738	48,719	272	-	268	-	146,997
Gain on disposal of an associate							1,248
Loss on disposal of a subsidiary							(1,410)
Finance costs	(9,027)	(11,961)	-	-	(130)	-	(21,118)
Share of profits of associates	-	2,177	-	508	-	-	2,685
Profit before tax							128,402
Tax							(44,233)
Profit for the year							84,169
Assets and liabilities:							
Segment assets	1,067,356	769,103	3,802	-	-	(57,865)	1,782,396
Interests in associates	-	887	-	-	-	-	887
Total assets							1,783,283
Segment liabilities	(816,734)	(642,850)	(1,974)	-	-	57,865	(1,403,693)
Other segment information:							
Capital expenditure	197,829	22,640	129	-	5,695	-	226,293
Depreciation:							
Property, plant and equipment	39,135	3,691	106	-	1,744	-	44,676
Investment properties	940	-	-	-	-	-	940
Recognition of lease prepayments for land use rights	125	-	-	-	-	-	125
Amortisation of intangible assets	1,063	-	-	-	-	-	1,063
Impairment of available-for-sale investments	-	1,188	-	-	-	-	1,188

Year ended 31 December 2005

	Retailing <i>RMB'000</i>	Wholesaling <i>RMB'000</i>	Others <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Segment revenue:					
Sales to external customers	2,060,573	2,057,361	3,814	–	4,121,748
Intersegment sales	106,107	298,323	8,029	(412,459)	–
Other income and gains	134,868	11,468	639	(3,307)	143,668
	<u>2,301,548</u>	<u>2,367,152</u>	<u>12,482</u>	<u>(415,766)</u>	<u>4,265,416</u>
Segment results	<u>73,893</u>	<u>90,389</u>	<u>327</u>	<u>–</u>	164,609
Finance costs	(7,121)	(15,225)	(34)	3,307	(19,073)
Share of losses of associates	–	(32)	–	–	(32)
Profit before tax					145,504
Tax					<u>(47,158)</u>
Profit for the year					<u>98,346</u>
Assets and liabilities:					
Segment assets	1,365,788	975,996	3,607	(204,126)	2,141,265
Interests in associates	–	918	–	–	918
Total assets					<u>2,142,183</u>
Segment liabilities	(1,125,687)	(786,259)	(1,659)	204,126	<u>(1,709,479)</u>
Other segment information:					
Capital expenditure	222,784	22,630	8	–	245,422
Depreciation:					
Property, plant and equipment	43,283	9,201	115	–	52,599
Investment properties	891	–	–	–	891
Recognition of lease prepayments for land use rights	752	–	–	–	752
Amortisation of intangible assets	<u>312</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>312</u>

Year ended 31 December 2006

	Retailing <i>RMB'000</i>	Wholesaling <i>RMB'000</i>	Others <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Segment revenue:					
Sales to external customers	2,297,306	2,228,520	5,149	–	4,530,975
Intersegment sales	147,559	333,227	8,904	(489,690)	–
Other income and gains	191,543	38,247	502	(5,984)	224,308
Total	<u>2,636,408</u>	<u>2,599,994</u>	<u>14,555</u>	<u>(495,674)</u>	<u>4,755,283</u>
Segment results	<u>97,742</u>	<u>133,793</u>	<u>391</u>	<u>–</u>	231,926
Finance costs	(10,397)	(21,883)	–	5,984	(26,296)
Share of losses of associates	–	(139)	–	–	(139)
Profit before tax					205,491
Tax					<u>(74,072)</u>
Profit for the year					<u>131,419</u>
Assets and liabilities:					
Segment assets	2,170,050	1,106,226	4,219	(162,779)	3,117,716
Interests in associates	–	198	–	–	198
Total assets					<u>3,117,914</u>
Segment liabilities	(1,313,482)	(890,307)	(2,259)	162,779	<u>(2,043,269)</u>
Other segment information:					
Capital expenditure	256,856	21,707	63	–	278,626
Depreciation:					
Property, plant and equipment	45,384	12,550	102	–	58,036
Investment properties	891	–	–	–	891
Recognition of lease prepayments for land use rights	752	–	–	–	752
Amortisation of intangible assets	383	–	–	–	383
Impairment loss on items of property, plant, and equipment	2,100	–	–	–	2,100
Foreign exchange difference	<u>6,366</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>6,366</u>

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts. The allowances for returns and trade discounts were approximately RMB44 million, RMB36 million and RMB44 million for each of the three years ended 31 December 2006, respectively.

An analysis of the Group's revenue, other income and gains for the Relevant Years is as follows:

	Note	Year ended 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
Revenue				
Sale of merchandise and produce				
Retailing		2,009,270	2,060,573	2,297,306
Wholesaling		1,555,895	2,057,361	2,228,520
		3,565,165	4,117,934	4,525,826
Others		3,700	3,814	5,149
		3,568,865	4,121,748	4,530,975
Attributable to continuing operations reported in the consolidated income statements				
Trading of automobiles and provision of related repair services attributable to discontinued operations	11	97,893	–	–
		97,893	–	–
Total revenue		3,666,758	4,121,748	4,530,975
Other income and gains				
Income from suppliers				
Promotion income		35,585	42,765	70,700
Display space leasing fee		12,915	18,332	30,976
Information system service income		958	1,141	1,944
Merchandise storage and delivery income		6,700	11,612	13,079
Others		2,219	2,714	1,409
		58,377	76,564	118,108
Gross rental income		34,497	36,950	40,313
Net compensation on demolished properties ⁽¹⁾		11,982	11,129	17,002
Interest income		8,875	8,378	37,417
Gain on exchange of items of property, plant and equipment		27,486	–	–
Gain on disposal of items of property, plant and equipment, net ⁽²⁾		2,710	–	–
Excess over the cost of business combinations		169	1,972	–
Gain on disposal of short term investments		–	18	–
Government grants		50	–	–
Gain on sale of wastes		2,063	3,010	3,467
Franchise fee		1,256	1,688	1,762
Logistics service income		952	599	2,511
Others		6,283	3,360	3,728
		154,700	143,668	224,308
Attributable to continuing operations reported in the consolidated income statements		154,700	143,668	224,308

	Note	Year ended 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
Attributable to discontinued operations:				
Interest income		112	–	–
Gain on disposal of an associate ⁽³⁾		1,248	–	–
Others		2	–	–
		<u> </u>	<u> </u>	<u> </u>
	11	1,362	–	–
		<u> </u>	<u> </u>	<u> </u>
Total other income and gains		<u>156,062</u>	<u>143,668</u>	<u>224,308</u>

Notes:

- (1) During the Relevant Years, the Group entered into agreements with Chaoyang Auxillary and independent third party real estate developers that certain retail outlet properties were demolished and re-possessed by the developers. The Group has been compensated for the loss of business and the related items of property, plant and equipment, primarily leasehold improvements, and machinery and equipment of the affected properties, arising from the demolition and re-possession. The net compensation on demolished properties represented the gross compensation received from Chaoyang Auxillary and the developers in excess of the carrying amounts of the related items of property, plant and equipment upon the demolition.
- (2) Included in the gain on disposal of items of property, plant and equipment in 2004 was an amount of approximately RMB4,426,000 arising from the change of capital contribution made by Chaoyang Auxillary, details of which are disclosed in note (b) of the consolidated statements of changes in equity.
- (3) The gain on disposal of an associate in 2004 was related to the sale of 35.07% equity interests in Beijing Yiyuantang Medicine Chain Company Limited (“Yiyuantang”) to Chaoyang Auxillary.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):#

	Notes	Year ended 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
Cost of inventories sold		3,253,989	3,621,667	3,966,385
Depreciation:				
Property, plant and equipment	14	44,676	52,599	58,036
Investment properties	15	940	891	891
		45,616	53,490	58,927
Amortisation of intangible assets	20	1,063	312	383
Recognition of lease prepayments for land use rights	16	125	752	752
Goodwill written off		186	-	-
Minimum lease payments under operating leases on properties		34,245	39,539	50,015
Gain on disposal of an associate		(1,248)	-	-
Loss on disposal of a subsidiary	36	1,410	-	-
(Gain)/loss on disposal of items of property, plant and equipment, net		(2,710)	1,468	555
Impairment of trade and other receivables		909	8,818	6,640
Write down/(reversal of write down) of inventories to net realisable value		2,067	(569)	5
Impairment of available-for-sale investments		1,188	-	-
Net rental income		(29,105)	(31,800)	(34,272)
Direct operating expense (including repairs and maintenance) arising on rental-earning investment properties		5,392	5,150	6,041
Impairment loss on items of property, plant and equipment	14	-	-	2,100
Auditors' remuneration		392	160	1,385
Staff costs:				
Directors' and supervisors' emoluments	8	2,335	1,908	3,072
Other staff costs				
Wages, salaries and social security costs		148,731	160,495	185,432
Retirement benefits contributions		18,746	16,417	18,431
		167,477	176,912	203,863
		169,812	178,820	206,935
Foreign exchange difference		-	-	6,366
Dividend income from available-for-sale investments		-	(30)	-
Interest income		(8,987)	(8,378)	(37,417)
		(8,987)	(8,378)	(37,417)

The disclosures presented in this note include those amounts charged/credited in respect of the discontinued operations.

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively “State-owned Enterprises”).

For the each of the three years ended 31 December 2006, sales to the Group’s twenty largest customers represented approximately 20.8%, 30.5% and 31.2% of the Group’s total revenue respectively. To the best knowledge of the directors, out of the sales to the twenty largest customers, transactions with State-owned Enterprises represented approximately 14.7%, 12.2% and 8.7% of the transaction values of the Group’s twenty largest customers for the each of the three years ended 31 December 2006.

For the each of the three years ended 31 December 2006, purchases from the Group’s twenty largest suppliers represented approximately 36.8%, 40.0% and 40.6% of the Group’s total purchase respectively. To the best knowledge of the directors, out of the purchases from the twenty largest suppliers, transactions with State-owned Enterprises represented approximately 28.3%, 31.1% and 41.1% of the transaction values of the Group’s twenty largest suppliers for the each of the three years ended 31 December 2006.

6. FINANCE COSTS

Group

	Year ended 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Interest on bank loans repayable:			
Within five years	15,895	16,205	28,323
Over five years	–	293	–
	<u>15,895</u>	<u>16,498</u>	<u>28,323</u>
Interest on other borrowings from:			
Employees ⁽¹⁾	4,168	–	–
Other enterprises	7,125	14,175	15,745
	<u>11,293</u>	<u>14,175</u>	<u>15,745</u>
Total interest	27,188	30,673	44,068
Less: Interest capitalised ⁽²⁾	(6,200)	(11,600)	(17,772)
	<u>20,988</u>	<u>19,073</u>	<u>26,296</u>
Attributable to discontinued operations (note 11)	130	–	–
Attributable to continuing operations reported in the consolidated income statements	<u>20,988</u>	<u>19,073</u>	<u>26,296</u>
	<u>21,118</u>	<u>19,073</u>	<u>26,296</u>

Notes:

- (1) The Group acquired certain borrowings from employees which were unsecured, bore annual interest rates of 5% to 6% and were fully repaid by June 2004.
- (2) The capitalisation rate used to determine the amount of finance costs eligible for capitalisation were 5.31%, 5% and 5.85%, and 5.32% and 6.04% for each of the three years ended 31 December 2006, respectively.

7. RETIREMENT BENEFITS

The aggregate contributions of the Group to the retirement benefit schemes were approximately RMB19,057,000, RMB16,651,000 and RMB18,820,000 for each of the three years ended 31 December 2006, respectively.

8. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of the remuneration of directors and supervisors during the Relevant Years, disclosed pursuant to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, are as follows:

Group

	Directors			Supervisors		
	Year ended 31 December			Year ended 31 December		
	2004	2005	2006	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fees	-	124	148	-	60	58
Other emoluments:						
Salaries, allowances and benefits in kind	1,339	1,027	967	685	463	640
Performance related bonuses*	-	-	530	-	-	340
Retirement benefits contributions	203	161	235	108	73	154
Total	<u>1,542</u>	<u>1,312</u>	<u>1,880</u>	<u>793</u>	<u>596</u>	<u>1,192</u>

* Certain executive directors and supervisors of the Company are entitled to bonus payments which are determined based on the Company's gross profit for the year ended 31 December 2006.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the Relevant Years were as follows:

	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Mr. Fan Faming	–	35	34
Mr. Huang Jiangming	–	35	34
Mr. Chung Chi Kong	–	33	80
Ms. Deng Xiaofeng	–	21	–
	<hr/>	<hr/>	<hr/>
Total	–	124	148
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

There were no other emoluments payable to the independent non-executive directors during the Relevant Years.

(b) Executive directors and non-executive directors

	Fees	Salaries, allowance and benefits in kind	Performance related bonuses	Retirement benefits contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2004					
<i>Executive directors:</i>					
Mr. Wei Tingzhan	-	234	-	36	270
Mr. Li Jianwen	-	302	-	48	350
Mr. Liu Yuejin	-	154	-	24	178
Mr. Bai Xianrong	-	191	-	29	220
Ms. Chen Limin	-	307	-	41	348
Mr. Gu Hanlin	-	151	-	25	176
	-	1,339	-	203	1,542
<i>Non-executive directors:</i>					
Mr. Gu Hanlin	-	-	-	-	-
Mr. Li Shunxiang	-	-	-	-	-
	-	-	-	-	-
Total	-	1,339	-	203	1,542
2005					
<i>Executive directors:</i>					
Mr. Wei Tingzhan	-	233	-	37	270
Mr. Li Jianwen	-	346	-	54	400
Ms. Li Chunyan	-	223	-	35	258
Mr. Liu Yuejin	-	225	-	35	260
	-	1,027	-	161	1,188
<i>Non-executive directors:</i>					
Mr. Gu Hanlin	-	-	-	-	-
Mr. Li Shunxiang	-	-	-	-	-
	-	-	-	-	-
Total	-	1,027	-	161	1,188
2006					
<i>Executive directors:</i>					
Mr. Wei Tingzhan	-	233	130	57	420
Mr. Li Jianwen	-	344	200	86	630
Ms. Li Chunyan	-	195	100	46	341
Mr. Liu Yuejin	-	195	100	46	341
	-	967	530	235	1,732
<i>Non-executive directors:</i>					
Mr. Gu Hanlin	-	-	-	-	-
Mr. Li Shunxiang	-	-	-	-	-
	-	-	-	-	-
Total	-	967	530	235	1,732

(c) Supervisors

	Fees	Salaries, allowance and benefits in kind	Performance related bonuses	Retirement benefits contributions	Total remuneration
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
2004					
Ms. Ma Xiurong	–	125	–	20	145
Ms. Liu Wenyu	–	108	–	17	125
Ms. Wang Shuying	–	177	–	28	205
Ms. Chen Jie	–	52	–	8	60
Ms. Qu Xinhua	–	223	–	35	258
Total	<u>–</u>	<u>685</u>	<u>–</u>	<u>108</u>	<u>793</u>
2005					
Ms. Chen Jie	–	177	–	28	205
Ms. Qu Xinhua	–	286	–	45	331
Mr. Yang Baoqun	–	–	–	–	–
Mr. Chen Zhong	30	–	–	–	30
Ms. Cheng Xianghong	30	–	–	–	30
Total	<u>60</u>	<u>463</u>	<u>–</u>	<u>73</u>	<u>596</u>
2006					
Ms. Chen Jie	–	233	130	57	420
Ms. Qu Xinhua	–	233	130	57	420
Mr. Yang Baoqun	–	–	–	–	–
Ms. Wang Shuying	–	174	80	40	294
Mr. Chen Zhong	29	–	–	–	29
Ms. Cheng Xianghong	29	–	–	–	29
Total	<u>58</u>	<u>640</u>	<u>340</u>	<u>154</u>	<u>1,192</u>

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the Relevant Years.

The emoluments of each of the directors and supervisors for each of the Relevant Years fell within the range of nil to HK\$1,000,000 (equivalent to RMB975,600).

The five individuals whose remuneration was the highest in the Group during the Relevant Years are all non-director and non-supervisor employees.

The remuneration paid to the non-director and non-supervisor highest paid employees is as follows:

Group

	Year ended 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowances and benefits in kind	2,276	1,655	3,220
Performance related bonuses	–	3,693	4,767
Retirement benefits contributions	77	119	125
	2,353	5,467	8,112
	2,353	5,467	8,112

The number of non-director and non-supervisor highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees		
	2004	2005	2006
Nil to HK\$1,000,000 (equivalent to RMB975,600)	5	3	–
HK\$1,000,001 to HK\$1,500,000 (equivalent to RMB975,601 to RMB1,463,400)	–	2	3
HK\$1,500,001 to HK\$2,000,000 (equivalent to RMB1,463,401 to RMB1,951,200)	–	–	2
	5	5	5
	5	5	5

9. TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The Group is not liable for income tax in Hong Kong as it did not have assessable income currently arising in Hong Kong during the Relevant Years. Under the prevailing PRC income tax law, the Group and its associates are subject to corporate income tax at a rate of 33% on their respective taxable income.

The determination of income tax in the consolidated income statements of the Group is as follows:

Group

	<i>Note</i>	Year ended 31 December		
		2004	2005	2006
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax - the PRC		33,011	43,682	71,140
Deferred income tax	32	<u>11,116</u>	<u>3,476</u>	<u>2,932</u>
Total tax change for the year		<u><u>44,127</u></u>	<u><u>47,158</u></u>	<u><u>74,072</u></u>

A reconciliation of tax expense applicable to profit before tax at the statutory rate to tax expense at the Group's effective tax rate, and a reconciliation of the statutory rate to the effective tax rate, are as follows:

Group

	2004		Year ended 31 December		2006	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Profit before tax (including profit from the discontinued operations)	<u>128,402</u>		<u>145,504</u>		<u>205,491</u>	
Income tax at the PRC statutory income tax rate	42,373	33.0	48,016	33.0	67,812	33.0
Expenses not deductible for tax	4,482	3.5	5,756	4.0	3,570	1.7
Tax losses not recognised	84	-	24	-	2,857	1.4
Tax losses utilised from previous periods	(390)	(0.3)	(89)	-	-	-
Income not subject to tax	(2,947)	(2.3)	(3,896)	(2.7)	-	-
Others	<u>631</u>	<u>0.5</u>	<u>(2,653)</u>	<u>(1.9)</u>	<u>(167)</u>	<u>-</u>
Tax charged at the Group's effective rate	<u><u>44,233</u></u>	<u><u>34.4</u></u>	<u><u>47,158</u></u>	<u><u>32.4</u></u>	<u><u>74,072</u></u>	<u><u>36.1</u></u>
Represented by:						
Tax charge attributable to discontinued operations (<i>note 11</i>)	106		-		-	
Tax charge attributable to continuing operations reported in the consolidated income statements	<u>44,127</u>		<u>47,158</u>		<u>74,072</u>	
	<u><u>44,233</u></u>		<u><u>47,158</u></u>		<u><u>74,072</u></u>	

The share of tax attributable to associates amounting to RMB2,100,000, RMB300 and Nil for each of the three years ended 31 December 2006, respectively, is included in "Share of profits and losses of associates" on the face of the consolidated income statements.

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for each of the three years ended 31 December 2006 include profits of RMB70,281,000, RMB60,391,000 and RMB81,372,000 which has been dealt with in the financial statements of the Company (*note 34(b)*).

11. DISCONTINUED OPERATIONS

The discontinued operations represented the sale of pharmaceuticals, the trading of automobiles and the provision of related repair services, which were respectively conducted by Yiyuantang, a then 70.13%-owned subsidiary, and Beijing City Tengyuan Xingye Vehicle Service Limited Company ("Tengyuan"), a then 62.73%-owned subsidiary. The operating results of Yiyuantang were consolidated into the Group's consolidated income statements until June 2003 when the Company disposed off half of its equity interests therein to a third party. Together with equity interests in Tengyuan, the remaining half of the equity interests in Yiyuantang was sold to Chaoyang Auxillary in June 2004.

In the opinion of the directors of the Company, the disposal of these discontinued operations above-mentioned is consistent with the Group's long term strategy to concentrate on retail chain and wholesaling operations of general merchandise and produce.

The results of the discontinued operations for the Relevant Years are presented below:

	Year ended 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	97,893	–	–
Cost of sales	(89,137)	–	–
Gross profit	8,756	–	–
Other income and gains	1,362	–	–
Selling and distribution costs	(7,232)	–	–
Administrative expenses	(1,358)	–	–
Other expenses	(1,422)	–	–
Finance costs	(130)	–	–
Share of profit of an associate	508	–	–
Profit before tax from the discontinued operations	484	–	–
Tax	(106)	–	–
Profit for the year from the discontinued operations	<u>378</u>	<u>–</u>	<u>–</u>
Attributable to:			
Equity holders of the parent	361	–	–
Minority interests	17	–	–
	<u>378</u>	<u>–</u>	<u>–</u>

There was no carrying value of the assets and liabilities of the discontinued operations as at 31 December 2004.

The net cash flows incurred by the discontinued operations are as follows:

	Year ended 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Operating activities	1,391	–	–
Investing activities	(10,498)	–	–
Financing activities	141	–	–
Net cash outflow	<u>(8,966)</u>	<u>–</u>	<u>–</u>
Earnings per share - basic (RMB)	<u>0.15 cents</u>	<u>–</u>	<u>–</u>

The calculations of basic earnings per share from the discontinued operations are based on:

	Year ended 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
<i>Earnings:</i>			
Profit attributable to ordinary equity holders of the parent from the discontinued operations	<u>361</u>	<u>–</u>	<u>–</u>

	Number of shares		
	Year ended 31 December		
	2004	2005	2006
<i>Shares:</i>			
Weighted average number of ordinary shares in issue during the year ended 31 December 2004 used in the basic earnings per share calculation	<u>246,620,000</u>	<u>–</u>	<u>–</u>

The Company's weighted average number of share in issue used in the basic earnings per share calculation for the year ended 31 December 2004 is determined based on the assumption that the 246,620,000 shares had been in issue throughout the year ended 31 December 2004.

12. DIVIDENDS

	Year ended 31 December		
	2004 RMB'000	2005 RMB'000	2006 RMB'000
Proposed final	39,502	56,367	57,693
Declared special	<u>3</u>	<u>–</u>	<u>–</u>
	<u><u>39,505</u></u>	<u><u>56,367</u></u>	<u><u>57,693</u></u>
Proposed final dividend per ordinary share (RMB)	<u><u>16.0 cents</u></u>	<u><u>22.9 cents</u></u>	<u><u>15.0 cents</u></u>

The proposed final dividend of RMB per share for the year ended 31 December 2006 has been approved by the Company's shareholders at the annual general meeting held on 18 May 2007.

For the period before the listing of the Company's shares, for dividend purposes, the amount which the Company can legally distribute by way of a dividend is determined by reference to its profit available for distribution as reflected in its PRC statutory financial statements which are prepared in accordance with the PRC GAAP. This profit differs from that reflected in this report which is prepared in accordance with HKFRSs.

Upon the listing of the Company's shares, 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 the PRC GAAP and (ii) the profit determined in accordance with HKFRSs.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the Relevant Years attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the Relevant Years.

	Year ended 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Earnings:</i>			
Profit attributable to ordinary equity holders of the parent from:			
Continuing operations	73,167	75,098	99,577
Discontinued operations	361	–	–
	<u>73,528</u>	<u>75,098</u>	<u>99,577</u>
	Number of shares		
	Year ended 31 December		
	2004	2005	2006
<i>Shares:</i>			
Weighted average number of ordinary shares in issue during the Relevant Years used in the basic earnings per share calculation	<u>246,620,000</u>	<u>246,620,000</u>	<u>283,672,055</u>

The Company's weighted average number of share in issue used in the basic earnings per share calculation for the year ended 31 December 2004 is determined based on the assumption that the 246,620,000 shares had been in issue throughout the year ended 31 December 2004.

The Company's weighted average number of shares in issue used in the basic earnings per share calculation for the year ended 31 December 2006 is determined by adjusting 120,000,000 new H shares issued to the public and listed on the GEM of the Stock Exchange on 25 September 2006 and a further 18,000,000 new H shares issued as a result of the full exercise of the over-allotment option on 25 September 2006.

Diluted earnings per share for each of the three years ended 31 December 2006 have not been presented because no diluting events existed during the Relevant Years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold			Office	Motor	Construction	Total
	Buildings improvements		Machinery	equipment	vehicles	in progress	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2004							
At 1 January 2004:							
Cost	238,388	80,246	182,632	73,948	38,112	111,375	724,701
Accumulated depreciation	(31,175)	(10,739)	(62,630)	(32,353)	(13,020)	-	(149,917)
Net carrying amount	<u>207,213</u>	<u>69,507</u>	<u>120,002</u>	<u>41,595</u>	<u>25,092</u>	<u>111,375</u>	<u>574,784</u>
At 1 January 2004, net of							
accumulated depreciation	207,213	69,507	120,002	41,595	25,092	111,375	574,784
Additions	49,977	2,717	29,841	8,370	5,897	55,979	152,781
Acquisition of subsidiaries	-	-	753	212	2,184	-	3,149
Take-back by Chaoyang Auxillary*	(52,620)	-	-	-	-	-	(52,620)
Disposals	-	(1,070)	(129)	(1,012)	(280)	-	(2,491)
Disposal of a subsidiary	(4,343)	(1,410)	(1,751)	(817)	(12,870)	(9,049)	(30,240)
Depreciation	(7,801)	(2,703)	(17,613)	(12,638)	(3,921)	-	(44,676)
Transfers	782	5,493	1,532	3,739	-	(11,546)	-
At 31 December 2004,							
net of accumulated depreciation	<u>193,208</u>	<u>72,534</u>	<u>132,635</u>	<u>39,449</u>	<u>16,102</u>	<u>146,759</u>	<u>600,687</u>
At 31 December 2004:							
Cost	219,219	85,856	211,491	82,028	28,674	146,759	774,027
Accumulated depreciation	(26,011)	(13,322)	(78,856)	(42,579)	(12,572)	-	(173,340)
Net carrying amount	<u>193,208</u>	<u>72,534</u>	<u>132,635</u>	<u>39,449</u>	<u>16,102</u>	<u>146,759</u>	<u>600,687</u>

Group

	Leasehold			Office	Motor	Construction	Total
	Buildings improvements	improvements	Machinery	equipment	vehicles	in progress	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2005							
At 31 December 2004 and at 1 January 2005:							
Cost	219,219	85,856	211,491	82,028	28,674	146,759	774,027
Accumulated depreciation	(26,011)	(13,322)	(78,856)	(42,579)	(12,572)	-	(173,340)
Net carrying amount	<u>193,208</u>	<u>72,534</u>	<u>132,635</u>	<u>39,449</u>	<u>16,102</u>	<u>146,759</u>	<u>600,687</u>
At 1 January 2005, net of accumulated depreciation	193,208	72,534	132,635	39,449	16,102	146,759	600,687
Additions	5,794	10,890	39,552	1,744	1,996	184,414	244,390
Acquisition from Chaoyang Auxillary	-	6,830	308	75	30	-	7,243
Disposals	-	-	(3,354)	(191)	(534)	-	(4,079)
Depreciation	(8,254)	(5,524)	(21,821)	(13,972)	(3,028)	-	(52,599)
Transfers	2,370	23,639	14,562	638	-	(41,209)	-
At 31 December 2005, net of accumulated depreciation	<u>193,118</u>	<u>108,369</u>	<u>161,882</u>	<u>27,743</u>	<u>14,566</u>	<u>289,964</u>	<u>795,642</u>
At 31 December 2005:							
Cost	227,383	127,215	257,096	81,404	27,605	289,964	1,010,667
Accumulated depreciation	(34,265)	(18,846)	(95,214)	(53,661)	(13,039)	-	(215,025)
Net carrying amount	<u>193,118</u>	<u>108,369</u>	<u>161,882</u>	<u>27,743</u>	<u>14,566</u>	<u>289,964</u>	<u>795,642</u>

Group

	Leasehold			Office	Motor	Construction	Total
	Buildings improvements	improvements	Machinery	equipment	vehicles	in progress	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2006							
At 31 December 2005 and at 1 January 2006:							
Cost	227,383	127,215	257,096	81,404	27,605	289,964	1,010,667
Accumulated depreciation	(34,265)	(18,846)	(95,214)	(53,661)	(13,039)	-	(215,025)
Net carrying amount	<u>193,118</u>	<u>108,369</u>	<u>161,882</u>	<u>27,743</u>	<u>14,566</u>	<u>289,964</u>	<u>795,642</u>
At 1 January 2006, net of accumulated depreciation	193,118	108,369	161,882	27,743	14,566	289,964	795,642
Additions	8,438	67,379	30,470	14,865	5,439	151,388	277,979
Disposals	-	-	(1,438)	(50)	(798)	-	(2,286)
Impairment	-	-	-	-	-	(2,100)	(2,100)
Depreciation	(8,463)	(9,249)	(27,157)	(10,085)	(3,082)	-	(58,036)
Transfers	1,050	17,680	4,642	1,883	-	(25,255)	-
At 31 December 2006, net of accumulated depreciation and impairment	<u>194,143</u>	<u>184,179</u>	<u>168,399</u>	<u>34,356</u>	<u>16,125</u>	<u>413,997</u>	<u>1,011,199</u>
At 31 December 2006:							
Cost	236,871	212,274	284,323	95,014	28,939	416,097	1,273,518
Accumulated depreciation and impairment	(42,728)	(28,095)	(115,924)	(60,658)	(12,814)	(2,100)	(262,319)
Net carrying amount	<u>194,143</u>	<u>184,179</u>	<u>168,399</u>	<u>34,356</u>	<u>16,125</u>	<u>413,997</u>	<u>1,011,199</u>

Company

	Leasehold		Machinery	Office equipment	Motor vehicles	Construction in progress	Total
	Buildings improvements	improvements					
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2004							
At 1 January 2004:							
Cost	231,914	70,551	170,740	57,661	10,473	101,231	642,570
Accumulated depreciation	(29,303)	(6,808)	(59,165)	(26,872)	(6,282)	-	(128,430)
Net carrying amount	<u>202,611</u>	<u>63,743</u>	<u>111,575</u>	<u>30,789</u>	<u>4,191</u>	<u>101,231</u>	<u>514,140</u>
At 1 January 2004, net of accumulated depreciation							
At 1 January 2004, net of accumulated depreciation	202,611	63,743	111,575	30,789	4,191	101,231	514,140
Additions	49,976	1,897	13,172	4,985	1,665	52,001	123,696
Take-back by Chaoyang Auxillary*	(52,620)	-	-	-	-	-	(52,620)
Disposals	-	-	(129)	(295)	(201)	-	(625)
Depreciation	(7,685)	(2,029)	(15,946)	(10,348)	(1,123)	-	(37,131)
Transfers	782	4,072	1,519	100	-	(6,473)	-
At 31 December 2004, net of accumulated depreciation	<u>193,064</u>	<u>67,683</u>	<u>110,191</u>	<u>25,231</u>	<u>4,532</u>	<u>146,759</u>	<u>547,460</u>
At 31 December 2004:							
Cost	219,033	76,520	185,003	60,816	11,013	146,759	699,144
Accumulated depreciation	(25,969)	(8,837)	(74,812)	(35,585)	(6,481)	-	(151,684)
Net carrying amount	<u>193,064</u>	<u>67,683</u>	<u>110,191</u>	<u>25,231</u>	<u>4,532</u>	<u>146,759</u>	<u>547,460</u>

Company

	Leasehold		Machinery	Office equipment	Motor vehicles	Construction in progress	Total
	Buildings improvements	improvements					
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2005							
At 31 December 2004 and at 1 January 2005:							
Cost	219,033	76,520	185,003	60,816	11,013	146,759	699,144
Accumulated depreciation	(25,969)	(8,837)	(74,812)	(35,585)	(6,481)	-	(151,684)
Net carrying amount	<u>193,064</u>	<u>67,683</u>	<u>110,191</u>	<u>25,231</u>	<u>4,532</u>	<u>146,759</u>	<u>547,460</u>
At 1 January 2005, net of accumulated depreciation							
	193,064	67,683	110,191	25,231	4,532	146,759	547,460
Additions	5,794	9,105	13,018	7,080	1,996	184,414	221,407
Acquisition from Chaoyang Auxillary	-	6,830	308	75	30	-	7,243
Acquisition from a subsidiary	-	-	1,852	146	-	-	1,998
Disposals	-	-	(3,343)	(180)	(144)	-	(3,667)
Depreciation	(8,211)	(4,246)	(18,332)	(9,701)	(1,214)	-	(41,704)
Transfers	2,370	23,639	14,562	638	-	(41,209)	-
At 31 December 2005, net of accumulated depreciation	<u>193,017</u>	<u>103,011</u>	<u>118,256</u>	<u>23,289</u>	<u>5,200</u>	<u>289,964</u>	<u>732,737</u>
At 31 December 2005:							
Cost	227,197	116,094	206,274	65,793	11,713	289,964	917,035
Accumulated depreciation	(34,180)	(13,083)	(88,018)	(42,504)	(6,513)	-	(184,298)
Net carrying amount	<u>193,017</u>	<u>103,011</u>	<u>118,256</u>	<u>23,289</u>	<u>5,200</u>	<u>289,964</u>	<u>732,737</u>

Company

	Leasehold		Machinery	Office equipment	Motor vehicles	Construction in progress	Total
	Buildings improvements	improvements					
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2006							
At 31 December 2005 and at 1 January 2006:							
Cost	227,197	116,094	206,274	65,793	11,713	289,964	917,035
Accumulated depreciation	(34,180)	(13,083)	(88,018)	(42,504)	(6,513)	-	(184,298)
Net carrying amount	<u>193,017</u>	<u>103,011</u>	<u>118,256</u>	<u>23,289</u>	<u>5,200</u>	<u>289,964</u>	<u>732,737</u>
At 1 January 2006, net of accumulated depreciation	193,017	103,011	118,256	23,289	5,200	289,964	732,737
Additions	8,437	43,115	26,083	8,017	852	151,388	237,892
Acquisition from subsidiaries	-	-	206	-	-	-	206
Transfer to subsidiaries	-	(23,485)	(8,985)	(304)	-	-	(32,774)
Disposals	-	-	(1,438)	(38)	(556)	-	(2,032)
Impairment	-	-	-	-	-	(2,100)	(2,100)
Depreciation	(8,462)	(6,451)	(19,598)	(8,064)	(1,125)	-	(43,700)
Transfers	1,050	17,680	4,642	1,883	-	(25,255)	-
At 31 December 2006, net of accumulated depreciation and impairment	<u>194,042</u>	<u>133,870</u>	<u>119,166</u>	<u>24,783</u>	<u>4,371</u>	<u>413,997</u>	<u>890,229</u>
At 31 December 2006:							
Cost	236,684	153,404	220,335	72,984	9,260	416,097	1,108,764
Accumulated depreciation and impairment	(42,642)	(19,534)	(101,169)	(48,201)	(4,889)	(2,100)	(218,535)
Net carrying amount	<u>194,042</u>	<u>133,870</u>	<u>119,166</u>	<u>24,783</u>	<u>4,371</u>	<u>413,997</u>	<u>890,229</u>

* This related to the change of capital contribution by Chaoyang Auxillary from buildings to cash in 2004, details of which are set out in note (b) of the consolidated statements of changes in equity.

All the Group's and the Company's buildings are situated in the PRC.

The Group's buildings with a net book value of approximately RMB32 million as at 31 December 2004 were pledged to secure certain bank loans granted to the Group (note 30).

The Group's and the Company's buildings with a net book value of approximately RMB87 million as at 31 December 2005 were pledged to secure certain bank loans granted to the Group and the Company (note 30).

The Group's and the Company's buildings and construction in progress with net book values of approximately RMB169 million and RMB294 million, respectively, as at 31 December 2006 were pledged to secure certain bank loans granted to the Group and the Company (*note 30*).

As at 31 December 2006, except for the properties under construction and a property with net book value of approximately RMB7.5 million located in Beijing, the Group has obtained the relevant building ownership certificates.

15. INVESTMENT PROPERTIES

Group and Company

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January	19,306	18,704	17,813
Additions	338	–	–
Depreciation provided during the year	(940)	(891)	(891)
	<u>18,704</u>	<u>17,813</u>	<u>16,922</u>
Carrying amount at 31 December	<u>18,704</u>	<u>17,813</u>	<u>16,922</u>
Fair value	<u>26,114</u>	<u>26,732</u>	<u>30,470</u>

The Group's and the Company's investment properties are situated in the PRC.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 39(a) to the financial statements.

The Group's and the Company's investment properties with carrying amounts of RMB16,477,000 and RMB16,922,000 as at 31 December 2005 and 2006, respectively were pledged to secure certain bank loans granted to the Group and the Company (*note 30*).

The fair values of the investment properties as at each of the balance sheet date were determined based on the valuations performed by Vigers Appraisal & Consulting Limited ("Vigers"), an independent firm of professional valuers located at 10/F The Grande Building, 398 Kwun Tong Road, Kowloon, Hong Kong. The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation. As at 31 December 2004, as the Group was in the process of obtaining the relevant building ownership certificates, the fair value then was provided by Vigers for indicative purpose.

16. LEASE PREPAYMENTS FOR LAND USE RIGHTS**Group and Company**

	As at 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount at 1 January	2,501	73,698	72,946
Additions	71,322	–	–
Recognised during the year	(125)	(752)	(752)
	<u>73,698</u>	<u>72,946</u>	<u>72,194</u>
Carrying amount at 31 December	<u><u>73,698</u></u>	<u><u>72,946</u></u>	<u><u>72,194</u></u>

The leasehold land is held under long term leases and is situated in the PRC.

The Group's and the Company's lease prepayments for land use rights of carrying amounts of RMB68 million as at 31 December 2006 were pledged to secure certain bank loans granted to the Group and the Company (*note 30*).

17. INTERESTS IN SUBSIDIARIES**Company**

	As at 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted investments, at cost	66,269	84,352	113,352
Amounts due from subsidiaries	108,158	151,931	236,370
Amounts due to subsidiaries	(57,209)	(57,515)	(4,692)
	<u>117,218</u>	<u>178,768</u>	<u>345,030</u>
	<u><u>117,218</u></u>	<u><u>178,768</u></u>	<u><u>345,030</u></u>

Included in the amounts due from subsidiaries as at 31 December 2005 and 2006 were entrusted loans lent by the Company (the "Lender") to Chaopi Trading, Chaopi Flavourings, Chaopi Huaqing and Chaopi Jinglong (collectively the "Borrowers") amounting to RMB30 million, RMB20 million, RMB29.5 million and RMB20 million and RMB100 million, RMB20 million, RMB29.5 million and RMB20 million, respectively, to finance the Borrowers' working capital. The entrusted loans were arranged via Beijing Bank Jiulongshan Branch (the "Bank"). However, the Bank has no liability to either the Lender or the Borrowers in case of default. These entrusted loans were unsecured, bearing an annual interest rate of 5.6% and 6.1% during each of the two years ended 31 December 2006. Except for the loan to Chaopi Trading of RMB50 million maturing on 26 December 2007, all the loans will mature on 19 December 2007.

Except for the aforementioned entrusted loans, all the amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

The Company's equity interest in Chaopi Trading of 71.7% was pledged to secure certain borrowings granted to the Company (*note 30*).

Particulars of the subsidiaries held by the Company are set out on pages 195 to 197 of this document.

18. INTERESTS IN ASSOCIATES

Group

	As at 31 December		
	2004 RMB'000	2005 RMB'000	2006 RMB'000
Share of net assets	369	337	198
Amounts due from associates	518	581	–
	887	918	198
	887	918	198

The amounts due from associates as at 31 December 2004 and 2005 were unsecured, interest-free and were fully settled by 2006.

Particulars of the associates held by the Group are set out on page 196 of this document.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2004 RMB'000	2005 RMB'000	2006 RMB'000
Assets	4,366	2,791	899
Liabilities	(3,477)	(1,973)	(409)
Revenues	467,525*	7,263	3,632
Profits/(losses)	6,579*	(71)	(329)
	6,579*	(71)	(329)

* The revenues and profits for the year ended 31 December 2004 included those of Chaopi Flavourings, Chaopi Huaqing and Yiyuantang. Chaopi Flavourings and Chaopi Huaqing were associates of the Group before the acquisition of additional of 11.11% and 12.50% equity interests by Chaopi Trading from Chaoyang Auxillary in June 2004, whilst Yiyuantang was an associate prior to the disposal of 35.07% equity interests by the Company to Chaoyang Auxillary in June 2004.

19. AVAILABLE-FOR-SALE INVESTMENTS

Group

	As at 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Listed equity investment in the PRC, at fair value	350	350	3,099
Unlisted equity investment, at cost	1,188	1,188	1,188
Less: Impairment of equity investment	(1,188)	(1,188)	(1,188)
	-	-	-
	<u>350</u>	<u>350</u>	<u>3,099</u>

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturing date or coupon rate. The fair value of listed equity investment is based on quoted market prices.

During the year ended 31 December 2006, the gross gain of the Group's available-for-sale investments recognised directly in equity amounted to RMB2,749,000.

As at the end of each of the Relevant Years, the unlisted equity investment was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably.

20. INTANGIBLE ASSETS

The intangible assets represented the carrying amount of software acquired.

Group and Company

	As at 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost at 1 January, net of accumulated amortisation	571	1,360	2,080
Additions	1,852	1,032	647
Amortisation provided during the year	(1,063)	(312)	(383)
	<u>1,360</u>	<u>2,080</u>	<u>2,344</u>
At 31 December, net of accumulated amortisation	<u>1,360</u>	<u>2,080</u>	<u>2,344</u>
At 31 December:			
Cost	4,439	5,471	6,118
Accumulated amortisation	(3,079)	(3,391)	(3,774)
	<u>1,360</u>	<u>2,080</u>	<u>2,344</u>
Net carrying amount	<u>1,360</u>	<u>2,080</u>	<u>2,344</u>

21. OTHER LONG TERM LEASE PREPAYMENTS

Other long term lease prepayments of the Group and the Company as at 31 December 2004 represented rental expenses prepaid for two years commencing from January 2006. In 2005, the commencement of the rental period has been postponed to an uncertain date due to the ongoing negotiation between the lessor who sublet the premises to the Company and the original landlord of the premises. The prepaid balance was then transferred out into other receivables as at 31 December 2005.

Other long term lease prepayments of the Group as at 31 December 2006 represented rental deposits for leasing eight premises for five to eighteen years commencing from the middle of 2006.

22. INVENTORIES**Group**

	As at 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Merchandise and produce for resale	346,606	379,876	490,309
Raw materials	–	–	6,479
	<u>346,606</u>	<u>379,876</u>	<u>496,788</u>
Low value consumables	2,084	2,288	2,856
	<u>348,690</u>	<u>382,164</u>	<u>499,644</u>

Company

	As at 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Merchandise and produce for resale	121,515	134,891	150,486
Raw materials	–	–	6,479
	<u>121,515</u>	<u>134,891</u>	<u>156,965</u>
Low value consumables	264	128	89
	<u>121,779</u>	<u>135,019</u>	<u>157,054</u>

23. TRADE RECEIVABLES

The Group normally allows a credit period of not more than 60 days to its customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

An aged analysis of the trade receivables of the Group and the Company as at the end of each of the Relevant Years, based on invoice date and net of provisions, is as follows:

Group

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

Company

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Within 2 months	3,114	10,751	7,796
2 to 6 months	464	47	301
6 months to 1 year	166	–	13
1 to 2 years	48	20	270
	<u>3,792</u>	<u>10,818</u>	<u>8,380</u>

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**Group**

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Prepayments to suppliers	61,766	86,177	75,329
Other receivables and prepaid expenses	21,341	35,167	29,055
Input value-added tax receivables	62,724	59,786	58,718
	<u>145,831</u>	<u>181,130</u>	<u>163,102</u>

Company

	As at 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments to suppliers	3,407	5,122	14,451
Other receivables and prepaid expenses	18,450	41,985	19,109
Input value-added tax receivables	41,366	41,908	28,368
	<u>63,223</u>	<u>89,015</u>	<u>61,928</u>

Included in the Company's other receivables and prepaid expenses were dividend receivables from a subsidiary amounting to RMB6,900,000 and RMB16,900,000 as at 31 December 2004 and 2005, respectively, which were fully settled by 2006.

25. AMOUNTS DUE FROM RELATED PARTIES

The amounts due from related parties as at 31 December 2004 and 2005 were unsecured, interest-free and were fully repaid by 2006.

26. AMOUNTS DUE FROM/TO CHAOYANG AUXILLARY

Amounts due from/to Chaoyang Auxillary were unsecured. Apart from the following amounts, all the amounts due from/to Chaoyang Auxillary were interest-free and have no fixed repayment terms.

Maturity date	Interest rate per annum	As at 31 December		
		2004	2005	2006
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amount due to Chaoyang Auxillary:				
June 2006	5.58%	600	600	-
*	5.58%	4,000	4,000	-
*	4.72%	-	4,000	-
Amount due from Chaoyang Auxillary:				
June 2005	5.58%	11,000	-	-
* <i>No fixed repayment date</i>				

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Cash and bank balances	176,865	220,741	413,140
Pledged time deposits with original maturity of more than three months when acquired	–	13,291	16,919
Non-pledged time deposits with original maturity of:			
More than three months when acquired	–	–	301,401
Less than three months when acquired	–	–	127,150
	<u>176,865</u>	<u>234,032</u>	<u>858,610</u>
Less: pledged time deposits with original maturity of more than three months when acquired (<i>note 30</i>)	–	(13,291)	(16,919)
	<u>176,865</u>	<u>220,741</u>	<u>841,691</u>

Company

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Cash and bank balances	143,514	143,755	246,110
Non-pledged time deposits with original maturity of:			
More than three months when acquired	–	–	301,401
Less than three months when acquired	–	–	127,150
	<u>143,514</u>	<u>143,755</u>	<u>674,661</u>

The Group's cash and bank balances, including pledged bank deposits, were denominated in RMB amounted to RMB176,865,000, RMB234,032,000 and RMB399,920,000 as at 31 December 2004, 2005 and 2006, respectively, which are not freely convertible in the international market. The remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

28. TRADE PAYABLES

An aged analysis of the trade payables of the Group and the Company as at the end of each of the Relevant Years, based on invoice date, is as follows:

Group

	As at 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 2 months	569,473	581,688	681,810
2 to 6 months	53,264	46,608	53,577
6 months to 1 year	4,358	3,576	5,234
1 to 2 years	4,306	2,976	1,798
Over 2 years	3,974	7,182	4,271
	<u>635,375</u>	<u>642,030</u>	<u>746,690</u>

Company

	As at 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 2 months	277,078	304,629	358,125
2 to 6 months	43,613	43,026	52,170
6 months to 1 year	2,754	2,151	4,606
1 to 2 years	3,244	1,163	1,268
Over 2 years	3,455	5,672	3,274
	<u>330,144</u>	<u>356,641</u>	<u>419,443</u>

Included in the trade payables were the balances of cash advances made by customers into the Jingkelong cards of RMB62 million (the Company: RMB53 million), RMB94 million (the Company: RMB81 million) and RMB130 million (the Company: RMB109 million) as at 31 December 2004, 2005 and 2006, respectively.

29. OTHER PAYABLES AND ACCRUALS

Group

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Accrued salaries, wages and benefits	111,637	93,989	75,473
Deposit from suppliers and lessees	13,550	91,794	78,590
Interest expense payable	4,159	6,037	7,845
Rental expense payable	1,025	3,862	2,614
Accrued operating expenses	3,566	1,014	6,469
Construction fee payables	–	4,236	32,737
Other tax payables	1,453	1,212	7,543
Rental deposit refundable	–	–	2,010
Expense payables to suppliers	3,285	151	950
Rebates to customers	6,767	–	–
Others	16,461	15,834	9,440
	<hr/>	<hr/>	<hr/>
Total other payables and accruals	161,903	218,129	223,671
Less: Portion classified as current liabilities	(142,198)	(209,379)	(223,671)
	<hr/>	<hr/>	<hr/>
Long term portion-accrued salaries, wages and benefits	<u>19,705</u>	<u>8,750</u>	<u>–</u>

Company

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Accrued salaries, wages and benefits	78,400	73,374	62,227
Deposit from suppliers and lessees	10,212	86,691	72,988
Interest expense payable	3,969	5,726	6,602
Rental expense payable	423	2,525	1,769
Accrued operating expenses	225	923	5,408
Construction fee payables	–	4,236	28,861
Other tax payables	888	612	3,048
Expense payables to suppliers	97	116	196
Others	9,559	10,904	5,177
	<hr/>	<hr/>	<hr/>
Total other payables and accruals	103,773	185,107	186,276
Less: Portion classified as current liabilities	(86,273)	(176,357)	(186,276)
	<hr/>	<hr/>	<hr/>
Long term portion-accrued salaries, wages and benefits	<u>17,500</u>	<u>8,750</u>	<u>–</u>

30. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	Maturity	As at 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
Bank loans:				
Secured	2007 – 2011	3,000	144,304	488,396
Unsecured	2007	290,000	320,000	208,000
		<u>293,000</u>	<u>464,304</u>	<u>696,396</u>
Other borrowings:				
Secured	2007 – 2008	–	–	210,000
Unsecured	2008	269,000	326,300	100,000
		<u>269,000</u>	<u>326,300</u>	<u>310,000</u>
Total bank loans and other borrowings		<u><u>562,000</u></u>	<u><u>790,604</u></u>	<u><u>1,006,396</u></u>
Analysed into:				
Bank loans repayable:				
Within one year or on demand		293,000	364,304	576,396
In the second year		–	–	21,750
In the third to fifth years, inclusive		–	–	98,250
Over five years		–	100,000	–
		<u>293,000</u>	<u>464,304</u>	<u>696,396</u>
Other borrowings repayable:				
Within one year or on demand		89,000	176,300	150,000
In the second year		180,000	150,000	160,000
		<u>269,000</u>	<u>326,300</u>	<u>310,000</u>
Total bank loans and other borrowings		562,000	790,604	1,006,396
Less: Portion classified as current liabilities		(432,000)	(640,604)	(726,396)
Long term portion		<u><u>130,000</u></u>	<u><u>150,000</u></u>	<u><u>280,000</u></u>

Company	Maturity	As at 31 December		
		2004 RMB'000	2005 RMB'000	2006 RMB'000
Bank loans:				
Secured	2007 – 2011	–	100,000	432,000
Unsecured	–	120,000	110,000	–
		<u>120,000</u>	<u>210,000</u>	<u>432,000</u>
Other borrowings:				
Secured	2007 – 2008	–	–	210,000
Unsecured	–	216,000	266,300	–
		<u>216,000</u>	<u>266,300</u>	<u>210,000</u>
Total bank loans and other borrowings		<u><u>336,000</u></u>	<u><u>476,300</u></u>	<u><u>642,000</u></u>
Analysed into:				
Bank loans repayable:				
Within one year or on demand		120,000	110,000	312,000
In the second year		–	–	21,750
In the third to fifth years, inclusive		–	–	98,250
Over five years		–	100,000	–
		<u>120,000</u>	<u>210,000</u>	<u>432,000</u>
Other borrowings repayable:				
Within one year or on demand		86,000	216,300	150,000
In the second year		130,000	50,000	60,000
		<u>216,000</u>	<u>266,300</u>	<u>210,000</u>
Total bank loans and other borrowings		336,000	476,300	642,000
Less: Portion classified as current liabilities		(206,000)	(326,300)	(462,000)
Long term portion		<u><u>130,000</u></u>	<u><u>150,000</u></u>	<u><u>180,000</u></u>

(a) Bank loans

All of the Group's and the Company's bank loans, which are denominated in RMB, bear fixed interest rates ranging from 5.0% to 6.1%, 3.6% to 6.1% and 4.0% to 6.1% per annum as at 31 December 2004, 2005 and 2006, respectively.

(i) Secured bank loans

As at 31 December 2004, the secured bank loans of the Group amounting to RMB3 million were secured by certain of the Group's buildings with an aggregate net book value of approximately RMB32 million (*note 14*). These secured bank loans were also guaranteed by the Company and a minority shareholder of a subsidiary.

As at 31 December 2005, the secured bank loans of the Group and the Company amounting to RMB100 million were secured by certain of the Company's buildings and investment properties with aggregate net book values of approximately RMB87 million (*note 14*) and RMB16.5 million (*note 15*), respectively. In addition, the secured bank loan of the Group amounting to RMB44.3 million were secured by certain of the Group's pledged time deposits (*note 27*).

As at 31 December 2006, the secured bank loans of the Group and the Company amounting to RMB432 million were secured by certain of the Company's buildings and construction in progress, investment properties and lease prepayments for land use rights with aggregate net book values of approximately RMB169 million (*note 14*), RMB294 million (*note 14*), RMB16.9 million (*note 15*) and RMB68 million (*note 16*), respectively. In addition, the secured bank loans of the Group amounting to RMB56.4 million were secured by certain of the Group's pledged time deposits (*note 27*).

(ii) Unsecured bank loans

As at 31 December 2004, the unsecured bank loans of the Group and the Company amounting to RMB100 million (the Company: RMB100 million) was guaranteed by Beijing Blue Island Tower, an independent third party, amounting to RMB20 million (the Company: RMB20 million) was guaranteed by Chaoyang Auxillary and amounting to RMB170 (the Company: Nil) million was guaranteed by the Company.

As at 31 December 2005, the unsecured bank loans of the Group and the Company amounting to RMB100 million (the Company: RMB100 million) was guaranteed by Beijing Blue Island Tower and amounting to RMB200 million (the Company: Nil) was guaranteed by the Company. In addition, there were entrusted loans from third parties amounting to RMB20 million (the Company: RMB10 million) as at 31 December 2005.

As at 31 December 2006, the unsecured bank loans of the Group amounting to RMB180 million was guaranteed by the Company. There were entrusted loans from a third party amounting to RMB28 million as at 31 December 2006.

Entrusted loans are tri-partite arrangements, under which banks, as entrusted by certain non-financial institutions, lend the Group the funds sourced from such non-financial institutions at a management fee. Such non-financial institutions are considered the providers of the entrusted loans. In the opinions of the directors, the interest rates of the entrusted loans are similar with those of normal bank borrowings.

(b) Other borrowings*(i) Secured other borrowings*

Secured other borrowing of the Group and the Company as at 31 December 2006 was borrowings from BITIC amounting to RMB210 million, which was secured by the 71.7% equity interest in a subsidiary (*note 17*).

(ii) Unsecured other borrowings

Included in unsecured other borrowings of the Group and the Company as at 31 December 2004 were borrowings from BITIC amounting to RMB220 million (the Company: RMB180 million) and other loans amounting to RMB49 million (the Company: RMB36 million). The BITIC borrowing of RMB180 million was guaranteed by Chaoyang Auxillary and the remaining BITIC borrowing of RMB40 million was guaranteed by the Company.

Included in unsecured other borrowings of the Group and the Company as at 31 December 2005 were borrowings from BITIC amounting to RMB302.3 million (the Company: RMB242.3 million) and other loans amounting to RMB24 million (the Company: RMB24 million). The BITIC borrowing of RMB242.3 million was guaranteed by Chaoyang Auxillary and the remaining BITIC borrowing of RMB60 million was guaranteed by the Company.

Subsequent to the Company's listing on the GEM of the Stock Exchange in September 2006, the BITIC borrowings guaranteed by Chaoyang Auxillary were fully released and were replaced by a guarantee from the Company.

Included in unsecured other borrowings of the Group as at 31 December 2006 were borrowings from BITIC amounting to RMB100 million, which were guaranteed by the Company.

Except for interest-free borrowings of RMB22 million and RMB20 million as at 31 December 2004 and 2005, respectively, all of the Group's and the Company's other borrowings as at 31 December 2004, 2005 and 2006 were denominated in RMB and bore fixed interest rates ranging from 3.6% to 5.3%, 3.6% to 5.3% and 5.3% to 6.1% per annum, respectively.

31. DEFERRED INCOME**Group and Company**

	As at 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount at 1 January	–	–	4,000
Received during the year	–	4,000	–
Released to the income statement	–	–	(267)
	<hr/>	<hr/>	<hr/>
Carrying amount at 31 December	–	4,000	3,733
Current portion	–	(267)	(267)
	<hr/>	<hr/>	<hr/>
Non-current portion	<u>–</u>	<u>3,733</u>	<u>3,466</u>

In 2005, the Beijing Municipal Commission of Development and Reform and the Beijing Municipal Chaoyang District Finance Bureau granted RMB3 million and RMB1 million, respectively, to the Company for the construction of a fresh produce logistics centre and a logistics system. The construction has been completed as at 31 December 2005. Therefore, the amounts are recorded in government grants and amortised over the useful lives of the corresponding assets beginning from 1 January 2006.

32. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities of the Group and the Company during the Relevant Years are as follows:

Group and Company

	As at 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year	1,155	12,271	15,747
Additions during the year	11,116	3,476	2,932
	<hr/>	<hr/>	<hr/>
At end of year	<u>12,271</u>	<u>15,747</u>	<u>18,679</u>
Provision in respect of:			
Temporary difference arising from capitalised interest expenses into construction in progress	3,201	7,029	10,313
Temporary differences arising from gain on exchange of items of property, plant and equipment	9,070	8,718	8,366
	<hr/>	<hr/>	<hr/>
	<u>12,271</u>	<u>15,747</u>	<u>18,679</u>

33. ISSUED CAPITAL

Company

	Number of shares As at 31 December		
	2004	2005	2006
Domestic Shares of RMB1.00 each	246,620,000	246,620,000	232,820,000
H shares of RMB1.00 each	–	–	151,800,000
	<u>246,620,000</u>	<u>246,620,000</u>	<u>384,620,000</u>
	As at 31 December		
	2004 RMB'000	2005 RMB'000	2006 RMB'000
Issued and fully paid:			
Domestic Shares of RMB1.00 each	246,620	246,620	232,820
H shares of RMB1.00 each	–	–	151,800
	<u>246,620</u>	<u>246,620</u>	<u>384,620</u>

A summary of the movements in the Company's share capital is as follows:

	Notes	Domestic Shares of RMB1.00 each RMB'000	H shares of RMB1.00 each RMB'000	Total RMB'000
Capitalisation of reserves upon transformation into a joint stock company	(a)	246,620	–	246,620
At 31 December 2004 and 2005 and 1 January 2006		246,620	–	246,620
Sales of Domestic Shares by Chaoyang Auxillary and conversion into H shares upon listing	(b)	(12,000)	12,000	–
Issuance of new H shares upon listing	(b)	–	120,000	120,000
Sales of Domestic Shares by Chaoyang Auxillary and conversion into H shares upon full exercise of the over-allotment option	(c)	(1,800)	1,800	–
Issuance of new H shares upon full exercise of the over-allotment option	(c)	–	18,000	18,000
At 31 December 2006		<u>232,820</u>	<u>151,800</u>	<u>384,620</u>

Notes:

- (a) The details of the capitalisation of reserves upon transformation into a joint stock company are set out in note (a) of the consolidated statements of changes in equity.
- (b) On 25 September 2006, the Company issued 132,000,000 H Shares, consisting of 120,000,000 new H shares and 12,000,000 H Shares converted from Domestic Shares, with a par value of RMB1.00 each, to the public by way of placement and offer at HK\$4.50 (equivalent to approximately RMB4.57) each. The gross proceeds received from the issue of the 120,000,000 new H shares amounted to RMB548,597,000. Part of the proceeds amounting to RMB120,000,000 was recorded as share capital, and the remaining balance of the proceeds of RMB428,597,000 was recorded to the share premium account.
- (c) On 25 September 2006, the over-allotment option was exercised. An additional 19,800,000 shares, consisting of 18,000,000 new H shares and 1,800,000 H shares converted from Domestic Shares, with a par value of RMB1.00 each were issued to the public by way of placement at HK\$4.50 (equivalent to approximately RMB4.57) each. The gross proceeds received from the issue of the 18,000,000 new H shares amounted to RMB82,501,000. Part of the proceeds amounting to RMB18,000,000 was recorded as share capital, and the remaining balance of the proceeds of RMB64,501,000 was recorded to the share premium account.

34. RESERVES

(a) Group

The amounts of the Group's reserves and the movement therein for the Relevant Years are presented in the consolidated statements of changes in equity of pages 202 to 204 of this document.

(b) Company

	Share premium account <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i> <i>(note i)</i>	Statutory public welfare fund <i>RMB'000</i> <i>(note ii)</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2004	-	-	3,997	1,999	3,327	9,323
Capitalisation of reserves upon transformation into a joint stock company <i>(note iv)</i>	-	-	(3,997)	(1,999)	(3,964)	(9,960)
Profit for the year	-	-	-	-	70,281	70,281
Transfer to capital reserve <i>(note v)</i>	-	4,426	-	-	(4,426)	-
Appropriation to reserves	-	-	4,647	2,324	(6,971)	-
Proposed final 2004 dividend	-	-	-	-	(39,502)	(39,502)
Special 2004 dividend declared	-	-	-	-	(3)	(3)
At 31 December 2004 and at 1 January 2005	-	4,426	4,647	2,324	18,742	30,139
Release of unpaid liability	-	695	-	-	-	695
Profit for the year	-	-	-	-	60,391	60,391
Appropriation to reserves	-	-	6,631	3,316	(9,947)	-
Proposed final 2005 dividend	-	-	-	-	(56,367)	(56,367)
At 31 December 2005 and at 1 January 2006	-	5,121	11,278	5,640	12,819	34,858
Issue of H shares upon listing <i>(note 33(b))</i>	428,597	-	-	-	-	428,597
Issue of H shares upon exercising the over-allotment option <i>(note 33(c))</i>	64,501	-	-	-	-	64,501
Share issue expense	(50,868)	-	-	-	-	(50,868)
Profit for the year	-	-	-	-	81,372	81,372
Appropriation to reserves	-	-	9,326	-	(9,326)	-
Transfer of unutilised statutory public welfare fund to statutory surplus reserve	-	-	5,640	(5,640)	-	-
Proposed final 2006 dividend	-	-	-	-	(57,693)	(57,693)
At 31 December 2006	<u>442,230</u>	<u>5,121</u>	<u>26,244</u>	<u>-</u>	<u>27,172</u>	<u>500,767</u>

Notes:

(i) Statutory surplus reserve

In accordance with the PRC Company Law and the respective companies' articles of association, the Company and its subsidiaries are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with the PRC GAAP, to the statutory surplus reserve. When the balance of the reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of registered capital after such uses.

(ii) Statutory public welfare fund

In accordance with the PRC Company Law and the respective companies' articles of association, the Company and its subsidiaries are required to appropriate 5% of annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with the PRC GAAP, to the statutory public welfare fund, which is utilised to build or acquire capital items, such as dormitories and other facilities for the employees of the Company and its subsidiaries, and cannot be used to pay for staff welfare expenses. Titles of these capital items will remain with the respective companies now comprising the Group.

According to the revised PRC Company Law effective from 1 January 2006, the Company and its subsidiaries are not required to transfer its profit after tax to the statutory public welfare fund. All unutilised balances of the fund as at 1 January 2006 were transferred to the statutory surplus reserve.

(iii) Distributable reserve

As at 31 December 2006, the Company had retained profits of approximately RMB26.2 million after the appropriation of the proposed final dividend, as determined in accordance with the lower of either the amount determined under the PRC GAAP or the amount determined under HKFRSs, available for distribution by way of cash or in kind.

(iv) The details of the capitalisation of reserves upon transformation into a joint stock company are set out in note (a) of the consolidated statements of changes in equity.

(v) This related to the change of capital contribution by Chaoyang Auxillary from buildings to cash in 2004, details of which are set out in note (b) of the consolidated statements of changes in equity.

35. BUSINESS COMBINATIONS

In June 2004, the Company's subsidiary, Chaopi Trading entered into two equity transfer agreements with Chaoyang Auxillary to acquire additional 11.11% and 12.50% equity interests in Chaopi Huaqing and Chaopi Flavourings, respectively. Upon the completion of the equity transfer, Chaopi Trading owned total equity interest of 52.22% and 56.25% in Chaopi Huaqing and Chaopi Flavourings, respectively. Chaopi Huaqing and Chaopi Flavourings became the subsidiaries of Chaopi Trading from then onwards.

The acquisition of additional interests in Chaopi Huaqing and Chaopi Flavourings was accounted for under the purchase method of accounting. On the effective date of the acquisition, the assets and liabilities of Chaopi Huaqing and Chaopi Flavourings were as follows:

	<i>Note</i>	Chaopi Huaqing RMB'000	Chaopi Flavourings RMB'000	Total RMB'000
Property, plant and equipment	<i>14</i>	1,116	2,033	3,149
Trade receivables		32,536	60,851	93,387
Cash and bank balances		2,135	13,839	15,974
Prepayments, deposits and other receivables		11,001	3,779	14,780
Inventories		8,786	22,112	30,898
Trade payables		(14,931)	(51,532)	(66,463)
Tax payable		(293)	(1,782)	(2,075)
Other payables and accruals		(27,928)	(32,972)	(60,900)
		<u>12,422</u>	<u>16,328</u>	<u>28,750</u>
Less: Minority interests		(6,226)	(7,144)	(13,370)
Less: Carrying amounts of investments in associates before the acquisition		(4,816)	(7,143)	(11,959)
		<u>1,380</u>	<u>2,041</u>	<u>3,421</u>
Net assets acquired arising from increase in equity interest attributable to the Group		1,380	2,041	3,421
Goodwill/(excess over the cost of a business combination) on acquisition		(74)	112	38
		<u>1,306</u>	<u>2,153</u>	<u>3,459</u>
Satisfied by cash		<u>1,306</u>	<u>2,153</u>	<u>3,459</u>

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of additional equity interests in Chaopi Huaqing and Chaopi Flavourings is as follows:

	<i>RMB'000</i>
Total cash consideration	(3,459)
Cash and bank balances acquired	<u>15,974</u>
Net inflow of cash and cash equivalents in respect of the acquisition of additional equity interests in Chaopi Huaqing and Chaopi Flavourings	<u>12,515</u>

Since their acquisitions, Chaopi Huaqing and Chaopi Flavourings contributed approximately RMB99.4 million and RMB268.2 million, respectively, to the Group's turnover, and approximately a net loss of RMB0.26 million and a net profit of RMB3 million, respectively, to the consolidated profit after tax and before minority interests for the year ended 31 December 2004.

36. DISPOSAL OF A SUBSIDIARY

Pursuant to an equity transfer agreement entered into between the Company and Chaoyang Auxillary on 21 June 2004, the Company transferred all its equity interests of 62.73% in Tengyuan.

On the effective date of disposal on 21 June 2004, the assets and liabilities of Tengyuan were as follows:

	<i>Note</i>	<i>RMB'000</i>
Property, plant and equipment	<i>14</i>	30,240
Trade receivables		6,192
Cash and bank balances		10,486
Pledged deposits		14,322
Prepayments, deposits and other receivables		11,632
Inventories		28,939
Short term bank loan		(9,170)
Trade payables		(1,032)
Bills payable		(13,660)
Tax payable		(52)
Other payables and accruals		(60,795)
Minority interests		<u>(447)</u>
		16,655
Less: Minority interests		<u>(6,207)</u>
Net assets disposed of arising from the disposition of equity interest attributable to the Group		10,448
Loss on disposal of a subsidiary		<u>(1,410)</u>
		<u><u>9,038</u></u>
Satisfied by cash		<u><u>9,038</u></u>

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of Tengyuan is as follows:

	<i>RMB'000</i>
Cash consideration	9,038
Cash and bank balances disposed	<u>(10,486)</u>
Net outflow of cash and cash equivalents in respect of the disposal of Tengyuan	<u><u>(1,448)</u></u>

Prior to its disposition, Tengyuan contributed approximately RMB98.2 million to the Group's turnover and approximately RMB20,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2004.

37. CONTINGENT LIABILITIES

As at the end of each of the Relevant Years, contingent liabilities not provided in the financial statements were as follows:

Company

	As at 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Guarantee given to banks in connection with facilities granted to subsidiaries	173,000	200,000	180,000
Guarantee given to other financial institutions in connection with facilities granted to subsidiaries	40,000	60,000	100,000
	<u>213,000</u>	<u>260,000</u>	<u>280,000</u>

As at 31 December 2004, 2005 and 2006, the facilities granted to subsidiaries subject to guarantees given to banks and other financial institutions by the Company were utilised to the extent of approximately RMB173,000,000, RMB200,000,000 and RMB180,000,000, and RMB40,000,000, RMB60,000,000 and RMB100,000,000, respectively.

38. PLEDGE OF ASSETS

Details of the Group's and the Company's assets for securing bank loans and other borrowings during the Relevant Years are included in notes 14, 15, 16, 17 and 27 to the financial statements, respectively.

39. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group and the Company lease its properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 15 years. The terms of the leases generally also require the tenants to pay security deposits.

As at the end of each of the Relevant Years, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

Group

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Within one year	21,686	23,988	21,263
In the second to fifth years, inclusive	73,860	74,898	56,380
After five years	22,255	22,901	20,815
	117,801	121,787	98,458
	117,801	121,787	98,458

Company

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Within one year	21,011	19,788	21,083
In the second to fifth years, inclusive	73,115	58,098	55,660
After five years	20,275	21,101	19,195
	114,401	98,987	95,938
	114,401	98,987	95,938

(b) As lessee

The Group and the Company lease certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 5 to 20 years.

As at the end of each of the Relevant Years, the Group and the Company had the following total future minimum lease payments under non-cancellable operating leases falling due as follows:

Group

	As at 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Within one year	40,227	43,574	60,260
In the second to fifth years, inclusive	165,743	178,404	270,896
After five years	501,215	446,073	624,518
	707,185	668,051	955,674
	707,185	668,051	955,674

Company

	As at 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	27,207	27,988	38,980
In the second to fifth years, inclusive	116,181	125,828	201,094
After five years	424,503	381,675	521,931
	<u>567,891</u>	<u>535,491</u>	<u>762,005</u>

40. COMMITMENTS**(a) Capital commitments**

The Group and the Company had the following capital commitments, principally for the construction and acquisition of property, plant and equipment at the end of each of the Relevant Years:

Group and Company

	As at 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Authorised, but not contracted for	–	–	16,307
Contracted, but not provided for	65,403	38,788	84,864
	<u>65,403</u>	<u>38,788</u>	<u>101,171</u>

(b) 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.

41. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed in notes 25 and 26 to the financial statements, the Group had the following material transactions with related parties during the Relevant Years:

Group

	<i>Notes</i>	Year ended 31 December		
		2004 <i>RMB'000</i>	2005 <i>RMB'000</i>	2006 <i>RMB'000</i>
Ultimate holding company:				
Expenses on property leasing	(i)	9,916	9,056	8,176
Compensation income	(ii)	–	13,880	10,426
Purchases of items of property, plant and equipment	14	–	7,243	–
Interest expense		1,458	257	62
Interest income		51	307	–
Acquisition of subsidiaries	35	3,459	–	–
Disposal of a subsidiary	36	9,038	–	–
Disposal of an associate		14,984	–	–
Disposal of long term investments		400	–	–
Transfer out of items of property, plant and equipment	14	52,620	–	–
Associates:				
Purchase of merchandise		58,256	–	–
Transfer to equity interest		1,628	–	–
Interest income		1,578	–	–
A related party:				
Automobile repair and maintenance expense		500	250	–

Notes:

- (i) Pursuant to three property lease agreements and supplementary agreements signed between the Company and Chaoyang Auxillary, between Chaopi Trading and Chaoyang Auxillary dated 30 April 2004 and between Xinyang Tongli and Chaoyang Auxillary dated 1 July 2004, and the supplementary agreements, with the commencement and expiry dates on 1 January 2004 and 31 December 2023, respectively, the Company, Chaopi Trading and Xinyang Tongli rent properties from Chaoyang Auxillary for operation purposes at a basic annual rental expense, including related business taxes and property taxes of approximately RMB7,340,000, RMB1,099,000 and RMB16,000, respectively, with a term of increase of rental expense including related business taxes of 5% or 20% for each aforesaid fixed rental period. Pursuant to a supplementary agreement dated 24 March 2006 signed between the Company and Chaoyang Auxillary, the Company ceased the rental of one of the leased properties from Chaoyang Auxillary with effect from 1 January 2006. The aggregate annual rental paid to Chaoyang Auxillary by the Company for the year ended 31 December 2006 was reduced from RMB7,340,000 to RMB7,061,000. The aggregate annual rental to be paid to Chaoyang Auxillary by the Company since 1 January 2007 was revised to RMB6,713,000.

- (ii) For the year ended 31 December 2005, the gross compensation income was received from Chaoyang Auxillary for the Company's loss of business and the related items of property, plant and equipment, primarily leasehold improvements and machinery and equipment of a demolished retail outlet and a warehouse originally rented from Chaoyang Auxillary. The net compensation of RMB11.1 million, representing the gross compensation of RMB13.9 million received from Chaoyang Auxillary in excess of the carrying amounts of the related items of property, plant and equipment upon the demolition of RMB2.8 million, was recorded in the other income and gains account.

For the year ended 31 December 2006, the gross compensation income was received from Chaoyang Auxillary for the Company's loss of business and the related items of property, plant and equipment, primarily leasehold improvements and machinery and equipment of three demolished retail outlets originally rented from Chaoyang Auxillary. The net compensation of RMB10.1 million, representing the gross compensation of RMB10.4 million received from Chaoyang Auxillary in excess of the carrying amounts of the related items of property, plant and equipment upon the demolition of the retail outlets of RMB0.3 million, was recorded in the other income and gains account.

- (iii) Pursuant to a deed of indemnity dated 1 March 2006 and a supplementary agreement dated 10 August 2006, Chaoyang Auxillary has undertaken to indemnify the Company against the following:
1. any costs, expenses, losses and claims that the Company and Chaopi Trading may suffer as a result of relocation or eviction from certain premises rented from outside parties in the event of that any of the corresponding tenancy agreements is determined to be void due to a lack of building ownership certificates or proper property title deeds by the lessors;
 2. 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 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; and
 3. any costs and penalties that the Group may suffer due to any breach of the applicable PRC laws and regulations on the use of the Jingkelong cards and the membership reward cards which were issued by the Company as part of the Group's marketing strategy for its retail operations.

(b) Compensation of key management personnel of the Group

	Year ended 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Short term employee benefits	2,507	3,127	4,427
Post-employment benefits	384	324	503
	<hr/>	<hr/>	<hr/>
Total compensation paid to key management personnel	<u>2,891</u>	<u>3,451</u>	<u>4,930</u>

Further details of the directors' and supervisors' emoluments are included in note 8 to the financial statements.

(c) Transactions with other State-owned Enterprises in the PRC

During the Relevant Years, the Group had transactions with State-owned Enterprises including, but not limited to, sales and purchases of merchandise. It is impracticable to identify all the transactions with the other State-owned Enterprises due to the nature of business of the Group, however, the directors consider that transactions with other State-owned Enterprises are activities conducted in the ordinary course of the Group's business at terms that are consistently applied to all customers, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and other State-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, and cash and short term time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, credit risk and foreign currency risk. The board of directors reviews and approves policies for managing each of these risks and they are summarised below:

Cash flow interest rate risk

The Group's income statement is affected by changes in interest rates due to the impact of such changes on interest income and expenses from bank balances and interest-bearing bank and other borrowings. The Group's policy is to obtain the most favourable interest rates available.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings. The Group's financing activities are managed centrally by maintaining an adequate level of cash and cash equivalents to finance the Group's operations. The Group also ensures the availability of bank credit facilities to address any short term funding requirements.

The Group's cash and cash equivalents are placed with reputable financial institutions.

Credit risk

Credit risk arises mainly from the risk that counterparties defaulting on the terms of their agreements. The carrying amounts of cash and cash equivalents, pledged time deposits, trade receivables, other receivables and available-for-sale investments represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group monitors the exposure to credit risk on an ongoing basis and credit evaluations are performed on customers requiring credit over a certain amount. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The credit risk on balances of cash and cash equivalents is low as these balances are placed with reputable financial institutions.

As at 31 December 2004, 2005 and 2006, there was no significant concentration of credit risk.

Foreign currency risk

The Group's businesses are principally located in PRC and the Group's sales and purchases were mainly in RMB. As at the balance sheet date, all the Group's assets and liabilities are denominated in RMB, except for time deposits of RMB458,690,000 as at 31 December 2006, denominated in Hong Kong dollars ("HK\$"). Accordingly, the Group is exposed to the exchange differences arising from the translation of the deposits in HK\$ to RMB at the rates of exchange ruling at 31 December 2006.

43. POST BALANCE SHEET EVENTS

- (a) On 25 January 2007, the Company announced a proposal to shareholders to approve the migration of the Company's H shares from the GEM to the Main Board of the Stock Exchange (the "Migration") at the Extraordinary General Meeting which was held on 20 March 2007. The Migration was approved on that day.

The proposed Migration did not have a significant impact on the financial statements of the Group for the year ended 31 December 2006.

Further details of this transaction are also set out in the announcement of the Company dated 25 January 2007 and the circular to shareholders dated 1 February 2007.

- (b) On 10 February 2007, the Company and Beijing Shou Lian Group Enterprises Company Limited ("Shou Lian") entered into a capital increase agreement in relation to the issue of RMB50 million of new equity capital of Shou Lian (representing a 11.04% of the enlarged equity capital) at the consideration of RMB50 million to the Company.

In conjunction with the capital increase agreement as mentioned above, on the same date, the Company also entered into a co-operation agreement with Shou Lian and Beijing Xi Dan You Yi Group ("Xi You") which held approximately 45.3% of the total enlarged equity of Shou Lian (the "Delegated Equity") for a period of three years commencing 28 February 2007 (the "Delegated Period").

The principal terms of the co-operation agreement are (i) Shou Lian's retail network will be operated, on terms of the Group's franchise arrangements, under the Group's "京客隆" brandname; (ii) the Group has preferential right to acquire the Delegated Equity when Xi You disposes the Delegated Equity; (iii) the Group has a right to acquire the Delegated Equity at the date of each anniversary during the Delegated Period, subject to written notification received by Xi You to confirm whether the Group will exercise or forfeit the purchase rights within one month before the date of each anniversary; (iv) the Group shall exercise the voting rights attached to the Delegated Equity in accordance with Xi You's direction; (v) Xi You enjoys the right of profit sharing and bears any loss resulting from the operations of Shou Lian according to its percentage shareholding in Shou Lian; and (vi) the Company will lend an interest-bearing designated loan of RMB50 million to Shou Lian through a bank in the PRC.

Further details of this transaction are also set out in the announcement of the Company dated 10 February 2007.

- (c) On 7 February 2007, the Group, through a non-wholly subsidiary, established a subsidiary, Beijing Chaopi Zhongde Trading Company Limited ("Chaopi Zhongde") to engage in wholesale of general merchandise and provision of storage services. The Company holds an indirect interest of 76.42% in Chaopi Zhongde. The total equity of Chaopi Zhongde is RMB28 million and has been fully paid up on 30 January 2007.
- (d) On 8 February 2007, the Group, through a non-wholly subsidiary, established a subsidiary, Beijing Chaopi Huilong Trading Company Limited ("Chaopi Huilong") to engage in wholesale of general merchandise. The Company holds an indirect interest of 39.05% in Chaopi Huilong. The total equity of Chaopi Huilong is RMB12 million and the portion being contributed by the Group is RMB6,132,000 and has been fully paid up on 22 January 2007.
- (e) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.
- (f) Pursuant to an agreement entered into between Chaopi Trading, Chaopi Zhongde and an independent third party on 18 April 2007, the independent third party would transfer the distribution and supplier networks of the wholesale of consumer sanitary products in the region covering Beijing City and certain parts of its periphery and other part of China to Chaopi Zhongde for a consideration of RMB5,600,000. In addition, Chaopi Trading would transfer 20% of its equity interest in Chaopi Zhongde for a consideration of RMB5,600,000, which approximated the fair values of the identifiable assets and liabilities of Chaopi Zhongde at that date to the independent third party. After the completion of the transfer of this equity interest, the Company holds an indirect interest of 61.14% in Chaopi Zhongde.

- (g) On 23 April 2007, the equity holders of Chaopi Trading resolved to increase the registered capital of Chaopi Trading from RMB96,000,000 to RMB192,000,000. The increase in the registered capital of RMB96,000,000 was settled by dividend declared by Chaopi Trading of RMB28,800,000 and cash contribution from the equity holders based on their respective equity interest therein. Upon the completion of the increase in the registered capital, the Company continues to hold approximately 76.42% of Chaopi Trading. The cash contribution of RMB51,352,700 by the Company has been fully paid on 22 May 2007.
- (h) On 23 April 2007, Chaopi Trading acquired the remaining equity interests of 41% each in Chaopi Qingdao and Chaopi Shijiazhuang from their minority equity holders, at considerations of RMB810,000 and RMB820,000 respectively, which have been fully paid on 27 April 2007. Upon the acquisitions, the Company holds indirect interests of 76.42% each in Chaopi Qingdao and Chaopi Shijiazhuang.
- (i) On 23 April 2007, Chaopi Trading resolved to increase the registered capital each of Chaopi Qingdao and Chaopi Shijiazhuang from RMB2,000,000 to RMB5,000,000 respectively. The aggregate capital of RMB3,000,000 each of Chaopi Qingdao and Chaopi Shijiazhuang have been fully paid on 10 May 2007 and 29 April 2007, respectively.
- (j) On 24 April 2007, the equity holders of Chaopi Huaqing resolved to increase the registered capital of Chaopi Huaqing from RMB9,000,000 to RMB18,000,000. The increase in the registered capital of RMB9,000,000 was settled by dividend declared by Chaopi Huaqing of RMB2,700,000 and cash contribution from Chaopi Trading of RMB3,507,000 and the minority equity holders in aggregate of RMB2,793,000. Upon the completion of the increase in the registered capital, the Company's indirect interest in Chaopi Huaqing increased from 39.91% to 40.83%. The cash contribution of RMB3,507,000 by Chaopi Trading has been fully paid on 10 May 2007.
- (k) On 27 April 2007, the equity holders of Chaopi Flavourings resolved to increase the registered capital of Chaopi Flavourings from RMB9,500,000 to RMB23,750,000. The increase in the registered capital of RMB14,250,000 was settled by dividend declared by Chaopi Flavourings of RMB10,450,000 and a conversion of its capital reserve of RMB1,725,000 and statutory surplus reserve of RMB2,075,000 into the registered capital. Upon the completion of the increase in the registered capital, the Company continues to hold an indirect interest of approximately 40.22% in Chaopi Flavourings.
- (l) On 27 April 2007, the equity holders of Chaopi Jinglong resolved to increase the registered capital of Chaopi Jinglong from RMB12,000,000 to RMB18,000,000. The increase in the registered capital of RMB6,000,000 was settled by dividend declared by Chaopi Jinglong of RMB3,600,000 and cash contribution from the equity holders based on their respective equity interest therein. Upon the completion of the increase in the registered capital, the Company continues to hold an indirect interest of approximately 41.44% in Chaopi Jinglong. The cash contribution of RMB1,301,496 by Chaopi Trading has been fully paid on 15 May 2007.

- (m) On 27 April 2007, the equity holders of Chaopi Shuanglong resolved to increase the registered capital of Chaopi Shuanglong from RMB12,000,000 to RMB24,000,000. The increase in the registered capital of RMB12,000,000 was settled by dividend declared by Chaopi Shuanglong of RMB12,000,000. Upon the completion of the increase in the registered capital, the Company continues to hold an indirect interest of approximately 45.09% in Chaopi Shuanglong.

44. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2006.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong