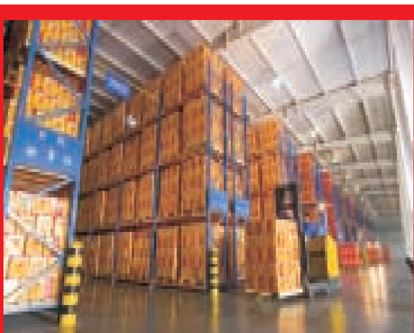
北京京客隆
商业集团股份有限公司
BEIJING JINGKELONG COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 8245)

Annual Report 2006



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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The Stock Exchange takes no responsibility for the contents of this annual report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this annual report.

This annual report, for which the directors (the "Directors") of Beijing Jingkelong Company Limited collectively and individually accept full responsibilities, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wei Tingzhan *(Chairman)*
Mr. Li Jianwen
Ms. Li Chunyan
Mr. Liu Yuejin

Non-executive Directors

Mr. Gu Hanlin
Mr. Li Shunxiang

Independent Non-executive Directors

Mr. Fan Faming
Mr. Huang Jiangming
Mr. Chung Chi Kong, *CPA*

SUPERVISORS

Ms. Chen Jie
Ms. Qu Xinhua
Mr. Yang Baoqun
Mr. Chen Zhong
Ms. Cheng Xianghong
Ms. Wang Shuying

SENIOR MANAGEMENT

Ms. Chen Limin
Mr. Gao Jingsheng
Mr. Zhao Weili
Mr. Keung Siu Fai, *CPA*

QUALIFIED ACCOUNTANT

Mr. Keung Siu Fai, *CPA*

JOINT COMPANY SECRETARIES

Mr. Keung Siu Fai, *CPA*
Ms. Li Chunyan

AUDIT COMMITTEE

Mr. Chung Chi Kong, *CPA*
Mr. Fan Faming
Mr. Huang Jiangming

NOMINATION COMMITTEE

Mr. Wei Tingzhan
Mr. Fan Faming
Mr. Huang Jiangming

REMUNERATION COMMITTEE

Mr. Wei Tingzhan
Mr. Fan Faming
Mr. Huang Jiangming

COMPLIANCE OFFICER

Ms. Li Chunyan

AUTHORISED REPRESENTATIVES

Ms. Li Chunyan
Mr. Keung Siu Fai, *CPA*

COMPLIANCE ADVISER

DBS Asia Capital Limited

AUDITORS

Ernst & Young

CORPORATE INFORMATION

LEGAL ADVISERS

As to Hong Kong law:

Richards Butler

As to PRC law:

Jun Ze Jun Law Offices

PRINCIPAL BANKERS

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Tuanjie Lake Branch
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Beijing PRC

Bank of Beijing

Jiulongshan Branch
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WEBSITE

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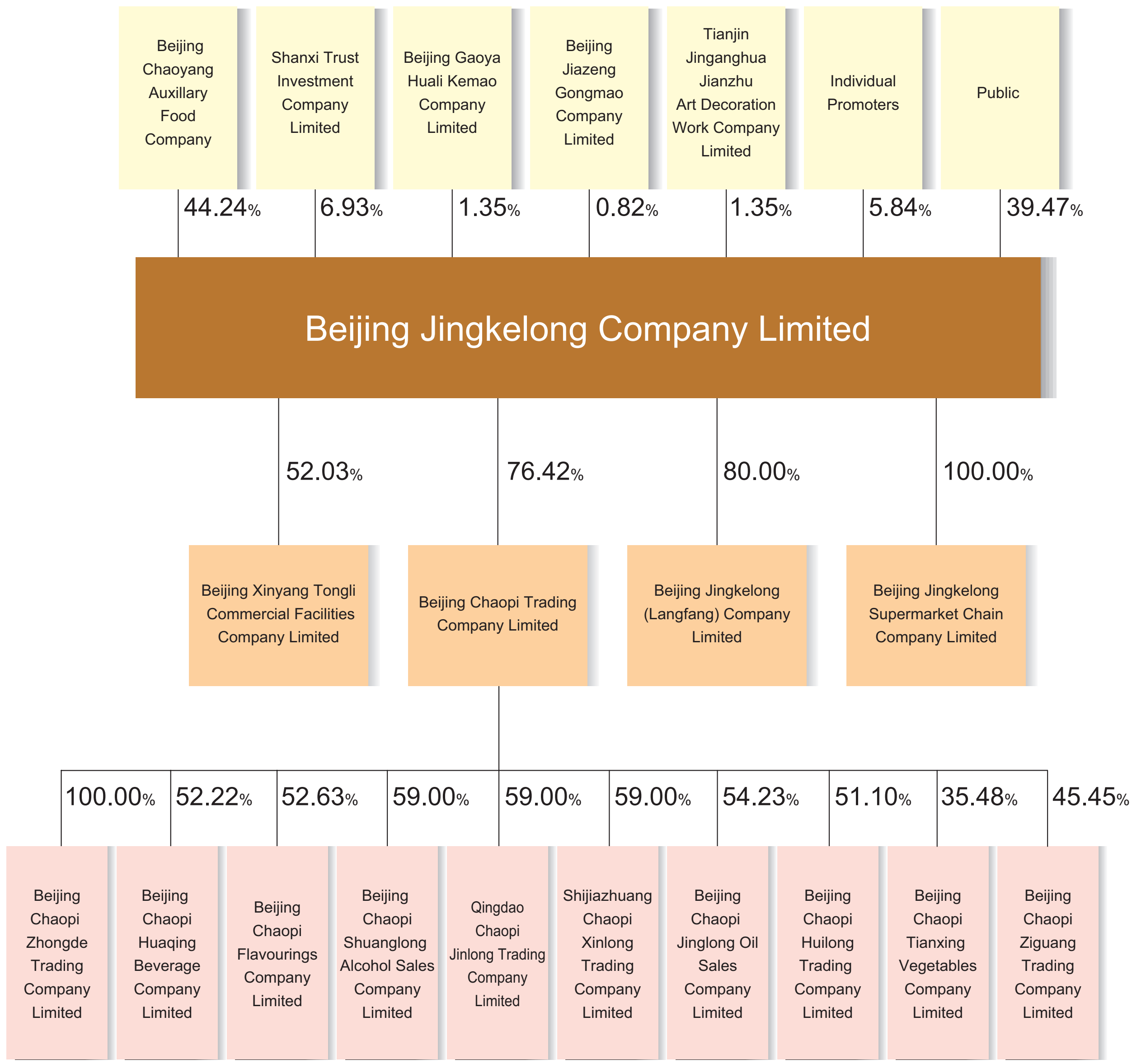
STOCK CODE

8245

SHAREHOLDERS & GROUP STRUCTURE

As at the date of this report, the shareholders, subsidiaries and associated companies of Beijing Jingkelong Company Limited were as follows:



Comprehensive

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board of Directors (the "Board") and with great pleasure, I present to you the first annual results of Beijing Jingkelong Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2006 (the "Reporting Period") after the successful listing of the Company's H shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2006 marked an important milestone in the development history of the Group. The Company's H shares were successfully listed on GEM of the Stock Exchange on 25 September 2006. The Company's Global Offering was very well received and the Company raised net proceeds (not including interest income) of approximately HK$584.6 million. The successful listing of the Company's H shares on GEM allows the Group to access the international capital markets and its corporate profile has also been greatly enhanced. The Directors and the management team of the Group will endeavour to carry out our expansion strategies and create value for the shareholders of the Company.

During the Reporting Period, the Group continued to focus on its integrated retail and wholesale businesses in the region covering Beijing City and certain parts of its periphery (the "Greater Beijing Region") of the People's Republic of China (the "PRC"), and has achieved satisfactory results in terms of expansion of network coverage as well as significant growth in sales and net profit.

CHAIRMAN'S STATEMENT

REVIEW OF RESULTS

During the Reporting Period, the Group continued to leverage on its well-established foundation to further expand its integrated retail and wholesale distribution operations. The Group also attached great emphasis on enhancing its internal management while increasing its scale of operation. Through improving centralized procurement, logistics and distribution functions, systemizing and standardizing its chain store operation format, implementing stringent cost control and budget-based management, the Group has successfully achieved substantial growth in sales and continuous increment in gross profit margin, strengthened its leading position in the Greater Beijing Region and fortified its long-term competitiveness.

During the Reporting Period, the Group accelerated its network coverage by penetrating further in the Greater Beijing Region. Apart from consolidating its regional advantage in the Chaoyang District, the Group has also expanded its coverage to other locations. The Group currently operates its retail network in 13 districts and counties in Beijing. 19 new directly-operated retail outlets were set up during the Reporting Period. The aggregate net operating area of the Group's directly-operated retail outlets was increased by approximately 29,000 square metres in the Reporting Period.

Following the Group's recent investment in Beijing Shou Lian Group Enterprises Company ("Shou Lian"), management of the delegated equity of Shou Lian and implementing our franchise arrangement at its retail distribution network, the Group will gradually further extend its retail distribution network coverage to other districts of Beijing.

During the Reporting Period, the wholesale business of the Group in the Beijing Region continued to thrive with substantial growth while the distribution networks in our Tianjin branch and the subsidiaries located in Shijiazhuang, Hebei Province and Qingdao, Shandong Province have gradually matured. Our Tianjin branch also made top-ranks in terms of sales in its locality. The Group also obtained the wholesale regional sole distributorships of 45 brands which further strengthened its strong competitive position within our regional markets.

The Group achieved the following during the Reporting Period:

- Retail network increased to 171 outlets (including 5 hypermarkets, 39 supermarkets and 127 convenience stores) as compared to 158 in 2005;

- Revenue amounted to approximately RMB4,531 million, representing a 9.9% growth as compared to 2005;

- Gross profit amounted to approximately RMB564.6 million, 12.9% higher than that of 2005;

CHAIRMAN'S STATEMENT

- Gross profit margin was approximately 12.5%, 0.4% higher than that of 2005;
- Net profit margin was approximately 2.2%, 0.4% higher than that of 2005;
- Same store sales growth increased by approximately 1.8% from 4.8% in 2005 to 6.6% in 2006;
- Profit attributable to equity holders was approximately RMB99.6 million, representing a 32.6% growth as compared to 2005;
- Final dividend per share was RMB15 cents (tax inclusive); and
- Net gearing ratio substantially reduced to approximately 13.8%, 114.8% lower than that of 2005.

PROSPECTS

Looking forward, the Directors believe that the sustained robust growth of the PRC economy will continue to propel domestic consumer demand and the growth of the retail and wholesale distribution market in the PRC. With the 2008 Beijing Olympic Games, we believe that the investments in construction of various infrastructures and residential projects and the increase in the number of tourists visiting Beijing will stimulate economic growth and the consumer products markets in the Greater Beijing Region. In the coming year, the Group, as a leading retail and wholesale operator in the Greater Beijing Region, is well positioned to capture the potential benefits flowing from the upcoming 2008 Beijing Olympic Games. We will continue to focus on increasing operating scale and efficiency so as to maximize the benefit of the integrated and centralized resources of the Group’s procurement and distribution systems and retail network. In 2007, the Group will speed up the pace of its expansion through organic growth by various modes such as establishing more own-operated retail outlets and franchised outlets along with identifying appropriate merger and acquisition opportunities to further extend the reach of our regional network in the Greater Beijing Region. Meanwhile, the Group will continue to leverage on its unique advantage of having an integrated retail and wholesale operation, and upgrade its logistics and distribution systems and management information system. We announced on 25 January 2007 that the Company intended to apply for a migration of its listing to the Main Board of the Stock Exchange (the “Mainboard Migration”). At our shareholders’ class meetings on 20 March 2007, our shareholders voted in favour of the resolutions put forward to them and thus giving the Directors a mandate to apply to the China Securities and Regulatory Commission for the Mainboard Migration. This is also one of our objectives for 2007.

CHAIRMAN'S STATEMENT

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our sincere appreciation to all shareholders for their trust and support, and my gratitude to all the Group's employees for their valuable contribution to the Group during the year. I believe that with our management's in-depth understanding of the local market, together with the Group's strong logistics and distribution systems and advanced management information system, leading market position and stable and experienced management team, we are well positioned to seize opportunities for further business development.

Wei Tingzhan
Chairman

Beijing, PRC
20 March 2007

Fresh

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Reporting Period, the Group continued in using the "京客隆" and "朝批" brand names to extend its retail and wholesale businesses in the Greater Beijing Region in order to cater various demand of a diverse range of customers, ranging from retail operators to end consumers.

RETAIL BUSINESS

1. Accelerate expansion of retail network

As supported by its well-established and modernized logistics and distribution system as well as management information system, the Group is enabled to speed up expansion in its retail network in the Greater Beijing Region. During the Reporting Period, the Group achieved stable retail network expansion with 19 directly-operated retail outlets being established comprising 1 hypermarket, 14 supermarkets and 4 convenience stores, in particular including the initial foundation of 1 hypermarket in the Daxing District and scale expansion of 8 directly-operated supermarkets and 1 directly-operated convenience store in the Tongzhou District, which strengthened the geographic advantage and increased the brand awareness of the Group in the Greater Beijing Region.

The following table sets out the number and net operating area of the Group's retail outlets as at 31 December 2006:

	Hypermarkets	Supermarkets	Convenience stores	Total
Number of retail outlets				
Directly-operated	5	38	39	82
Franchise-operated	–	1	88	89
	5	39	127	171
Net operating area (square metres)				
Directly-operated	44,938	87,117	8,841	140,896
Franchise-operated	–	880	16,977	17,857
	44,938	87,997	25,818	158,753

2. Reinforcement of logistics and distribution functions

The efficiency and effectiveness of well-established logistic and distribution systems is a core competitiveness of retail chain operators.

During the Reporting Period, the Group's dry product logistics centre aimed at increasing its efficiency, reducing distribution error rate and lowering logistics costs, conducting logistics integration by enhancing the ABC classification management of operation area resulting in the rate of product distribution being improved, renovating storerooms and increasing 1,200 store units for further storing 50,000 cartoons of goods so as to relieve the pressure of stockpiling during peak seasons, and changing mode of transportation by means of outsourcing transportation resulting in improving transportation efficiency.

During the Reporting Period, the live and fresh produce logistics centre continued to enhance distribution function of the Group. In addition to the centralized distribution of pork, vegetables and fruits, the distribution also extended to beef and mutton during 2006. Purchase of live and fresh produce has been established at their places of origin. By selecting superior purchase channels and initial establishment of purchasing network system from nationwide famous and superior brand production origins, the quality and safety of live and fresh produce can be assured.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Enhancement of management information system

During the Reporting Period, by adopting data strategy, the retail outlets placed more emphasis in analyzing the operating data statistics based on the real-time operating data collected by the Group's management information system in implementing tailor-made operating plans for different formats and environments in enhancing overall operating efficiency.

4. Establishment for enhancing loyalty of consumers

Consumers' loyalty is crucial to the Group. According to the survey conducted on the consumers of the Group carried out by Beijing Quality and Quantity Association in 2006, the Group was ranked first in Beijing among all the other local and foreign-invested supermarkets in terms of consumers loyalty, which is attributable to the Group's strategy of long-term focus in establishing its brand and concern on consumers.

The Group is well aware of the customers are becoming more conscious about safety, and not only demand for variety of choices but also the quality of products. During the Reporting Period, further accomplishment was conducted for quality management system, stringent selection of new procuring channels, enhanced investigation and approval for new products, establishment of supplier credit files, optimization of supplier structure and risk reduction of quality at origins were adopted. Meanwhile, the capacity of the Group's product quality inspection centre was adequately exercised, strengthened investigation and testing of live and fresh produce and high-risk commodities operated by the retail outlets and assured quality and safety of food at the retail outlets.

During the Reporting Period, the Group strived in enhancing customer services. By unifying the three levels under the service monitoring systems, namely management, examination and implementation into an unique model plus a seamless multi-channel customer service system, application of creative service model, modification of service standard, optimization of service environment, enhancement of service training and upgrading of staff service techniques to ensure effective enhancement of customers loyalty and satisfaction. Active promotion of membership scheme and related management task were conducted and over 656,000 members were recorded as at 31 December 2006.

5. Operating results for different types of directly-operated retail format

Revenue

	2006		2005	
	Revenue	**Percentage of retail revenue**	Revenue	Percentage of retail revenue
	RMB'000	**(%)**	*RMB'000*	*(%)*
Hypermarket	**700,997**	**30.5**	694,362	33.7
Supermarket	**1,419,103**	**61.8**	1,205,007	58.5
Convenience store	**177,206**	**7.7**	161,204	7.8
Total	**2,297,306**	**100.0**	2,060,573	100.0

Gross profit and gross profit margin of directly-operated retailing business

	2006		2005	
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin
	RMB'000	*(%)*	*RMB'000*	*(%)*
Hypermarket	**102,261**	**14.6**	92,127	13.3
Supermarket	**205,397**	**14.5**	177,477	14.7
Convenience store	**26,164**	**14.8**	23,823	14.8
Total	**333,822**	**14.5**	293,427	14.2

During the Reporting Period, the revenue and gross profit of retail business increased by approximately 11.5% and 13.8%, respectively.

For the years ended 31 December 2006 and 2005, the revenue generated from the operations of hypermarkets, supermarkets and convenience stores accounted for approximately 30.5%, 61.8% and 7.7%, and 33.7%, 58.5% and 7.8%, respectively of the total retail revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

Hypermarkets Operations

Hypermarkets operations are the important part of the Group's retail business which is currently the most competitive business among local chain retail operators. During the Reporting Period, based on prudence sake and the principle of scientific location selection, the Group established one directly-operated hypermarket in the Daxing District which started operation on the last day of 2006. During the Reporting Period, the revenue generated from the hypermarkets operations was approximately RMB701 million, representing approximately 30.5% of the total retail revenue of the Group. The slight increase in 2006 revenue was mainly due to the same store sales growth of approximately 0.7%. Gross profit margin from this business segment increased from approximately 13.3% in 2005 to approximately 14.6% in 2006 mainly because of the higher gross profit margin generated by the self-operated live and fresh produce and continuously optimization of product mix.

Supermarkets Operations

Supermarkets operations are the Group most mature business and major contributor to the Group's retail business. During the Reporting Period, in view of realizing distribution tactic, the Group set up 8 new directly-operated supermarkets in the Tongzhou District which are essential to the Group future development. During the Reporting Period, the revenue generated from the supermarkets operations was approximately RMB1,419.1 million, representing approximately 61.8% of the total retail revenue of the Group. The significant increase in 2006 revenue of approximately 17.8% was mainly attributable to the total revenue generated by the 14 new supermarkets set up in 2006 and the same store sales growth of approximately 10.4%. Gross profit margin from this business segment slightly decreased from approximately 14.7% in 2005 to approximately 14.5% in 2006 was mainly due to the new supermarkets set up in 2006 in aggregate with a comparative lower gross profit margin.

Convenience Stores Operations

The business of the Group's convenience stores upholds the strategy in running both directly-operated and franchise-operated convenience stores at the same time. During the Reporting Period, the Group set up 4 new directly-operated convenience stores. The management of franchise-operated stores has been enforced during the year and of which the termination of franchise agreements with certain franchise-operated convenience stores which did not comply with the Group's franchise provisions in order to ensure the image of the Group's brand would not be impaired. During the Reporting Period, the revenue generated from the convenience stores operations was approximately RMB177.2 million, representing approximately 7.7% of the total retail revenue of the Group. The increase in 2006 revenue of approximately 9.9% was mainly attributable to the same store sales growth of approximately 7% as well as the total revenue generated by the 4 new convenience stores set up in 2006. Gross profit margin from this segment maintained at approximately 14.8% in 2005 and 2006.

WHOLESALE BUSINESS

In respect of its wholesale business, the Group is optimizing brand and classification of merchandise, achieving full-dimensional restructuring of operating entities, insisting on innovation of internal operation and management information system and maintaining appraisal of the performance of managements and staffs in terms of result and efficiency to inspire their motivation and sense of responsibility for persistent development of wholesale business.

During the Reporting Period, while expanding the wholesale business scale in Beijing, the local sales networks of the Tianjin branch and those subsidiaries located in Shijiazhuang, Hebei Province and Qingdao, Shandong Province have gradually established their respective direct and indirect co-operation relationships with over 80% of local customers which enhanced market competitiveness and influential effect along with sound increase in sales.

Operation results

	2006	2005
	RMB'000	*RMB'000*
Revenue	**2,228,520**	2,057,361
Gross profit	**229,375**	205,557
Gross profit margin (%)	**10.3**	10.0

During the Reporting Period, the revenue of wholesale business was approximately RMB2,228.5 million, representing approximately 49.2% of the total revenue, which is approximately 8.3% higher than that of 2005. The increase in 2006 revenue was primarily due to (i) the full year sales contribution in 2006 of three subsidiaries, namely Beijing Chaopi Jinglong Oil Company Limited, Shijiazhuang Chaopi Xinlong Trading Company Limited and Qingdao Chaopi Jinlong Trading Company Limited which were set up during 2005, (ii) the tremendous expansion of wholesale business arising from the rapid expansion of domestic retail business resulting in increase in demand of the Group's products, and (iii) continuously optimization of product mix. Gross profit margin slightly increased from approximately 10% in 2005 to 10.3% in 2006 was mainly because of the increase in total purchase volume with lower costs negotiated with suppliers and continuously optimization of product mix.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

FINANCIAL RESULTS

	2006	2005
	RMB'000	*RMB'000*
Revenue	**4,530,975**	4,121,748
Gross profit	**564,590**	500,081
Gross profit margin (%)	**12.5**	12.1
Other income and gains	**224,308**	143,668
Selling and distribution costs	**(419,117)**	(369,764)
Administrative expenses	**(107,958)**	(88,924)
Other expenses	**(29,897)**	(20,452)
Finance costs	**(26,296)**	(19,073)
Tax	**(74,072)**	(47,158)
Profit for the year	**131,419**	98,346
Profit attributable to equity holders of the parent	**99,577**	75,098
Net profit margin (%)	**2.2**	1.8
Basic earnings per share – RMB	**35.1 cents**	30.5 cents

Revenue

Revenue represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts.

The Group's revenue increased by approximately 9.9%, from approximately RMB4,121.7 million in 2005 to approximately RMB4,531 million was primarily due to the increase in retail and wholesale revenue by approximately 11.5% and 8.3%, respectively. The increase in retail revenue from approximately RMB2,060.6 million to approximately RMB2,297.3 million in current year was mainly attributable to the opening of 14 directly-operated supermarkets during 2006 and the overall same store sales growth of approximately 6.6%. The increase in 2006 wholesale revenue was mainly because of (i) the full year sales contribution in 2006 of three subsidiaries, namely Beijing Chaopi Jinglong Oil Company Limited, Shijiazhuang Chaopi Xinlong Trading Company Limited and Qingdao Chaopi Jinlong Trading Company Limited which were set up during 2005, (ii) the tremendous expansion of wholesale business arising from the rapid expansion of domestic retail business resulting in increase in demand of the Group's products, and (iii) continuously optimization of product mix.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and Gross profit margin

During the Reporting Period, the gross profit of the Group was approximately RMB564.6 million, representing an increase of approximately 12.9% compared with approximately RMB500.1 million of last year. The increment was in line with the increase in revenue. The increase in gross profit margin from approximately 12.1% to approximately 12.5% in current year was mainly attributable to increase in total purchase volume with lower costs negotiated with suppliers, higher gross profit margin generated by self-operated live and fresh produce and continuously optimization of product mix.

Other income and gains

Other income and gains mainly represents income from suppliers for display leasing fee, promotion income, internet services income and rebates, rental income from leasing of investment properties and counters, net compensation on demolished premises and interest income.

The Group's other income and gains significantly increased by 56% from approximately RMB143.7 million to approximately RMB224.3 million in the Reporting Period was mainly due to an increase in income from suppliers of approximately RMB41.5 million and bank interest income of approximately RMB29 million. The increase in income from suppliers was mainly due to the combined effect of (i) an increase in average fee standard for store display and promotion income with the continuous increase in purchase and (ii) an increase in about 30 new suppliers joined the Group's supply chain in 2006. The increase in interest income was primarily attributable to the one-off bank interest income of approximately RMB23 million earned from the over-subscription of the Company's H shares (the "Over-subscription").

A total net compensation of approximately RMB17 million was recorded in 2006 for 4 demolished retail outlets. Other income and gains as a percentage of revenue increased from approximately 3.5% to 5%.

Selling and distribution costs

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

The Group's selling and distribution costs increased by approximately 13.3% from approximately RMB369.8 million to approximately RMB419.1 million in 2006. The increase was primarily due to the combined effect of (i) an increase in salary and welfare of approximately RMB17.3 million due to a general increase in salary and more staff were recruited for the 19 new retail outlets set up in 2006, (ii) an increase in depreciation of approximately RMB3.5 million was mainly contributed by the fixed assets acquired for the 19 new retail outlets set up in 2006, (iii) an increase in energy fee of approximately RMB6.6 million was because of the 19 new retail outlets set up in 2006 as well as an increase in unit costs of utilities, (iv) an increase in

MANAGEMENT DISCUSSION AND ANALYSIS

rental expenses of approximately RMB10.5 million was mainly because of the 19 new retail outlets set up in 2006, and (v) an increase in transportation expenses of approximately RMB9.5 million was due to the expansion of wholesale networks and the increase in delivery of merchandises to the Group's retail outlets as well as the increase of gasoline unit price. Selling and distribution costs as a percentage of revenue was approximately 9% in 2005 as compared to approximately 9.3% in 2006.

Administrative expenses

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

The Group's administrative expenses increased by approximately 21.4% from approximately RMB88.9 million to approximately RMB108 million in 2006. Such increase was mainly attributable to (i) an increase in salary and welfare of approximately RMB6.3 million due to a general increase in salary and the increase of performance bonus paid to the Group's management in 2006, (ii) an increase in social security costs of approximately RMB4.5 million which was in line with the increase in salary, and (iii) an increase in entertainment, audit fee, office supplies, utilities, etc. of approximately RMB6.5 million. Administrative expenses as a percentage of revenue increased from approximately 2.2% to approximately 2.4% in current year.

Other expenses

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

The Group's other expenses increased from approximately RMB20.5 million to approximately RMB30 million in 2006. The increase was mainly because of an increase in various taxes and surcharges of approximately RMB4.2 million as a result of the increase in rental income and income from suppliers, and a foreign exchange loss of approximately RM6.4 million arising from the depreciation of Hong Kong Dollar ("HK$") against RMB in respect of the listing proceeds received from the initial public offering of the Company's H shares.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

Finance costs represent interest on bank loans and borrowings from other enterprises.

The Group's finance costs increased from approximately RMB19.1 million to approximately RMB26.3 million in 2006 mainly because of the increase in bank loans and other borrowings and interest rates in 2006. Finance costs as a percentage of revenue increased from approximately 0.5% to 0.6%.

Tax

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

The members of the Group are subject to corporate income tax at a rate of 33% on their respective taxable profit pursuant to the relevant PRC tax laws and regulations.

Income tax increased by approximately 57%, from approximately RMB47.2 million to approximately RMB74.1 million in 2006, primarily due to the increase in taxable income. The Group's effective corporate income tax rate increased from 32.4% to 36.1% in 2006.

Profit for the year

Profit for the year increased by approximately 33.6% from approximately RMB98.4 million to approximately RMB131.4 million in the current year. The increase was mainly attributable to an increase in revenue of approximately 9.9% resulting in an increase in gross profit of approximately 12.9% and an increase in other income and gains of approximately 56%.

Excluding the effect of the one-off bank interest income earned from the Over-subscription and the foreign exchange loss as aforementioned, profit for the year was approximately RMB122.3 million for the current year, representing approximately 24.4% increase comparing to last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit attributable to equity holders of the parent and net profit margin

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

Basic earnings per share

The Group recorded basic earnings per share of RMB35.1 cents for 2006, which was calculated on the basis of the Company's weighted average number of approximately 283,672,055 shares, representing approximately 15.1% higher than RMB30.5 cents of last year. Excluding the effect of the one-off bank interest income earned from the Over-subscription and the foreign exchange loss as aforementioned, the basic earnings per share was approximately RMB31.9 cents for the current year, representing approximately 4.6% higher than that of last year.

ANALYSIS OF KEY FINANCIAL RATIOS

	2006	2005
Inventory turnover days	**41**	37
Debtor turnover days	**37**	38
Creditor turnover days	**64**	64
Net gearing ratio (%)	**13.8**	128.6

The Group's inventory turnover days increased from 37 days in 2005 to 41 days in 2006, primarily due to the increase in inventories of the retail business because of the self-operation of live and fresh produce and more inventories with purchase prices anticipated to be increased shortly were acquired and stored for the wholesale business.

Both the Group's debtor turnover days and creditor turnover days maintained at the about same level during 2005 and 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's net gearing ratio was approximately 13.8% which was significantly lower than approximately 128.6% of last year. The decrease was primarily due to the listing proceeds received and the enlargement of share capital base.

STRATEGIES AND PLANS

In 2006, the Group focused on profitability, continued to strengthen its regional predominance in the Greater Beijing Region, enhanced overall performance of integrated operation of retail and wholesale businesses and further strengthened the core competitiveness of its leading position in the Greater Beijing Region.

Looking ahead, both the Group's retail and wholesale businesses come with opportunities and challenges. In spite of persistent competition, market rooms and developing potential are still enormous.

Leveraging on its logistics and distribution systems and management information system as well as enhancement of its core competitiveness, the Group will insist on pursuing its strategy of centralized development in the Greater Beijing Region and continue to enlarge its retail and wholesale networks.

In respect of the strategy on outlet expansion, apart from the modes of organic growth such as establishing more owned-operate retail outlets and franchised outlets, the Group will adopt flexible measures in its expansion plan, including striving for opportunities through merger, acquisition and restructuring. Regarding the investment in Shou Lian, the Group will gradually re-brand stores of Shou Lian under the "京客隆" brand name and operate according to the franchise agreement and maximize synergy from the arrangement through linking of the Group's centralized management information system with the retail outlets of Shou Lian so as to integrate Shou Lian's procurement and distribution requirements with the Group's centralized procurement and logistics system, and connect the Company's two retail logistics centres with the retail network of Shou Lian.

The Group will persist in enhancing purchasing level, optimizing product mix, continuing in exploring commodities in order to adapt gradual changing resident consumption concept and pursue adjustment of product mix. The Group will further strengthen the strategic co-operated relationships with suppliers in assuring their support and assistance to the Group development. Meanwhile, the Group will continue to strive for stringent cost control and refinement of financial management in order to monitor all economic activities within budget-based management and to maximize profitability.

In 2007, the Group plans to strengthen its corporate culture and training activities, continue in founding a professional and international management team with hard-working and trustworthy staff team. By enhancing recruitment scheme, adopting design of staff career path and staff training programmes to improve overall quality of staff team.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

On 25 September 2006, the Company undertook an initial public offering on GEM of the Stock Exchange, in aggregate of 151,800,000 H shares, comprising 138,000,000 new H shares and 13,800,000 H shares converted from the Company's domestic shares (held by Beijing Chaoyang Auxillary Food Company and then allocated to The National Social Security Fund Council of the PRC) at an offer price of HK$4.5 per share with a nominal value of RMB1.00 each. Total net proceeds not including interest income, amounted to approximately HK$584.6 million was raised by the Company, resulting in the Company's issued share increased from 246,620,000 shares (all domestic shares) to 384,620,000 shares, representing 232,820,000 domestic shares and 151,800,000 H shares.

LIQUIDITY AND FINANCIAL RESOURCES

The Group mainly financed its operations through internally generated cash flows and borrowings from banks and other enterprises. Following completion of the Company listing, the Group will fund its capital and operating requirements through internally generated cash flows, the net listing proceeds and its cash on hand.

As at 31 December 2006, the Group had non-current assets of approximately RMB1,123.5 million, which mainly comprised property, plant and equipment of approximately RMB1,011.2 million and non-current liabilities of approximately 302.1 million mainly comprised of bank loans and other borrowings of RMB280 million.

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

FOREIGN CURRENCY RISK

All of the operating revenues and expenses of the Group are principally denominated in RMB.

Under the current PRC foreign exchange control system, the proceeds from the Company's H shares listing which were received in HK$, are only approved to exchange into RMB by the State Administration for Foreign Exchange of the PRC ("SAFE") when it is satisfied that the payments reported by the Company are in accordance with the implementation plan as described in the Company's prospectus dated 12 September 2006.

Due to the recent depreciation of HK$ against RMB, a foreign exchange loss of approximately RMB6.4 million in respect of the listing proceeds received from the initial public offering of the Company's H shares was recorded by the Group in 2006. In addition, the Group had HK$ bank balance amounting to approximately HK$456.6 million as at 31 December 2006. Accordingly, the Group had taken measures to minimize and compensate the foreign exchange losses such as reporting to SAFE at an early stage for obtaining approval to convert the amount of HK$ into RMB and then deposits into a designated bank account for subsequent payments in RMB and also entering into fixed term bank deposit agreements of the unutilized HK$ for earning bank interest after taking into consideration the progress of the implementation plan.

After adopting the aforesaid measures, the Group's HK$ balance has been greatly reduced to HK$100 million as at the date of this report. The Directors consider that the fluctuations in exchange rate of HK$ against RMB should not have any further material impact on the Group's results and operations.

EMPLOYEES

As at 31 December 2006, the Group had a total of 4,601 full-time employees in the PRC, deployed in the following capacities:

	Headquarters	Hypermarkets	Supermarkets	Convenience stores	Chaopi Trading	Logistics centres	Xinyang Tongli	Total
Management, administration and finance	144	9	54	3	152	6	2	370
Sales and marketing	215	653	1,884	431	456	222	9	3,870
Others	61	50	66	10	107	31	36	361
Total	420	712	2,004	444	715	259	47	4,601

MANAGEMENT DISCUSSION AND ANALYSIS

The total staff costs (including directors' and supervisors' remunerations) of the Group amounted to approximately RMB206.9 million for 2006 (2005: RMB178.8 million). The emoluments of the staff (including directors and supervisors) of the Group are based on duty (position), experience, performance, and market rates, in order to maintain their remunerations at a competitive level. The Group participates in defined contribution retirement benefits schemes organized by the local government authorities in the PRC. The Directors believe that employees are one of the most valuable assets of the Group which contributed significantly to the success of the Group. The Group recognizes the importance of staff training and hence provides regular internal and external training to them to enhance their technical and professional knowledge.

INDEBTEDNESS

As at 31 December 2006, the Group had an aggregate bank loans and other borrowings of approximately RMB1,006.4 million, consisted of secured short term bank loans of approximately RMB368.4 million, unsecured short term bank loans of RMB208 million, secured short term borrowings from Beijing International Trust and Investment Company Limited ("BITIC") of RMB150 million, secured long term bank loans of RMB120 million, secured long term borrowings from BITIC of RMB60 million and unsecured long term borrowings from BITIC of RMB100 million. The secured bank loans and other borrowings were secured by:

- Pledge of 71.7% equity interest in Beijing Chaopi Trading Company Limited ("Chaopi Trading") owned by the Company;

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

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

According to an independent legal opinion, all the borrowings incurred in 2006 are in compliance with the relevant PRC applicable laws.

MANAGEMENT DISCUSSION AND ANALYSIS

BITIC Loans and Employee Investments

To rationalize the Group's financing arrangements, in June 2004, the Company obtained a loan of RMB130 million (the "First BITIC Loan") from BITIC (the First BITIC Loan and the further loans from BITIC shall together be referred to as the "BITIC Loans").

BITIC has offered and may continue to offer an investment proposal to those interested employees of the Group to invest in its trust loan programme for the Group. The investments made by the said employees have been used to fund the BITIC Loans provided by BITIC to the Group from time to time (such investment and the further investments made by employees of the Group under this programme shall together be referred to as the "Employee Investments").

The Directors confirm that, any participation in the Employee Investments has always been and will continue to be entirely voluntary and personal, and any decision of an employee to participate in or withdraw from the Employee Investments will not affect his/her employment with the Group.

The First BITIC Loan was secured by a guarantee from the Company's controlling shareholder, Beijing Chaoyang Auxillary Food Company ("Chaoyang Auxillary"). Such guarantee from Chaoyang Auxillary has also covered all subsequent BITIC Loans extended to the Company, whilst other BITIC Loans which were extended to the Company's subsidiary, Chaopi Trading are secured by a corporate guarantee from the Company itself. The guarantee from Chaoyang Auxillary has, upon the Company's listing on GEM of the Stock Exchange on 25 September 2006, been replaced by a corporate guarantee from the Company and the pledge of the Company's 71.7% equity interest in Chaopi Trading.

As at 31 December 2006 and the date of this report, both the total accrued sum of Employee Investments made amounted to RMB310 million. As at the same dates, the total number of participating employees amounted to 2,128 and 1,995, respectively, and both the total sum of BITIC Loans amounted to RMB310 million.

An analysis of the BITIC loans and the Employee Investments incurred during the period from 1 October 2006 to the date of this report is as follows:

a. Both the RMB62.3 million Employee Investments and the related BITIC Loans with due date on 1 October 2006 have been extended respectively to 31 March 2008, and each balance was reduced to RMB60 million. The number of employees participated was reduced to 676 when such Employee Investments were renewed.

MANAGEMENT DISCUSSION AND ANALYSIS

b. Employee Investments, in aggregate of RMB40 million were received by BITIC on 29 September 2006, and subsequently lent to the Group in October 2006. Both the due date of the Employee Investments and the related BITIC Loans are on 29 June 2008.

c. Both the RMB50 million Employee Investments and the related BITIC Loans with due date on 16 February 2007 have been extended respectively to 31 March 2008. The number of employees participated was reduced to 760 when such Employee Investments were renewed.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

The Company did not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.24 of the GEM Listing Rules.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group had no material contingent liabilities.

POST BALANCE SHEET EVENTS

The post balance sheet events of the Group as at 31 December 2006 are set out in note 41 to the financial statements.

REVIEW OF BUSINESS OBJECTIVES

The prospectus dated 12 September 2006 in respect of the initial public offering of the Company's H shares (the "Prospectus") has described the schedule of the implementation plan of the Group from 5 September 2006, being the latest practicable date as defined in the Prospectus up to 31 December 2006 (the "Period"). During the Period, the actual progress of the implementation plan was as follows:

EXPANSION OF RETAIL DISTRIBUTION NETWORK IN THE PRC

	Implementation plan during the Period	**Actual progress**
Hypermarkets	Open not less than 1 hypermarket in the Greater Beijing Region	Opened 1 hypermarket in Daxing District, Beijing with net operating area of approximately 6,300 square metres.
Supermarkets	Open not less than 3 supermarkets in the Greater Beijing Region	Opened a total of 3 supermarkets with each in Chaoyang District, Tongzhou District and Haidian District of Beijing, respectively with total net operating area of approximately 4,200 square metres.
Convenience stores	Open not less than 3 convenience stores in the Greater Beijing Region	Opened 3 convenience stores in Chaoyang District, Beijing with total net operating area of approximately 650 square metres.
	Open not less than 5 convenience stores in the Greater Beijing Region through franchise arrangements	Opened 9 convenience stores through franchise arrangements, of which 5 in Chaoyang District, Beijing, 2 in Fengtai District, Beijing and 2 in Chongwen District, Beijing with total net operating area of approximately 2,200 square metres.

REVIEW OF BUSINESS OBJECTIVES

INCREASE OPERATING EFFICIENCY

	Implementation plan during the Period	Actual progress
Logistics centre	Continue to upgrade the live and fresh produce logistics centre	• Acquired fixed assets; • Expanded scope of centralized distribution and replenishment to all directly-operated retail outlets of pork, beef, mutton, vegetables and fruits; • Passed and recognized as ISO9000 quality management system; and • Passed and recognised as food safety management system and ISO14001 environmental management system.
Management information systems	Develop internet purchase system	Conducted in-depth feasibility study on development of internet purchase system.
Operating system	Continue to promote and improve uniform operating	• Adjusted layout of retail outlets and commodity display; • Organized commodity of vegetable and fruits and pork display competitions; and • Enhanced monitoring and checking of service, hygiene and quality of commodity in retail outlets.

REVIEW OF BUSINESS OBJECTIVES

	Implementation plan during the Period	Actual progress
Staff training	Offer training courses to store managers and staff for new retail outlets	• Conducted 4 training seminars for about 200 staff for preparing new store opening; and • Conducted 8 training seminars for about 700 store managers, assistants to store managers and regional managers.

FURTHER BRAND-BUILDING

	Implementation plan during the Period	Actual progress
Existing retail outlets	Renovating and upgrading existing retail outlets	Renovated and upgraded 4 supermarkets.
Enhancing customer services quality	Establish e-platform for sharing of information among customers	• Established internet communication channel and provided assistance to customers through customer postbox; • Established internet service for enquiring customer points under the membership scheme; and • Established reconciliation of balances with and notification services to suppliers through internet.

REVIEW OF BUSINESS OBJECTIVES

	Implementation plan during the Period	Actual progress
	Provide delivery services to elderly and disable customers	Provided free delivery services to elderly and disable customers according to their requests for nearby retail outlets.
Introducing in-house branded products	Introduce other in-house branded products	Introduced 31 types of in-house branded products with a total up to 216 types.

USE OF PROCEEDS FROM LISTING

The intended application of proceeds listed in the Prospectus during the period from 25 September 2006 (date of listing of the Company's H shares on GEM of the Stock Exchange) to 31 December 2008 as compared with the actual application from 25 September 2006 to 31 December 2006, and the unutilized balance as at 31 December 2006 were as follows:

	Intended application from 25 September 2006 to 31 December 2008	Actual application from 25 September 2006 to 31 December 2006	Unutilized balance as at 31 December 2006
	HK$'000	*HK$'000*	*HK$'000*
Expansion of retail distribution network in the PRC			
Open not less than 5 hypermarkets, 19 supermarkets and 19 convenience stores in the Greater Beijing Region	356,600	82,704	273,896
Increase operating efficiency			
Logistics centre/Management information system	175,400	26,145	149,255
Working Capital			
Working capital including but not limited to brand building	52,600	43,508	9,092
Total	**584,600**	**152,357**	**432,243**

CORPORATE GOVERNANCE REPORT

The Group puts strong emphasis to achieving high standard of corporate governance as it believes that an effective corporate governance practices not only monitor and regulate its business activities, but also can attract more investors to invest in the Company.

The Company has complied with all the code provisions as set out in Appendix 15 of the GEM Listing Rules in protecting and maximizing the interests of shareholders during the Reporting Period.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries, all the Directors have confirmed that they have complied with the required standard of dealings and code of conduct regarding their securities transactions throughout the year ended 31 December 2006.

THE BOARD

The Board takes the responsibility for leadership and control of the Company and be collectively responsible for safeguarding the best interest of the Company and accountable to the shareholders. Matters that are required to be determined or considered by the Board include overall group strategies, substantial acquisitions and disposals, capital transactions, annual, interim and quarterly results, distribution of dividends and other substantial operating and financial matters. Major corporate matters that are specifically delegated by the Board to the Group's management include the preparation of financial statements for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

The Board is currently comprised of nine Directors (being four executive Directors, two non-executive Directors and three independent non-executive Directors) who have served as Directors for the whole Reporting Period and their term of office will end on 31 October 2007.

During the Reporting Period, the Board fulfilled the requirement of having three independent non-executive Directors as required by the GEM Listing Rules and the number of independent non-executive Directors being at least one-third of the members of the Board, and it also met the requirement of having one independent non-executive Director qualified as a professional accountant or having the professional accounting and financial management expertise. The Board has received the annual confirmations in respect of their independence from each of the independent non-executive Director under Rule 5.09 of the GEM Listing Rules.

Each of the independent non-executive Directors has entered into an appointment agreement with the Company pursuant to which they have agreed to act as independent non-executive Directors with effect from 7 January 2005 (in the case of Mr. Fan Faming and Mr. Huang Jiangming) and from 27 July 2005 (in the case of Mr. Chung Chi Kong), in each case until 31 October 2007. The terms of the appointment agreements of the independent non-executive Directors are identical in all material respects and they are entitled to receive a fixed director's fee.

Reasonable notice period and sufficient relevant information have been given to all Directors so as to enable them to attend the Board meetings and make appropriate decision in relation to matters to be discussed. All Directors are entitled to include matters of their concern in the agenda of all Board meetings. All Directors are free to inspect all relevant corporate information.

The biographical details of the Directors are set out on pages 53 to 56 of this annual report.

Mr. Wei Tingzhan, acting as the chairman and executive Director of the Company is responsible for operation of the Board.

Mr. Li Jianwen, acting as the general manager and executive Director of the Company is responsible for the Group's business development and management.

Another two executive Directors, Mr. Liu Yuejin and Ms. Li Chunyan are responsible for the retail operation and legal affairs of the Group, respectively.

Each executive Director has sufficient experience to hold the position so as to accomplish his/her duties effectively and efficiently.

During the Reporting Period, four Board meetings were held and the attendance record of Directors is set out below:

	Attendance/ Number of meetings
Executive Directors	
Mr. Wei Tingzhan	4/4
Mr. Li Jianwen	4/4
Ms. Li Chunyan	4/4
Mr. Liu Yuejin	4/4
Non-executive Directors	
Mr. Gu Hanlin	4/4
Mr. Li Shunxiang	4/4
Independent Non-executive Directors	
Mr. Fan Faming	4/4
Mr. Huang Jiangming	3/4
Mr. Chung Chi Kong	4/4

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND GENERAL MANAGER

Mr. Wei Tingzhan and Mr. Li Jianwen are the chairman of the Board and the general manager of the Company, respectively, which are two clearly defined positions. The chairman is responsible for the operation of the Board while the general manager is in charge of the Group's business development and management. The Articles of Association of the Company sets out the respective duties and power of the chairman and the general manager in detail.

AUDIT COMMITTEE

Pursuant to the Rule 5.28 of the GEM Listing Rules, the Company has set up an audit committee on 29 July 2005. In compliance with the Rule of 5.29 of the GEM Listing Rules, the authority and responsibility of the audit committee has been properly written out. The audit committee provides an important link between the Board and the Company's auditors in matters falling within the scope of the audit of the Company and the Group. It reviews the effectiveness of external audit, internal controls and risk evaluation. It also provides comments and advice to the Board. The audit committee comprises three independent non-executive Directors, namely Mr. Chung Chi Kong, Mr. Huang Jiangming and Mr. Fan Faming. Mr. Chung Chi Kong is the chairman of the audit committee.

On 10 November 2006, all the members of the audit committee and the senior management of the Company, reviewed the Group's 2006 third quarterly report prepared in accordance with the accounting principles generally accepted in Hong Kong as well as the Group's internal control procedures. Relevant questions and recommendations have been made. The external auditors also attended the meeting.

On 20 March 2007, all the members of the audit committee, together with the senior management of the Company and the external auditors, reviewed the 2006 audited results adopted by the Company and the Group.

REMUNERATION COMMITTEE

The Group has established its remuneration committee on 29 July 2005 pursuant to Appendix 15 of the GEM Listing Rules, comprising three Directors, namely Mr. Wei Tingzhan, Mr. Fan Faming and Mr. Huang Jiangming. Mr. Wei Tingzhan is the chairman of the remuneration committee. The remuneration committee is responsible for reviewing and determining the policy for the remuneration packages of all Directors by considering factors such as salaries paid by comparable companies, time commitments and complexity of duties and responsibilities of the Directors to ensure incentives are effectively implemented for all Directors.

Details of Directors' remuneration are set out in note 9 to the financial statements.

NOMINATION COMMITTEE

The Group has established its nomination committee on 29 July 2005 pursuant to Appendix 15 of the GEM Listing Rules, comprising three Directors, namely Mr. Wei Tingzhan, Mr. Fan Faming and Mr. Huang Jiangming. Mr. Wei Tingzhan is the chairman of the nomination committee. The nomination committee is responsible for nominating potential candidates for directorships, reviewing the nomination of directors and making recommendations to the Board on such appointments.

SUPERVISORY COMMITTEE

The supervisory committee of the Company comprises six members, namely Ms. Chen Jie, Ms. Qu Xinhua, Mr. Yang Baoqun, Mr. Chen Zhong, Ms. Cheng Xianghong and Ms. Wang Shuying. Ms. Chen Jie is the chairman of the supervisory committee. The supervisors have performed their work in a dedicated and diligent manner and carried out effectively the functions of supervising the legal and regulatory compliance relating to financial matters and overseeing the Directors and senior management of the Company during their offices.

The supervisory committee of the Company was established in compliance with the company law of the PRC.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of Messrs. Ernst & Young as the external auditors of the Company for the year ended 31 December 2006. For the year ended 31 December 2006, the Company agreed auditing fees of RMB1,300,000 payable to Ernst & Young.

RESPONSIBILITIES FOR PREPARATION OF ACCOUNTS

The Directors are responsible for the accounts in compliance with the relevant regulations and applicable accounting standards.

The responsibility of the auditors with respect to the financial reporting are set out in the Independent Auditors' Report in this annual report on pages 57 to 58.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control. Regular reviews have been conducted by the Board for reviewing the effectiveness and adequacy of the Group's internal systems in respect of the financial, operational and risk management areas.

COMPLIANCE ADVISER'S INTEREST

Based on the latest information and notices from DBS Asia Capital Limited ("DBS Asia"), the Company's compliance advisor, pursuant to Rules 6.36 and 18.75 of the GEM Listing Rules, neither DBS Asia nor its directors, employees or associates had any interests in the securities of the Company or any other companies in the Group (including options or rights to subscribe for such securities) as at 31 December 2006. Pursuant to an agreement dated 30 March 2006 entered into between DBS Asia and the Company (the "Agreement"), DBS Asia received and will receive fees for acting as the Company's compliance advisor for a term expiring on the date on which the Company distributes the annual report for the second full financial year after listing of the Company's H shares on GEM of the Stock Exchange on 25 September 2006, or for the period until termination of the Agreement as stipulated therein.

INVESTOR RELATIONS

The Group is committed to establish a long-term relationship with shareholders and investors, an adherence to the principles of integrity, regularity, and high transparency, and disclose the required information in compliance with the GEM Listing Rules. Information of the Group is disseminated to its shareholders in the following manner:

– delivery of results and reports to all shareholders;

– publication of announcements of its results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the GEM Listing Rules; and

– the general meeting of the Company is also an effective communication channel between the Board and shareholders.

The Group maintains effective communications with its shareholders, investors and analysts through, inter alia:

– establishing dedicated divisions and personnel for liaison with investors and analysts by answering their questions;

– arranging on-site visits to the stores and logistics centers of the Group to enhance their timely understanding of the situations and latest development of the Group's business operations;

– gathering, in a timely manner, opinions and comments from analysts and investors on the operation of the Group, compiling report thereon at regular intervals and selectively adopting them in the Group's operations;

– making available information on the Company's website including description of the Group, promotional materials, etc.; and

– actively communicating with various parties, in particular, convening briefing sessions, press conferences and individual meeting with institutional investors upon the announcement of results and making decisions on material investments. The Group also participates in a range of investor activities and communicates on one-on-one basis with its investors regularly.

REPORT OF THE BOARD OF DIRECTORS

The Directors present their first report and the audited financial statements of the Company and the Group for the year ended 31 December 2006 after the successful listing of the Company's H shares on GEM of the Stock Exchange.

GROUP REORGANISATION

The Company was established as a state-owned enterprise under the name of Beijing Guandongdian Shang Sha in 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, 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, the Company completed its initial public offering and the H shares of the Company were listed on GEM of the Stock Exchange.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the retail and wholesale distribution of daily consumer products in the Greater Beijing Region. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 59 to 134.

The Directors recommend the payment of a final dividend of RMB15 cents (2005: RMB22.9 cents) per share (tax inclusive) in respect of the year to shareholders on the register of members on the date of the annual general meeting 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

REPORT OF THE BOARD OF DIRECTORS

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds not including interest income from the Company's issue of new H shares at the time of its listing on GEM of the Stock Exchange in September 2006, after deduction of related issuance expenses, amounted to approximately HK$584.6 million. These proceeds were partially applied during the Reporting Period in accordance with the proposed applications set out in the Prospectus, as follows:

- approximately HK$82.7 million was used for the expansion of the Group's retail network in the PRC;

- approximately HK$26.1 million was used for the improvement and development of the Group's information and logistics systems; and

- approximately HK$43.5 million was applied as general working capital, including but not limited to brand building.

DISCLOSURE UNDER RULE 18.23 OF THE GEM LISTING RULES

The Group wholly owns a property, namely the Jiuxianqiao Shopping Centre (the "Property") which will be developed into a comprehensive commercial complex with the provision of car parking facilities with a carrying value of approximately RMB353.6 million, representing approximately 11.3% of the Group's total assets as at 31 December 2006. The Property is located at Jiuxianqiao, Chaoyang District, Beijing, PRC with a total site area and gross floor area of approximately 23,910 and 71,396 square metres, respectively. The basic construction of the Property has been completed as at 31 December 2006 and is in the process of renovation and decoration up to date of this report. The duly completion date of the Property is anticipated in the third quarter of 2007.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last four financial years, as extracted from the Prospectus and audited financial statements for the Reporting Period, is set out on pages 135 to 136. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Company and the Group during the Reporting Period are set out in note 14 and 15 to the financial statements, respectively.

REPORT OF THE BOARD OF DIRECTORS

SHARE CAPITAL

Details of movements in the Company's share capital during the Reporting Period are set out in note 33 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the PRC which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period from 25 September 2006 (date of listing of the Company's H shares on GEM of the Stock Exchange) to the date of this report.

RESERVES

Details of movements in the reserves of the Company and the Group during the Reporting Period are set out in note 34(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

Details of reserves available for distribution are set out in note 34(b)(iii) to the financial statements.

CHARITABLE CONTRIBUTIONS

During the Reporting Period, the Group made charitable contributions totaling RMB104,717 (2005: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, sales to the Group's five largest customers accounted for approximately 16% of the total sales for the year and sales to the largest customer included therein accounted for approximately 3.7%. Purchase from the Group's five largest suppliers accounted for approximately 18% of the total purchases and purchases from the largest supplier accounted for approximately 3.9% during the Reporting Period.

None of the directors or supervisors of the Company or any of its associates or any shareholders which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company during the Reporting Period are:

Executive Directors:

Mr. Wei Tingzhan
Mr. Li Jianwen
Ms. Li Chunyan
Mr. Liu Yuejin

Non-executive Directors:

Mr. Gu Hanlin
Mr. Li Shunxiang

Independent non-executive Directors:

Mr. Fan Faming
Mr. Huang Jiangming
Mr. Chung Chi Kong

Supervisors:

Ms. Chen Jie
Ms. Qu Xinhua
Mr. Yang Baoqun
Mr. Chen Zhong
Ms. Cheng Xianghong
Ms. Wang Shuying (appointed on 23 February 2006)

In accordance with Company's Articles of Association, all directors and supervisors are elected to a term of three years and may serve consecutive terms upon re-election and re-appointment.

The Company has received annual confirmations of independence from Messrs. Fan Faming, Huang Jiangming and Chung Chi Kong, as at the date of this report still considers them to be independent.

REPORT OF THE BOARD OF DIRECTORS

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors, supervisors and senior management of the Company are set out on pages 53 to 56 of the annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

The Company has entered into employment agreements with each of the executive Directors pursuant to which they have agreed to act as executive Directors for a term of three years with effect from 1 November 2004. Each of the executive Directors is entitled to a fixed basic salary, a performance based salary (subject to clawback based on the Company's gross profit for the relevant year), a discretionary bonus (based on the Company's gross profit for the relevant year) and other allowance and benefits in kind under applicable PRC law and regulations.

Each of the non-executive Directors has entered into an appointment letter with the Company pursuant to which they have agreed to act as non-executive Directors for a term of three years with effect from 1 November 2004. They do not receive any director's fee.

Each of the independent non-executive Directors has entered into an appointment agreement with the Company pursuant to which they have agreed to act as independent non-executive Directors with effect from 7 January 2005 (in the case of Mr. Fan Faming and Mr. Huang Jiangming) and from 27 July 2005 (in the case of Mr. Chung Chi Kong), in each case until 31 October 2007. The terms of the appointment agreements of the independent non-executive Directors are identical in all material respects and they are entitled to receive a fixed director's fee.

Each of the supervisors has entered into an appointment letter or agreement with the Company pursuant to which they have agreed to act as supervisors with effect from 1 November 2004 (in the case of Ms. Chen Jie, Ms. Qu Xinhua and Mr. Yang Baoqun); from 7 January 2005 (in the case of Mr. Chen Zhong and Ms. Cheng Xianghong) and from 23 February 2006 (in the case of Ms. Wang Shuying), in each case until 31 October 2007. The terms of the appointment letters or agreements of the supervisors are identical in all material respects save that:

(i) Mr. Yang Baoqun does not receive any supervisor's fee;

(ii) each of Mr. Chen Zhong and Ms. Cheng Xianghong receives a fixed supervisor's fee;

(iii) each of Ms. Chen Jie, Ms. Qu Xinhua and Ms. Wang Shuying (being internal supervisors appointed by staff) receives a fixed basic salary, a performance based salary (subject to clawback based on the Company's gross profit for the relevant year), a discretionary bonus (based on the Company's gross profit for the relevant year) and other allowance and benefits in kind under applicable PRC law and regulations.

None of the Directors or supervisors had entered into or is proposed to enter into, any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION

The Directors' and supervisors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' and supervisors' duties, responsibilities and performance and the results of the Group. In compliance with the Code on Corporate Governance Practices as set out in Appendix 15 to the Listing Rules, the Company has a remuneration committee to formulate compensation policies and to determine and manage the compensation of the Company's senior management. Details of the Directors' and supervisors' remuneration are disclosed in note 9 to the financial statements.

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

None of the Directors and supervisors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the Reporting Period.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the interests and positions of the Directors, supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352

REPORT OF THE BOARD OF DIRECTORS

of the SFO, to be entered in the register referred to therein or which were required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, or sections 324 and 347 of Part XV of the SFO, to be notified to the Company and the Stock Exchange were as follows:

Long positions in the domestic shares of the Company

Name	Capacity	Total number of domestic shares held	Approximate percentage of total issued domestic shares *(%)*	Approximate percentage of total issued shares *(%)*
Wei Tingzhan	Personal	1,417,237	0.61	0.37
Li Jianwen	Personal	1,354,712	0.58	0.35
Li Chunyan	Personal	208,417	0.09	0.05
	Beneficiary *(Note 1)*	187,575	0.08	0.05
Liu Yuejin	Beneficiary *(Note 2)*	375,151	0.16	0.10
Gu Hanlin	Personal	1,417,237	0.61	0.37
Li Shunxiang	Personal	5,210,428	2.24	1.35
Yang Baoqun	Personal	1,042,086	0.45	0.27
Qu Xinhua	Personal	833,669	0.36	0.22
Wang Shuying	Beneficiary *(Note 3)*	375,151	0.16	0.10

Notes:

1. These 187,575 domestic shares are held by Shanxi Trust Investment Company Limited ("Shanxi Trust") as trust property, the beneficiary of which is Ms. Li Chunyan.

2. These 375,151 domestic shares are held by Shanxi Trust as trust property, the beneficiary of which is Mr. Liu Yuejin.

3. These 375,151 domestic shares are held by Shanxi Trust as trust property, the beneficiary of which is Ms. Wang Shuying.

Save as disclosed above, as at 31 December 2006, none of the Directors, supervisors or chief executive of the Company nor their associates had any interest and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, or sections 324 and 347 of Part XV of the SFO, to be notified to the Company and the Stock Exchange.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Reporting Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or its subsidiaries granted to any Director and supervisors or their respective associates (as defined under the GEM Listing Rules), or were any such rights exercised by them.

REPORT OF THE BOARD OF DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, so far as is known to the Directors, supervisors or chief executive of the Company, the persons (other than a Director, supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Long positions in the domestic shares of the Company

Name	**Capacity**	**Total number of domestic shares held**	**Approximate percentage of total issued domestic shares** *(%)*	**Approximate percentage of total issued shares** *(%)*
Chaoyang Auxillary	Beneficial owner	170,169,808	73.09	44.24
Shanxi Trust	Trustee *(Note)*	26,635,710	11.44	6.93

Note: These 26,635,710 domestic shares are trust property, the beneficiaries of which are 122 employees and officers of the Company.

Long positions in the H shares of the Company

Name	**Total number of H shares held**	**Approximate percentage of total issued H shares** *(%)*	**Approximate percentage of total issued shares** *(%)*
UOB Asset Management Limited (“UOB Asset”) *(Note 1)*	18,592,000	12.25	4.83
United Overseas Bank Limited (“UOB”) *(Note 2)*	18,592,000	12.25	4.83
Fidelity International Limited *(Note 3)*	8,580,000	5.65	2.23

Notes:

1. These 18,592,000 H shares were held by UOB Asset in its capacity as an investment manager.

2. UOB Asset is a subsidiary of UOB and is therefore deemed to have an interest in the 18,592,000 H shares in which UOB Asset is interested.

3. These 8,580,000 H shares were held by Fidelity International Limited in its capacity as an investment manager.

Save as disclosed above, so far as is known to the Directors, supervisors or chief executive of the Company, as at 31 December 2006, no other person (not being a Director, supervisor or chief executive of the Company) had, or were deemed or taken to have any interest or short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

CONTINUING CONNECTED TRANSACTIONS

During the Reporting Period, the Group entered into the following continuing connected transactions as described in the Prospectus as follows:

		2006	2005
		RMB'000	*RMB'000*
1,	Lease of properties by Chaoyang Auxillary to the Company*	**7,062**	7,462
2,	Supply of cooked food by Beijing Jiazeng Foodstuff Company Limited	**16,090**	20,535
3,	Supply of tea leaves by Beijing Wuyifeng Tea Leaves Sales Company Limited	**4,644**	5,654
4,	Supply of raw meat by Beijing Yingguangda Foodstuff Company Limited	**7,438**	36,766
5,	Provision of interior decoration services by Tianjin Jinganghua Jianzhu Art Decoration Work Company Limited	**5,246**	2,659

REPORT OF THE BOARD OF DIRECTORS

		2006	2005
		RMB'000	*RMB'000*
6,	Provision of construction, repair and renovation services by Beijing Zhonglianjian Construction Company Limited	**2,575**	2,572
7,	Supply of Chaopi Flavourings Products by Beijing Chaopi Flavourings Company Limited ("Chaopi Flavourings")	**45,144**	42,759
8,	Supply of Jiali Products by Beijing Chaopi Jinglong Oil Sales Company Limited ("Chaopi Jinglong")	**14,551**	14,983
9,	Provision of delivery and logistics services by Chaopi Trading to Chaopi Flavourings	**7,443**	6,130
10,	Provision of delivery and logistics services by Chaopi Trading to Chaopi Jinglong	**2,679**	2,270
11,	Lease of properties by Chaoyang Auxillary to Chaopi Trading*	**1,099**	1,577
12,	Lease of properties by Chaoyang Auxillary to Beijing Xinyang Tongli Commercial Facilities Company Limited*	**17**	17
13,	Provision of loan financing by the Company to Chaopi Flavourings	**20,000**	20,000
14,	Provision of loan financing by the Company to Chaopi Jinglong	**20,000**	20,000

* *Also reported as related party transactions as disclosed in note 39 to the financial statements*

A waiver has been grant by the Stock Exchange with respect to (i) 1, 3, 5, 6 and 10 to 12 from the announcement requirement under Rule 20.47 of the GEM Listing Rules, (ii) 2, 4, 7 to 9 and 13 to 14 from both the announcement requirement under Rule 20.47 of the GEM Listing Rules and the independent shareholders' approval requirements under Rule 20.48 of the GEM Listing Rules.

The Directors (including the independent non-executive directors) reviewed all the above connected transactions and of the opinion that:

a, The connected transactions were entered into by the Group in the ordinary and usual course of the Group's business;

b, The connected transactions were entered into on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available from any independent third parties;

c, The connected transactions were entered in the interest of the Company and the shareholders of the Company as a whole; and

d, The Company has been in strict compliance with the disclosure requirement in accordance with Chapter 20 of the GEM Listing Rules.

The Board has received a letter from the auditors in relation to the agreed upon procedures performed on the above continuing connected transactions stating that:

a, The agreements in respect of the respective connected transactions were approved/ratified by the Board;

b, The connected transactions were entered into in accordance with the terms of the respective agreements governing the transactions; and

c, The connected transactions did not exceed their respective annual caps as disclosed in the Prospectus.

SUFFICIENCY OF PUBLIC FLOAT

Based on public information and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as of the date of this report.

REPORT OF THE BOARD OF DIRECTORS

COMPETITION AND CONFLICT OF INTEREST

None of the Directors, supervisors, the management shareholders, the significant shareholders or the substantial shareholders of the Company or any of their respective associates had engaged in any business that competed or might compete, either directly or indirectly, with the business of the Group, as defined in the GEM Listing Rules, or had any other conflict of interests with the Group during the Reporting Period.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 41 to the financial statements.

AUDITORS

The financial statements have been audited by Ernst & Young, who retired and being eligible for their re-appointment as auditors of the Company. A resolution will be proposed at the forthcoming annual general meeting for their re-appointment.

ON BEHALF OF THE BOARD
Wei Tingzhan
Chairman

Beijing, PRC
20 March 2007

REPORT OF THE SUPERVISORY COMMITTEE

To the shareholders,

Since the incorporation of the Company, the supervisory committee of the Company (the "Supervisory Committee") adheres to the principles of honesty and integrity in discharging its supervisory duties and obligations cautiously and diligently in accordance with the Company's Articles of Association, the relevant laws and requirements of the PRC and Hong Kong for their accountability to the shareholders and the Company.

During the Reporting Period, the major work performed by the Supervisory Committee included the attendance of Board meetings, inspection of resolutions made by the Board, reviewed internal control system, reviewed the use of proceeds from the listing in strict compliance with the plan of use of proceeds disclosed in the Prospectus; strictly and effectively monitored whether the policies and decisions made by the management of the Company had confirmed with the relevant laws and regulations and the Company's Articles of Association and safeguarded the interest of the Company and shareholders. The Supervisory Committee has also reviewed the performance of the Directors and senior management in the daily operation by various means, examined the Group's financial affairs and connected transactions. As a result of our work, the Supervisory Committee concluded that:

1, Decision-making process of the Company is in compliance with the Company's Article of Association. Proper and adequate internal control system has been established. The Directors and senior management observed their fiduciary duties and worked diligently and legally. The Supervisory Committee is not aware that the Directors and senior management of the Company acted in breach of the relevant laws and regulations and the Company's Articles of Association or against the interests of shareholders.

2, The Company's 2006 financial statements reflected a true and fair view of the financial position and operating results of the Group. The unqualified opinion expressed in the auditors' report issued by Ernst & Young is objective and fair.

3, All connected transactions conducted in the Reporting Period between the Group and its connected persons were in the ordinary course of business and have not discovered any act that prejudiced the interests of the Company and shareholders.

4, The Group did not encountered any major litigation during the Reporting Period.

5, Application of the proceeds from the Company's recent initial public offering was in accordance with the plan disclosed in the Prospectus.

We would like to express our appreciation to the strenuous supports given by the shareholders, Directors and all staff to the work of the Supervisory Committee during the Reporting Period.

BY ORDER OF THE SUPERVISORY COMMITTEE
Chen Jie
Chairman

Beijing, PRC
20 March 2007

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

DIRECTORS

Executive Directors

Mr. Wei Tingzhan, aged 53, is the Chairman of the Company and an executive Director. Mr. Wei obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2001 and a Doctor of Business Administration from Pacific States University in 2004. He was elected as a representative of the 12th Beijing People's Congress. From 1991 to 1994 and 1999 to 2004, he was the general manager of Chaoyang Auxillary. From 1994 to 2002, he was the general manager of Beijing Jingkelong Shang Sha ("Jingkelong Shang Sha"), the predecessor of Beijing Jingkelong Supermarket Chain Group Company Limited ("Jingkelong Supermarket"). He was the managing director of Jingkelong Supermarket from 2002 to 2004. Since November 2004, he has been the Chairman of the Board. In September 2006, he was recognized as one of the prominent figures of the chain-store industry in 2005-2006 by the China General Chamber of Commerce and China Business Herald News Weekly.

Mr. Li Jianwen, aged 46, is the general manager of the Company and an executive Director. Mr. Li obtained his graduation in legal studies from College of the Central Party in 2001. He also worked in Jingkelong Shang Sha as the deputy general manager from 1998 to 2002. From 2002 to 2004, he was a director and the deputy general manager of Jingkelong Supermarket. He has been the Managing Director of the Company since November 2004.

Ms. Li Chunyan, aged 34, is an executive Director. Ms. Li obtained a bachelor's degree from China University of Politics & Law in 1994. Subsequently, she obtained a master's degree in Private International Law from China University of Politics & Law in 1997. She was the Officer of the Bureau of Law of Jingkelong Shang Sha from 2001 to 2002. In addition, she was the Officer of the Bureau of Law and the Secretary to the board of directors of Jingkelong Supermarket from 2002 to 2004. Since November 2004, she has been one of the executive Directors and the Secretary to the Board.

Mr. Liu Yuejin, aged 47, is an executive Director. Mr. Liu obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2004. From 2000 to 2004, he was the general manager of Beijing Jingkelong (Langfang) Company Limited. Between 2002 and 2004, he was one of the directors of Jingkelong Supermarket. Since November 2004, he has been an executive Director. During part of 2005 and 2006, he was the manager of the First Division, Operations of the Company. Since September 2006, he has been the head of the Jingkelong Jiuxianqiao shopping centre coordination team.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Non-executive Directors

Mr. Gu Hanlin, aged 54, is a non-executive Director. Mr. Gu obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2001 and a Doctor of Business Administration from Pacific States University in 2004. From 2002 to 2004, he was the chairman of the board of Jingkelong Supermarket. Since May 2004, he has been the general manager of Chaoyang Auxillary. Since November 2004, he has been a non-executive Director.

Mr. Li Shunxiang, aged 54, is a non-executive Director. Mr. Li obtained his graduation certificate in Administration from College of the Party, Beijing Branch in 2001. From 2000 to present, he is the General Manager of Beijing Zhonglianjian Construction Company Limited. From 2002 to 2004, he was a non-executive Director of Jingkelong Supermarket. Since November 2004, he has been a non-executive Director.

Independent non-executive Directors

Mr. Fan Faming, aged 53, is an independent non-executive Director. Mr. Fan obtained a master's degree in Business Administration from Monash University, Australia in 1995 and a doctorate degree from Central South University of Technology in 1988. He is currently a professor at the Institute of Finance and Commerce Management Beijing and a visiting professor at Asia International Open University (Macau). He is also a senior member of Hong Kong Quality Management Association. Since January 2005, he has been an independent non-executive Director.

Mr. Huang Jiangming, aged 43, is an independent non-executive Director. Mr. Huang obtained a master's degree in Economics from Renmin University of China and a PhD in Commercial Science from Kobe University in 1989 and 2002, respectively. He is currently an assistant professor at the School of Business, Renmin University of China. Since January 2005, he has been an independent non-executive Director.

Mr. Chung Chi Kong, aged 36, is an independent non-executive Director. Mr. Chung is also the chairman of the Company's audit committee. He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He has over nine years audit experience in international accounting firms and two years accounting experience in Datasys Technology Holdings Limited, a Hong Kong listed company. He is currently a director of Ascension Financial Services Group Limited. Since July 2005, he has been an independent non-executive Director.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

SUPERVISORS

Ms. Chen Jie, aged 56, graduated from Taiyuan University of Industry and College of the Party, Beijing Branch in 1984 and 1998, respectively. Ms. Chen was a member, industry section assistant section chief and Assistant Officer, respectively of Beijing Chaoyang Municipal Commission of Reform from 1990 to 1997. From 1997 to 2001, she worked in Chaoyang Commission for Restructuring Economy as Assistant Officer and Officer. From 2001 to 2002, she was the Officer of Beijing Chaoyang Committee and Policy, Research Bureau Peoples' Government of Chaoyang. From 2002 to 2004, she was the Officer of Beijing Chaoyang Municipal Commission of Development and Planning. Since June 2004, she is the Officer of Beijing Chaoyang Municipal Commission of Development and Reform. Since November 2004, she is the chairman of the Company's committee of supervisors.

Mr. Yang Baoqun, aged 54, is a supervisor of the Company. Mr. Yang obtained a diploma in Business Management from Beijing Nong Gong Shang Lian He Zong Gong Si Zhi Gong University in 1994. He was a supervisor of Jingkelong Supermarket from 2002 to 2004. Since November 2004, he has been a supervisor of the Company.

Mr. Chen Zhong, aged 43, is a supervisor of the Company. Mr. Chen obtained his master's degree and doctorate from Peking University in 1986 and 1989, respectively. He is a professor in the School of Software and Microelectronics at the Peking University. He has been the Dean of the School of Software of the University since June 2002. Since January 2005, he has been a supervisor of the Company.

Ms. Cheng Xianghong, aged 35, is a supervisor of the Company. Ms. Cheng obtained her bachelor's degree from Renmin University of China in 1994. She is a qualified accountant, certified public valuer and registered tax agent. She has previously worked in Beijing Ding Xin Li accounting firm. She has been the deputy general manager and financial controller of Beijing Zhongguancun City Construction Company since December 2003. Since January 2005, she has been a supervisor of the Company.

Ms. Qu Xinhua, aged 53, is a supervisor of the Company. Ms. Qu obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2001. From 2002 to 2004, she was the deputy general manager of Jingkelong Supermarket. Since November 2004, she has been a supervisor of the Company.

Ms. Wang Shuying, aged 51, is a supervisor. Ms. Wang obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2002. From 2003 to 2004, she was a manager of the Third Division, Operations of Jingkelong Supermarket. She was a supervisor of Jingkelong Supermarket from 2003 to October 2004. During part of 2005 and 2006, she has been the manager of the Third Division, Operations of the Company. From September 2006 to February 2007, she was the manager of the First Division, Operations of the Company. Since February 2007, she has been the general manager of Shou Lian. Since February 2006, she has been a supervisor of the Company.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

SENIOR MANAGEMENT

Ms. Chen Limin, aged 58, is the Chief Financial Officer of the Company since November 2004. Ms. Chen obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2001. She was the Deputy General Manager of Jingkelong Shang Sha from 1994 to 2002. She worked as a director of Jingkelong Supermarket from May 2002 to November 2004.

Mr. Gao Jingsheng, aged 52, obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2001. From 2002 to 2004, Mr. Gao was the Assistant General Manager of Jingkelong Supermarket. From 1999 to 2002, he was the Assistant General Manager of Chaoyang Auxillary. From 1998 to 1999, he was the Assistant General Manager of Jingkelong Shang Sha. He has been the Assistant General Manager of the Company since November 2004.

Mr. Zhao Weili, aged 54, obtained a master's degree in Business Administration from Asia International Open University (Macau) in 2001. From 2002 to 2004, Mr. Gao was the Assistant General Manager of Jingkelong Supermarket. From 1990 to 2002, he was the Assistant General Manager of Chaoyang Auxillary. From 1998 to 1999, he was the Assistant General Manager of Jingkelong Shang Sha. He has been the Assistant General Manager of the Company since November 2004.

Mr. Keung Siu Fai, aged 48, is the Financial Controller, the Qualified Accountant and one of the joint company secretaries of the Company. Prior to joining the Company in February 2005, Mr. Keung was the company secretary of Kong Sun Holdings Limited, a Hong Kong listed company. He has over 13 years of working experience with international accountant firms in accounting, auditing and financial services. He obtained his master's degree in Commerce from the University of New South Wales and a bachelor's degree in Science from the University of London. He is a member of the Hong Kong Institute of Certified Public Accountants and a member of Certified Practising Accountants Australia.

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安永會計師事務所

To the shareholders of Beijing Jingkelong Company Limited
(A joint stock limited company incorporated in the People's Republic of China)

We have audited the financial statements of Beijing Jingkelong Company Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 59 to 134, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

20 March 2007

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
REVENUE	5	**4,530,975**	4,121,748
Cost of sales		**(3,966,385)**	(3,621,667)
Gross profit		**564,590**	500,081
Other income and gains	5	**224,308**	143,668
Selling and distribution costs		**(419,117)**	(369,764)
Administrative expenses		**(107,958)**	(88,924)
Other expenses		**(29,897)**	(20,452)
Finance costs	7	**(26,296)**	(19,073)
Share of losses of associates		**(139)**	(32)
PROFIT BEFORE TAX	6	**205,491**	145,504
Tax	10	**(74,072)**	(47,158)
PROFIT FOR THE YEAR		**131,419**	98,346
Attributable to:			
Equity holders of the parent		**99,577**	75,098
Minority interests		**31,842**	23,248
		131,419	98,346
DIVIDENDS – Final	12	**57,693**	56,367
Dividend per share (RMB)	12	**15.0 cents**	22.9 cents
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (RMB)	13	**35.1 cents**	30.5 cents

CONSOLIDATED BALANCE SHEET

31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**1,011,199**	795,642
Investment properties	*15*	**16,922**	17,813
Lease prepayments for land use rights	*16*	**72,194**	72,946
Interests in associates	*18*	**198**	918
Available-for-sale investments	*19*	**3,099**	350
Intangible assets	*20*	**2,344**	2,080
Other long term lease prepayments	*21*	**17,524**	–
Total non-current assets		**1,123,480**	889,749
CURRENT ASSETS			
Inventories	*22*	**499,644**	382,164
Trade receivables	*23*	**473,078**	455,072
Prepayments, deposits and other receivables	*24*	**163,102**	181,130
Due from related parties	*25*	**–**	36
Pledged deposits	*26*	**16,919**	13,291
Cash and cash equivalents	*26*	**841,691**	220,741
Total current assets		**1,994,434**	1,252,434
CURRENT LIABILITIES			
Trade payables	*27*	**746,690**	642,030
Tax payable		**44,100**	26,553
Other payables and accruals	*28*	**223,671**	209,379
Interest-bearing bank and other borrowings	*29*	**726,396**	640,604
Due to Chaoyang Auxillary	*30*	**–**	11,880
Deferred income – current portion	*31*	**267**	267
Dividend payable		**–**	536
Total current liabilities		**1,741,124**	1,531,249
NET CURRENT ASSETS/(LIABILITIES)		**253,310**	(278,815)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,376,790**	610,934

CONSOLIDATED BALANCE SHEET *(Continued)*

31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,376,790**	610,934
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	**280,000**	150,000
Other long term payables	28	**–**	8,750
Deferred income	31	**3,466**	3,733
Deferred tax liabilities	32	**18,679**	15,747
Total non-current liabilities		**302,145**	178,230
Net assets		**1,074,645**	432,704
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	33	**384,620**	246,620
Reserves	34	**542,660**	55,797
Proposed final dividend	12	**57,693**	56,367
		984,973	358,784
Minority interests		**89,672**	73,920
Total equity		**1,074,645**	432,704

Wei Tingzhan
Director

Li Chunyan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

		Attributable to equity holders of the parent										
	Notes	Issued capital RMB'000	Share premium account RMB'000	Capital reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Statutory surplus reserve RMB'000 (note 34 b(i))	Statutory public welfare fund RMB'000 (note 34 b(ii))	Proposed final dividend RMB'000	Retained profits RMB'000	Subtotal RMB'000	Minority interests RMB'000	Total equity RMB'000
As at 1 January 2005		246,620	–	4,426	–	8,311	4,155	39,502	19,479	322,493	57,097	379,590
2004 dividend declared		–	–	–	–	–	–	(39,502)	–	(39,502)	–	(39,502)
Dividends paid to minority equityholders		–	–	–	–	–	–	–	–	–	(10,715)	(10,715)
Profit for the year		–	–	–	–	–	–	–	75,098	75,098	23,248	98,346
Release of unpaid liability		–	–	695	–	–	–	–	–	695	–	695
Appropriation to reserves		–	–	–	–	10,211	5,105	–	(15,316)	–	–	–
Equity interest injection		–	–	–	–	–	–	–	–	–	7,132	7,132
Equity interest transfer		–	–	–	–	–	–	–	–	–	(1,972)	(1,972)
Equity interest acquisition		–	–	–	–	–	–	–	–	–	(870)	(870)
Proposed final 2005 dividend	12	–	–	–	–	–	–	56,367	(56,367)	–	–	–
As at 31 December 2005 and 1 January 2006		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)
Dividends paid to minority equityholders		–	–	–	–	–	–	–	–	–	(16,090)	(16,090)
Issue of H shares upon listing	33(a)	120,000	428,597	–	–	–	–	–	–	548,597	–	548,597
Issue of H shares upon exercising of the over-allotment option	33(b)	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)	–	–	–
As 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 comprise the consolidated reserves of RMB542,660,000 (2005: RMB 55,797,000).*

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**205,491**	145,504
Adjustments for:			
Finance costs	7	**26,296**	19,073
Interest income	5	**(37,417)**	(8,378)
Dividend income from an available-for-sale investment	6	**–**	(30)
Excess over the cost of a business combination	5	**–**	(1,972)
Amortisation of intangible assets	6	**383**	312
Recognition of lease prepayments for land use rights	6	**752**	752
Share of losses of associates		**139**	32
Gain on disposal of short term investments	5	**–**	(18)
Loss on disposal of items of property, plant and equipment, net	6	**555**	1,468
Depreciation	6	**58,927**	53,490
Impairment loss on items of property, plant and equipment	6	**2,100**	–
Impairment of trade and other receivables	6	**6,640**	8,818
Write down/(reversal of write down) of inventories to net realisable value	6	**5**	(569)
Recognition of deferred income	31	**(267)**	–
		263,604	218,482
Increase in inventories		**(117,485)**	(32,905)
Increase in trade receivables		**(15,276)**	(65,389)
(Increase)/decrease in prepayments, deposits and other receivables		**1,982**	(32,021)
Decrease in amounts due from related parties		**36**	3,461
(Increase)/decrease in other long term lease prepayments		**(17,524)**	4,667
(Increase)/decrease in amounts due from associates		**581**	(63)
Increase/(decrease) in trade payables		**104,660**	(7,763)
Increase in other payables and accruals		**12,484**	67,105
Increase/(decrease) in the amount due to Chaoyang Auxillary		**(11,880)**	13,671
Decrease in other long term payables		**(8,750)**	(10,955)
Cash generated from operations		**212,432**	158,290
Interest paid		**(24,488)**	(18,802)
PRC corporate income tax paid		**(53,593)**	(42,929)
Net cash inflow from operating activities		**134,351**	96,559

CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Net cash inflow from operating activities		**134,351**	96,559
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**37,417**	8,378
Dividend received from an available-for-sale investment		**–**	30
Proceeds from disposal of short term investments		**–**	1,218
Purchase of items of property, plant and equipment		**(277,979)**	(236,520)
Purchase of intangible assets		**(647)**	(1,032)
Proceeds from disposal of items of property, plant and equipment		**1,731**	2,610
Additional investment in a subsidiary		**–**	(880)
Increase in pledged time deposits		**(3,628)**	(13,291)
Increase in non-pledged time deposits with original maturity of more than three months when acquired	*26*	**(301,401)**	–
Net cash outflow from investing activities		**(544,507)**	(239,487)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of H shares		**586,906**	–
Cash contribution from minority shareholders		**–**	7,132
Proceeds from government grants		**–**	4,076
New bank loans and other borrowings		**846,395**	696,604
Repayment of bank loans and other borrowings		**(630,603)**	(468,000)
Prepayment of listing expenses		**–**	(2,800)
Dividends paid		**(56,903)**	(29,466)
Dividends paid to minority equityholders		**(16,090)**	(20,742)
Net cash inflow from financing activities		**729,705**	186,804
NET INCREASE IN CASH AND CASH EQUIVALENTS		**319,549**	43,876
Cash and cash equivalents at beginning of year		**220,741**	176,865
CASH AND CASH EQUIVALENTS AT END OF YEAR		**540,290**	220,741
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:			
Cash and bank balances	*26*	**413,140**	220,741
Non-pledged time deposits with original maturity of less than three months when acquired	*26*	**127,150**	–
		540,290	220,741

BALANCE SHEET

31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**890,229**	732,737
Investment properties	*15*	**16,922**	17,813
Lease prepayments for land use rights	*16*	**72,194**	72,946
Interests in subsidiaries	*17*	**345,030**	178,768
Intangible assets	*20*	**2,344**	2,080
Total non-current assets		**1,326,719**	1,004,344
CURRENT ASSETS			
Inventories	*22*	**157,054**	135,019
Trade receivables	*23*	**8,380**	10,818
Prepayments, deposits and other receivables	*24*	**61,928**	89,015
Due from related parties	*25*	**–**	36
Cash and cash equivalents	*26*	**674,661**	143,755
Total current assets		**902,023**	378,643
CURRENT LIABILITIES			
Trade payables	*27*	**419,443**	356,641
Tax payable		**15,531**	4,741
Other payables and accruals	*28*	**186,276**	176,357
Interest-bearing bank and other borrowings	*29*	**462,000**	326,300
Due to Chaoyang Auxillary	*30*	**–**	2,070
Deferred income – current portion	*31*	**267**	267
Dividend payable		**–**	536
Total current liabilities		**1,083,517**	866,912
NET CURRENT LIABILITIES		**(181,494)**	(488,269)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,145,225**	516,075

BALANCE SHEET *(Continued)*

31 December 2006

	Notes	**2006 RMB'000**	2005 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,145,225**	516,075
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*29*	**180,000**	150,000
Other long term payables	*28*	**–**	8,750
Deferred income	*31*	**3,466**	3,733
Deferred tax liabilities	*32*	**18,679**	15,747
Total non-current liabilities		**202,145**	178,230
Net assets		**943,080**	337,845
EQUITY			
Issued capital	*33*	**384,620**	246,620
Reserves	*34*	**500,767**	34,858
Proposed final dividend	*12*	**57,693**	56,367
Total equity		**943,080**	337,845

Wei Tingzhan
Director

Li Chunyan
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2006

1. CORPORATE INFORMATION

The Company was established in the People's Republic of China (the "PRC") as a limited liability company with a registered capital of RMB236.7 million under the name of Beijing Jingkelong Supermarket Chain Company Limited on 20 May 2002 and was renamed to Beijing Jingkelong Supermarket Chain Group Company Limited in December 2002.

With effect from 1 November 2004, the Company was transformed into a joint stock limited company by converting its net assets as at 31 December 2003, as determined in accordance with the applicable relevant PRC accounting principles and financial regulations ("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. Details of the formation of the joint stock limited company are set out in the Company's prospectus dated 12 September 2006.

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 of Hong Kong Limited (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 to the financial statements.

The registered office of the Company is located at 45 Xinyuan Street, Chaoyang District, Beijing, PRC. The principal place of business of the Company in Hong Kong is located at 20th Floor, Alexandra House, 16-20 Chater Road, Hong Kong.

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 details of the principal activities of the subsidiaries are set out in note 17 to the financial statements.

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.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared on a historical cost convention, except for available-for-sale investments, which have been measured at fair value. These financial statements are 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 year ended 31 December 2006. 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 during the year 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

2.3 IMPACT OF ISSUED BUT NOT 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 *Financial Reporting in Hyperinflationary Economies*
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.

2.3 IMPACT OF ISSUED BUT NOT EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity, whose financial and operating polices 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint ventures *(Continued)*

A joint venture is treated as:

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

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral 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

(d) 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 if 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either loans and receivable 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at amortised cost (Continued)

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 stated 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 derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in 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 and, 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents *(Continued)*

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

- 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These 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 the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at 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.

3. 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainties *(Continued)*

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.

4. 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 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 any hypermarkets, supermarkets and/or convenience stores of the Group (the "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; and

(iii) the "others" segment comprises, principally, the production of plastic packing materials, and installation and maintenance of commercial equipments.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

4. SEGMENT INFORMATION *(Continued)*

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Year ended 31 December 2006

	Retailing RMB'000	Wholesaling RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
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	2,636,408	2,599,994	14,555	(495,674)	4,755,283
Segment results	97,742	133,793	391	–	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					(74,072)
Profit for the year					131,419
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					3,117,914
Segment liabilities	(1,313,482)	(890,307)	(2,259)	162,779	(2,043,269)
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
Amortisation of intangible assets	383	–	–	–	383
Recognition of lease prepayments for land use rights	752	–	–	–	752
Impairment loss on items of property, plant and equipment	2,100	–	–	–	2,100
Foreign exchange difference	6,366	–	–	–	6,366

4. SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2005

	Retailing RMB'000	Wholesaling RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
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
Total	2,301,548	2,367,152	12,482	(415,766)	4,265,416
Segment results	73,893	90,389	327	–	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					(47,158)
Profit for the year					98,346
Assets and liabilities:					
Segment assets	1,365,788	975,996	3,607	(204,126)	2,141,265
Interests in associates	–	918	–	–	918
Total assets					2,142,183
Segment liabilities	(1,125,687)	(786,259)	(1,659)	204,126	(1,709,479)
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
Amortisation of intangible assets	312	–	–	–	312
Recognition of lease prepayments for land use rights	752	–	–	–	752

NOTES TO FINANCIAL STATEMENTS

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5. 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.

An analysis of revenue, other income and gains is as follows:

	2006 RMB'000	2005 RMB'000
Revenue		
Sale of merchandise and produce		
Retailing	**2,297,306**	2,060,573
Wholesaling	**2,228,520**	2,057,361
	4,525,826	4,117,934
Others	**5,149**	3,814
Total revenue	**4,530,975**	4,121,748
Other income and gains		
Income from suppliers		
Promotion income	**70,700**	42,765
Display space leasing fee	**30,976**	18,332
Others	**16,432**	15,467
	118,108	76,564
Gross rental income	**40,313**	36,950
Net compensation on demolished properties (1)	**17,002**	11,129
Interest income	**37,417**	8,378
Excess over the cost of a business combination	**–**	1,972
Gain on disposal of short term investments	**–**	18
Others	**11,468**	8,657
Total other income and gains	**224,308**	143,668

5. REVENUE, OTHER INCOME AND GAINS *(Continued)*

Note:

(1) During the years ended 31 December 2006 and 2005, 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 demolition.

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6. PROFIT BEFORE TAX

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

	Notes	2006 RMB'000	2005 RMB'000
Cost of inventories sold		**3,966,385**	3,621,667
Depreciation:			
Property, plant and equipment	*14*	**58,036**	52,599
Investment properties	*15*	**891**	891
		58,927	53,490
Amortisation of intangible assets	*20*	**383**	312
Recognition of lease prepayments for land use rights	*16*	**752**	752
Minimum lease payments under operating lease on properties		**50,015**	39,539
Loss on disposal of items of property, plant and equipment, net		**555**	1,468
Impairment of trade and other receivables		**6,640**	8,818
Write down/(reversal of write down) of inventories to net realisable value		**5**	(569)
Net rental income		**(34,272)**	(31,800)
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**6,041**	5,150
Impairment loss on items of property, plant and equipment	*14*	**2,100**	–
Auditors' remuneration		**1,385**	160
Staff costs:			
Directors' and supervisors' emoluments	*9*	**3,072**	1,908
Other staff costs			
Wages, salaries and social security costs		**185,432**	160,495
Retirement benefits contributions		**18,431**	16,417
		203,863	176,912
		206,935	178,820
Foreign exchange difference		**6,366**	–
Excess over the cost of a business combination		**–**	(1,972)
Dividend income from an available-for-sale investment		**–**	(30)

7. FINANCE COSTS

	Group	
	2006	2005
	RMB'000	RMB'000
Interest on bank loans repayable:		
Within five years	**28,323**	16,205
Over five years	**–**	293
	28,323	16,498
Interest on other borrowings	**15,745**	14,175
	44,068	30,673
Less: Interest capitalised	**(17,772)**	(11,600)
	26,296	19,073

8. RETIREMENT BENEFITS

The aggregate contributions of the Group to retirement benefit schemes were approximately RMB18,820,000 and RMB16,651,000 for the years ended 31 December 2006 and 2005.

NOTES TO FINANCIAL STATEMENTS

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

Details of the remuneration of directors and supervisors for the year, 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	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Fees	**148**	124	**58**	60
Other emoluments:				
Salaries, allowances and benefits in kind	**967**	1,027	**640**	463
Performance related bonuses*	**530**	–	**340**	–
Retirement benefits contributions	**235**	161	**154**	73
	1,732	1,188	**1,134**	536
Total	**1,880**	1,312	**1,192**	596

* 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.

9. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Continued)*

(a) Independent non-executive directors

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

	2006 **RMB'000**	2005 RMB'000
Mr. Fan Faming	**34**	35
Mr. Huang Jiangming	**34**	35
Mr. Chung Chi Kong	**80**	33
Mr. Deng Xiaofeng	**–**	21
Total	**148**	124

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

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9. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Continued)*

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Retirement benefits contributions RMB'000	Total remunerations RMB'000
2006					
Executive directors:					
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
Non-executive directors:					
Mr. Gu Hanlin	–	–	–	–	–
Mr. Li Shunxiang	–	–	–	–	–
	–	–	–	–	–
Total	–	967	530	235	1,732

9. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Continued)*

(b) Executive directors and non-executive directors *(Continued)*

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Retirement benefits contributions RMB'000	Total remunerations RMB'000
2005					
Executive directors:					
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
Non-executive directors:					
Mr. Gu Hanlin	–	–	–	–	–
Mr. Li Shunxiang	–	–	–	–	–
	–	–	–	–	–
Total	–	1,027	–	161	1,188

NOTES TO FINANCIAL STATEMENTS

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9. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Continued)*

(c) Supervisors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Retirement benefits contributions RMB'000	Total remunerations RMB'000
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	58	640	340	154	1,192

9. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Continued)*

(c) Supervisors *(Continued)*

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Retirement benefits contributions RMB'000	Total remunerations RMB'000
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	60	463	–	73	596

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

The emoluments of each of the directors and supervisors for both years fell within the range of nil to HK$1,000,000 (equivalent to RMB1,005,000).

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

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9. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Continued)*

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

	Group	
	2006	2005
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**3,220**	1,655
Performance related bonuses	**4,767**	3,693
Retirement benefits contributions	**125**	119
	8,112	5,467

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

	Number of employees	
	2006	2005
Nil to HK$1,000,000 (equivalent to RMB1,005,000)	**–**	3
HK$1,000,001 to HK$1,500,000 (equivalent to RMB1,005,001 to RMB1,507,500)	**3**	2
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,507,501 to RMB2,010,000)	**2**	–
	5	5

10. 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. 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 statement of the Group is as follows:

	Group	
	2006	2005
	RMB'000	RMB'000
Current income tax – PRC	**71,140**	43,682
Deferred income tax *(note 32)*	**2,932**	3,476
Total tax charge for the year	**74,072**	47,158

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

	Group			
	2006		2005	
	RMB'000	**%**	RMB'000	%
Profit before tax	**205,491**		145,504	
Income tax at PRC statutory income tax rate	**67,812**	**33.0**	48,016	33.0
Expenses not deductible for tax	**3,570**	**1.7**	5,756	4.0
Tax losses not recognised	**2,857**	**1.4**	24	–
Tax losses utilised from previous periods	**–**	**–**	(89)	–
Income not subject to tax	**–**	**–**	(3,896)	(2.7)
Others	**(167)**	**–**	(2,653)	(1.9)
Tax charge at the Group's effective rate	**74,072**	**36.1**	47,158	32.4

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10. TAX *(Continued)*

The share of tax attributable to associates amounting to Nil (2005: RMB300), is included in "Share of losses of associates" on the face of the consolidated income statement.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of RMB81,372,000 (2005: RMB60,391,000) which has been dealt with in the financial statements of the Company (note 34(b)).

12. DIVIDENDS

	2006	2005
	RMB'000	RMB'000
Proposed final - RMB15.0 cents (2005: RMB22.9 cents) per ordinary share	**57,693**	56,367

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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 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 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 year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the year.

	2006	2005
	RMB'000	RMB'000
Earnings:		
Profit attributable to ordinary equity holders of the parent	**99,577**	75,098

	Number of shares	
	2006	2005
Shares:		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	**283,672,055**	246,620,000

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 the years ended 31 December 2006 and 2005 have not been presented because no diluting events existed during these two years.

NOTES TO FINANCIAL STATEMENTS

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improvements	Machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2006							
As 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	193,118	108,369	161,882	27,743	14,566	289,964	795,642
As 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)	–
As at 31 December 2006, net of accumulated depreciation and impairment	194,143	184,179	168,399	34,356	16,125	413,997	1,011,199
As 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	194,143	184,179	168,399	34,356	16,125	413,997	1,011,199

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2005							
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	193,208	72,534	132,635	39,449	16,102	146,759	600,687
As 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)	–
As at 31 December 2005, net of accumulated depreciation	193,118	108,369	161,882	27,743	14,566	289,964	795,642
As 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	193,118	108,369	161,882	27,743	14,566	289,964	795,642

The Group's buildings, construction in progress, investment properties (note 15) and lease prepayments for land use rights (note 16) at cost, were valued at RMB576,350,000 as at 30 June 2006 in the prospectus issued on 12 September 2006 in connection with the listing of the Company's shares on 25 September 2006 (note 33). Had the Group's buildings, investment properties and lease prepayments for land use rights been included in these financial statements at such valuation amount throughout the year ended 31 December 2006, an additional depreciation charge of RMB2,275,000 would have been charged to the consolidated income statement for the year ended 31 December 2006.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2006							
As 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	193,017	103,011	118,256	23,289	5,200	289,964	732,737
As 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)	–
As at 31 December 2006, net of accumulated depreciation and impairment	194,042	133,870	119,166	24,783	4,371	413,997	890,229
As 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	194,042	133,870	119,166	24,783	4,371	413,997	890,229

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2005							
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	193,064	67,683	110,191	25,231	4,532	146,759	547,460
As 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)	–
As at 31 December 2005, net of accumulated depreciation	193,017	103,011	118,256	23,289	5,200	289,964	732,737
As 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	193,017	103,011	118,256	23,289	5,200	289,964	732,737

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

As at 31 December 2006, the Group's and the Company's buildings and construction in progress with net book values of approximately RMB169 million (2005: RMB87 million) and RMB294 million (2005: Nil), respectively, were pledged to secure certain bank loans granted to the Company and the Group (note 29).

Except for the properties under construction and a property with net book value of approximately RMB7.5 million (2005: Nil) located in Beijing, the Group has obtained the relevant building ownership certificates.

15. INVESTMENT PROPERTIES

	Group and Company	
	2006	2005
	RMB'000	RMB'000
Carrying amount at 1 January	**17,813**	18,704
Depreciation provided during the year	**(891)**	(891)
Carrying amount at 31 December	**16,922**	17,813
Fair value	**30,470**	26,732

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 is included in note 37(a).

At 31 December 2006, the Group's and the Company's investment properties with carrying amounts of RMB16,922,000 (2005: RMB16,477,000) were pledged to certain bank loans granted to the Group and the Company (note 29).

The fair values of the investment properties as at the balance sheet date were determined based on the valuations performed by Vigers Appraisal & Consulting Limited, an independent firm of professional valuers. 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.

16. LEASE PREPAYMENTS FOR LAND USE RIGHTS

	Group and Company	
	2006	2005
	RMB'000	RMB'000
Carrying amount at 1 January	**72,946**	73,698
Recognised during the year	**(752)**	(752)
Carrying amount at 31 December	**72,194**	72,946

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

At 31 December 2006, the Group's and the Company's lease prepayments for land use rights of carrying amounts of RMB68 million (2005: Nil) were pledged to secure certain bank loans granted to the Group and the Company (note 29).

17. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	RMB'000	RMB'000
Unlisted investments, at cost	**113,352**	84,352
Amounts due from subsidiaries	**236,370**	151,931
Amounts due to subsidiaries	**(4,692)**	(57,515)
	345,030	178,768

Included in the amount due from subsidiaries as at 31 December 2006 were entrusted loans lent by the Company (the "Lender") to Chaopi Trading, Chaopi Flavourings, Chaopi Huaqing, Chaopi Jinglong (collectively the "Borrowers") amounting to RMB100 million (2005: RMB30 million), RMB20 million (2005: RMB20 million), RMB29.5 million (2005: RMB29.5 million) and RMB20 million (2005: 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 6.12% (2005: 5.58%). Except for the loans to Chaopi Trading of RMB50 million maturing on 26 December 2007, all the loans will mature on 19 December 2007.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

17. INTERESTS IN SUBSIDIARIES *(Continued)*

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.

Particulars of the subsidiaries held by the Company are set as follows:

Name	Place of registration and operations	Nominal value of paid-up and registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Jingkelong (Langfang) Company Limited	Langfang, PRC	RMB10,000,000	80.00	–	Retail of general merchandise
Beijing Chaopi Trading Company Limited ("Chaopi Trading") (3)	Beijing, PRC	RMB96,000,000	76.42	–	Wholesale of general merchandise
Beijing Xinyang Tongli Commercial Facilities Company Limited ("Xinyang Tongli")	Beijing, PRC	RMB1,600,000	52.03	–	Production of plastic packing materials and installation and maintenance of commercial equipments
Beijing Jingkelong Supermarket Chain Company Limited	Beijing, PRC	RMB29,000,000	100.00	–	Retail of general merchandise
Beijing Chaopi Huaqing Beverage Company Limited ("Chaopi Huaqing") (2)	Beijing, PRC	RMB9,000,000	–	39.91	Wholesale of drinks and food
Beijing Chaopi Flavourings Company Limited ("Chaopi Flavourings") (2)	Beijing, PRC	RMB9,500,000	–	40.22	Wholesale of flavourings, edible oil and food

17. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of registration and operations	Nominal value of paid-up and registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Chaopi Shuanglong Alcohol Sales Company Limited (2)	Beijing, PRC	RMB12,000,000	–	45.09	Wholesale of alcoholic beverages
Beijing Chaopi Jinglong Oil Sales Company Limited ("Chaopi Jinglong") (2)	Beijing, PRC	RMB12,000,000	–	41.44	Wholesale of edible oil
Shijiazhuang Chaopi Xinlong Trading Company Limited (2)	Shijiazhuang, PRC	RMB2,000,000	–	45.09	Wholesale of alcoholic beverages
Qingdao Chaopi Jinlong Trading Company Limited (2)	Qingdao, PRC	RMB2,000,000	–	45.09	Wholesale of alcoholic beverages

None of the subsidiaries of the Company are audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

Notes:

(1) All subsidiaries are limited liability companies under PRC law.

(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, such companies are accounted for as subsidiaries of the Company, though the equity interests indirectly 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 (2005: Nil) (note 29(B)(i)).

NOTES TO FINANCIAL STATEMENTS
31 December 2006

18. INTERESTS IN ASSOCIATES

	Group	
	2006	2005
	RMB'000	RMB'000
Share of net assets	**198**	337
Amounts due from associates	**–**	581
	198	918

The amounts due from associates as at 31 December 2005 were unsecured, interest-free and were fully settled during the year.

Particulars of the associates held by the Group are as follows:

Name	Place of registration and operations	Paid-up registered capital	Percentage of ownership interest attributable to the Group Indirect	Principal activities
Beijing Chaopi Tianxing Vegetables Company Limited	Beijing, PRC	RMB310,000	27.11	Retail of fruits and vegetables
Beijing Chaopi Ziguang Trading Company Limited	Beijing, PRC	RMB1,100,000	34.73	Wholesale of alcoholic beverages

None of the Group's associates are audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

18. INTERESTS IN ASSOCIATES *(Continued)*

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

	2006	2005
	RMB'000	RMB'000
Assets	**899**	2,791
Liabilities	**(409)**	(1,973)
Revenues	**(3,632)**	(7,263)
Losses	**329**	71

19. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2006	2005
	RMB'000	RMB'000
Listed equity investment in the PRC, at fair value	**3,099**	350
Unlisted equity investment, at cost	**1,188**	1,188
Less: Impairment loss of equity investment	**(1,188)**	(1,188)
	–	–
	3,099	350

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, the gross gain of the Group's available-for-sale investment recognised directly in equity amounted to RMB2,749,000 (2005: Nil).

As at 31 December 2006, 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

20. INTANGIBLE ASSETS

The intangible assets represented the carrying amount of software acquired.

	Group and Company	
	2006	2005
	RMB'000	RMB'000
Cost at 1 January, net of accumulated amortisation	**2,080**	1,360
Additions	**647**	1,032
Amortisation provided during the year	**(383)**	(312)
At 31 December, net of accumulated amortisation	**2,344**	2,080
At 31 December:		
Cost	**6,118**	5,471
Accumulated amortisation	**(3,774)**	(3,391)
Net carrying amount	**2,344**	2,080

21. OTHER LONG TERM LEASE PREPAYMENTS

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		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Merchandise and produce for resale	**490,309**	379,876	**150,486**	134,891
Raw materials	**6,479**	–	**6,479**	–
	496,788	379,876	**156,965**	134,891
Low value consumables	**2,856**	2,288	**89**	128
	499,644	382,164	**157,054**	135,019

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 balance sheet date, based on invoice date and net of provision, is as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 2 months	**434,941**	400,397	**7,796**	10,751
2 to 6 months	**37,108**	50,360	**301**	47
6 months to 1 year	**638**	2,457	**13**	–
1 to 2 years	**391**	1,858	**270**	20
	473,078	455,072	**8,380**	10,818

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments to suppliers	**75,329**	86,177	**14,451**	5,122
Other receivables and prepaid expenses	**29,055**	35,167	**19,109**	41,985
Input value-added tax receivables	**58,718**	59,786	**28,368**	41,908
	163,102	181,130	**61,928**	89,015

Included in the Company's other receivables and prepaid expenses as at 31 December 2005 were dividend receivable from a subsidiary amounting to RMB16,900,000, which was fully settled during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

25. DUE FROM RELATED PARTIES

The amounts due from related parties as at 31 December 2005 were unsecured, interest-free and were fully repaid during the year.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2006	2005	**2006**	2005
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Cash and bank balances		**413,140**	220,741	**246,110**	143,755
Pledged time deposits with original maturity of more than three months when acquired		**16,919**	13,291	**–**	–
Non-pledged time deposits with original maturity of:					
More than three months when acquired		**301,401**	–	**301,401**	–
Less than three months when acquired		**127,150**	–	**127,150**	–
		858,610	234,032	**674,661**	143,755
Less: pledged time deposits with original maturity of more than three months when acquired	29	**(16,919)**	(13,291)	**–**	–
Cash and cash equivalents		**841,691**	220,741	**674,661**	143,755

At the balance sheet date, the Group's cash and bank balances, including pledged bank deposits, were denominated in RMB amounted to RMB399,920,000 (2005: RMB234,032,000), 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 deposits 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.

27. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is analysed as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 2 months	**672,826**	581,688	**349,141**	304,629
2 to 6 months	**53,577**	46,608	**52,170**	43,026
6 months to 1 year	**5,234**	3,576	**4,606**	2,151
1 to 2 years	**2,844**	2,976	**2,314**	1,163
Over 2 years	**12,209**	7,182	**11,212**	5,672
	746,690	642,030	**419,443**	356,641

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accrued salaries, wages and benefits	**75,473**	93,989	**62,227**	73,374
Deposit from suppliers and lessees	**78,590**	91,794	**72,988**	86,691
Interest expense payable	**7,845**	6,037	**6,602**	5,726
Rental expense payable	**2,614**	3,862	**1,769**	2,525
Accrued operating expenses	**6,469**	1,014	**5,408**	923
Construction fee payables	**32,737**	4,236	**28,861**	4,236
Others	**19,943**	17,197	**8,421**	11,632
Total other payables and accruals	**223,671**	218,129	**186,276**	185,107
Less: Portion classified as current liabilities	**(223,671)**	(209,379)	**(186,276)**	(176,357)
Long term portion-accrued salaries, wages and benefits	**–**	8,750	**–**	8,750

NOTES TO FINANCIAL STATEMENTS

31 December 2006

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

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

29. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

29. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

(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 4.0% to 6.1% (2005: 3.6% to 6.1%) per annum.

(i) Secured bank loans

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 an aggregate net book value 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 26).

As at 31 December 2005, the secured bank loan of the Group and the Company amounting to RMB100 million was 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). In addition, the secured bank loans of the Group amounting to RMB44.3 million were secured by certain of the Group's pledged time deposits (note 26).

(ii) Unsecured bank loans

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

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, an unrelated third party 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.

29. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

(A) Bank loans *(Continued)*

(ii) Unsecured bank loans (Continued)

Entrusted loans are tripartite arrangements, under which banks, as entrusted by certain non-financial institutions, lend the Group the funds sourced from such non-financial institutions for a management fee. Such non-financial institutions are considered the providers of the entrusted loans. Entrusted loans generally bear interest rates higher than 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 (2005: Nil), 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 as at 31 December 2006 were borrowings from BITIC amounting to RMB100 million which were 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, the BITIC borrowings guaranteed by Chaoyang Auxillary were fully released and part of the borrowings from BITIC were replaced by the pledge of equity interest in a subsidiary as mentioned in note (B)(i) above.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

29. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

(B) Other borrowings *(Continued)*

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

All of the Group's and the Company's other borrowings as at 31 December 2006 are denominated in RMB and bear fixed interest rates ranging 5.3% to 6.1% per annum.

30. DUE TO CHAOYANG AUXILLARY

Except that the amount due to Chaoyang Auxillary of RMB3,280,000 was interest-free, the rest of the balance as at 31 December 2005 were interest-bearing ranging from 4.7% to 5.6% per annum. All amounts due to Chaoyang Auxillary were unsecured and were fully settled during the year.

31. DEFERRED INCOME

	Group and Company	
	2006	2005
	RMB'000	RMB'000
Carrying amount as at 1 January	**4,000**	–
Received during the year	**–**	4,000
Released to the income statement	**(267)**	–
Carrying amount as at 31 December	**3,733**	4,000
Current portion	**(267)**	(267)
Non-current portion	**3,466**	3,733

In 2005, Beijing Municipal Commission of Development and Reform and 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 are as follows:

	Group and Company	
	2006	2005
	RMB'000	RMB'000
At beginning of year	**15,747**	12,271
Additions during the year	**2,932**	3,476
At end of year	**18,679**	15,747
Provision in respect of:		
Temporary difference arising from capitalised interest expenses into construction in progress	**10,313**	7,029
Temporary differences arising from gain on exchange of property, plant and equipment	**8,366**	8,718
	18,679	15,747

33. ISSUED CAPITAL

	Company	
	2006	2005
	RMB'000	RMB'000
Issued and fully paid:		
232,820,000 (2005: 246,620,000) Domestic Shares of RMB1.00 each	**232,820**	246,620
151,800,000 (2005: Nil) H shares of RMB1.00 each	**151,800**	–
	384,620	246,620

NOTES TO FINANCIAL STATEMENTS

31 December 2006

33. ISSUED CAPITAL *(Continued)*

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
At 1 January 2005 and 1 January 2006		246,620	–	246,620
Sales of Domestic Shares by Chaoyang Auxillary and conversion into H shares upon listing	*a*	(12,000)	12,000	–
Issuance of new H shares upon listing	*a*	–	120,000	120,000
Sales of Domestic Shares by Chaoyang Auxillary and conversion into H shares upon full exercise of the over-allotment option	*b*	(1,800)	1,800	–
Issuance of new H shares upon full exercise of the over-allotment option	*b*	–	18,000	18,000
At 31 December 2006		232,820	151,800	384,620

Notes:

a. 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.

b. 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 current and prior years are presented in the consolidated statements of changes in equity on page 62 of the financial statements.

(b) Company

	Share premium account RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000 *(note i)*	Statutory public welfare fund RMB'000 *(note ii)*	Retained profits RMB'000	Total RMB'000
As 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)
As at 31 December 2005 and 1 January 2006	–	5,121	11,278	5,640	12,819	34,858
Issue of H shares upon listing *(note 33(a))*	428,597	–	–	–	–	428,597
Issue of H shares upon exercising of the over-allotment option *(note 33(b))*	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)
As at 31 December 2006	442,230	5,121	26,244	–	27,172	500,767

NOTES TO FINANCIAL STATEMENTS

31 December 2006

34. RESERVES *(Continued)*

(b) Company *(Continued)*

(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 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 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 (2005: Nil) after the appropriation of the proposed final dividend, as determined in accordance with the lower of either the amount determined under PRC GAAP or the amount determined under HKFRSs, available for distribution by way of cash or in kind.

35. CONTINGENT LIABILITIES

As at the balance sheet date, contingent liabilities not provided in the financial statements were as follows:

	Group		Company	
	2006 **RMB'000**	2005 RMB'000	**2006** **RMB'000**	2005 RMB'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**180,000**	200,000
Guarantees given to other financial institutions in connection with facilities granted to subsidiaries	**–**	–	**100,000**	60,000
	–	–	**280,000**	260,000

As at 31 December 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 RMB180,000,000 (2005: RMB200,000,000) and RMB100,000,000 (2005: RMB60,000,000), respectively.

36. PLEDGE OF ASSETS

Details of the Group's and the Company's assets for securing bank loans and other borrowings are included in notes 14, 15, 16, 17 and 26 to the financial statements.

37. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

37. OPERATING LEASE ARRANGEMENTS *(Continued)*

(a) As lessor *(Continued)*

As at 31 December 2006, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**21,263**	23,988	**21,083**	19,788
In the second to fifth years, inclusive	**56,380**	74,898	**55,660**	58,098
After five years	**20,815**	22,901	**19,195**	21,101
	98,458	121,787	**95,938**	98,987

(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 31 December 2006, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**60,260**	43,574	**38,980**	27,988
In the second to fifth years, inclusive	**270,896**	178,404	**201,094**	125,828
After five years	**624,518**	446,073	**521,931**	381,675
	955,674	668,051	**762,005**	535,491

38. 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 balance sheet date:

	Group and Company	
	2006	2005
	RMB'000	RMB'000
Authorised, but not contracted for	**16,307**	–
Contracted, but not provided for	**84,864**	38,788
	101,171	38,788

(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.

39. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

		Group	
		2006	2005
	Notes	**RMB'000**	RMB'000
Ultimate holding company:			
Expenses on property leasing	*(i)*	**8,178**	9,056
Compensation income	*(ii)*	**10,426**	13,880
Purchases of items of property plant and equipment		**–**	7,243
Interest expense		**62**	257
Interest income		**–**	307
Related party:			
Automobile repair and maintenance expense		**–**	250

NOTES TO FINANCIAL STATEMENTS

31 December 2006

39. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

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 to be paid to Chaoyang Auxillary by the Company since 1 January 2006 was reduced from RMB7,340,000 to RMB6,952,000.

In addition to the above, the Company and Chaoyang Auxillary entered into a lease agreement dated 4 April 2006, pursuant to which the Company leases one more property from Chaoyang Auxillary for ten years commencing from 1 July 2006. The annual rental is RMB183,000 and RMB219,000 for the first four years and the remaining six years, respectively.

(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 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 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 account.

39. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Notes:

(iii) Pursuant to a deed of indemnity dated 1 March 2006 and a supplementary agreement dated 10 August 2006, Chaoyang Auxillary has undertaken to indemnity 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:

	2006	2005
	RMB'000	RMB'000
Short term employee benefits	**4,427**	3,127
Post-employment benefits	**503**	324
Total compensation paid to key management personnel	**4,930**	3,451

Further details of the directors' and supervisors' emoluments are included in note 9 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise bank loans, other interest-bearing borrowings, and cash and short term 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 loans and other interest-bearing 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 bank loans and other interest-bearing 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.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

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 the balance sheet date, 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 the time deposits of RMB458,690,000 (2005: Nil) 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 the balance sheet date.

41. 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 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.

NOTES TO FINANCIAL STATEMENTS

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41. POST BALANCE SHEET EVENTS *(Continued)*

(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 network of hypermarkets, supermarkets and convenience stores will be operated, on terms of the Group's franchise arrangements, under the Group's " 京客隆 " brandname; (ii) the Group has preferential right to acquire the Delegated Equity when Xi You disposes the Delegated Equity; (iii) the Group has 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 agreed to buy the Delegated Equity at the consideration computed based on an agreed pricing method (share of net assets value of Shou Lian at the date of acquisition) at the end of the Delegated Period; and (v) 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 Group holds an indirect effective 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.

41. POST BALANCE SHEET EVENTS *(Continued)*

(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 Group holds an indirect effective 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.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2007.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last four financial years, as extracted from the Prospectus and audited financial statements for the year ended 31 December 2006, is set out below. This summary does not form part of the audited financial statements.

	2006			2005			2004			2003		
	Continuing operations RMB'000	**Discontinued operations RMB'000**	**Total RMB'000**	Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000	Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000	Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000
Results												
Revenue	**4,530,975**	**–**	**4,530,975**	4,121,748	–	4,121,748	3,568,865	97,893	3,666,758	2,894,108	364,926	3,259,034
Profit before tax	**205,491**	**–**	**205,491**	145,504	–	145,504	127,918	484	128,402	65,768	1,433	67,201
Tax	**(74,072)**	**–**	**(74,072)**	(47,158)	–	(47,158)	(44,127)	(106)	(44,233)	(20,519)	(658)	(21,177)
Profit for the year	**131,419**	**–**	**134,419**	98,346	–	98,346	83,791	378	84,169	45,249	775	46,024
Attributable to:												
Equity holders of the parent	**99,577**	**–**	**99,577**	75,098	–	75,098	73,167	361	73,528	38,172	695	38,867
Minority interests	**31,842**	**–**	**31,842**	23,248	–	23,248	10,624	17	10,641	7,077	80	7,157
	131,419	**–**	**131,419**	98,346	–	98,346	83,791	378	84,169	45,249	775	46,024

SUMMARY FINANCIAL INFORMATION

	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000
Assets, Liabilities and Minority Interests				
Non-current assets	**1,123,480**	889,749	700,353	713,992
Current assets	**1,994,434**	1,252,434	1,082,930	952,110
Current liabilities	**(1,741,124)**	(1,531,249)	(1,241,717)	(1,279,108)
Net current assets/(liabilities)	**253,310**	(278,815)	(158,787)	(326,998)
Total assets less current liabilities	**1,376,790**	610,934	541,566	386,994
Non-current liabilities	**(302,145)**	(178,230)	(161,976)	(62,990)
Net assets	**1,074,645**	432,704	379,590	324,004
Represented by:				
Equity attributable to equity holders of the parent	**984,973**	358,784	322,493	278,101
Minority interests	**89,672**	73,920	57,097	45,903
Total equity	**1,074,645**	432,704	379,590	324,004