

Report of the Supervisory Committee

Dear shareholders,

During the period under review, all members of the Supervisory Committee complied with the applicable requirements of the Company Law of the People's Republic of China and Articles of Association, adhered to the principle of integrity and performed their supervisory duties in good faith to protect the interests of the shareholders and the Group.

During the period under review, the Group gradually adapted to the requirements under the regulatory framework of the Listing Rules applicable to it as a listed company on the Stock Exchange. However, the Group also faced higher requirements on governance and internal control imposed by the new Code on Corporate Governance Practices of the Listing Rules. As such, this session of the Supervisory Committee focused its efforts on the following three aspects: (1) to further improve the corporate governance structure; (2) to urge the Group and its Board to provide an open, fair, impartial and transparent environment for its investors in strict compliance with the Listing Rules; and (3) to monitor the major operating activities of the Group and remind the Board and the Group to avoid significant operational risks.

During the period under review, the Supervisory Committee held two meetings. On 18 April 2006, the second session of the Supervisory Committee held a meeting regarding the operations of the Group in 2005, including the Group's development plan, network expansion and improvement of the internal control systems. The Supervisory Committee also received reports on the financial position of the Group for 2005 and discussed and adopted its report for 2005. On 15 August 2005, a meeting of the second session of the Supervisory Committee was held to discuss the operating conditions for the six months ended 30 June 2006 and received the relevant reports on the financial position of the Group for the six months ended 30 June 2006.

This session of the Supervisory Committee reviewed the financial system, financial reporting and internal auditing works of the Group, and considered that the information as included in the Group's financial budget, final accounts, annual report and interim report are true and reliable, and the audit opinion issued by the accountants are objective and fair.

This session of the Supervisory Committee conducted supervision on the operating activities of the Group, and considered that the Group has established an improved internal control system, and has achieved significant progress in formulating and implementing internal work process, effectively contained the various corporate operating risks. The Group has performed its activities in accordance with the laws and regulations of the State, the Articles of Association and the work process.

This session of the Supervisory Committee conducted supervision on the due diligence of the Directors, managers and the execution of resolutions in general meetings. The Supervisory Committee considered that the Directors and the management have duly performed their duties in accordance with the resolutions of general meetings. None of the Directors and other management of the Group have been found to be in breach of the laws and regulations and the Articles of Association or involved in acts detrimental to the interests of the Company and shareholders during the execution of their duties.

This session of the Supervisory Committee conducted a review on the Group's operating activities such as acquisitions and mergers and disposal of assets. The Supervisory Committee considered that the consideration for the Group's acquisition and merger and asset disposal activities were fair and reasonable. It was not aware of any insiders' dealings or any event detrimental to the interests of shareholders, in particular the interests of minority shareholders.

This session of the Supervisory Committee conducted a review on the Group's connected transactions, which were subject to conditional waivers. It confirmed that such connected transactions comply with legal & statutory procedures and the transactions were conducted on fair commercial terms and the line with the accounting policies of the Group and transaction amounts were within the cap of the waivers granted.

This session of the Supervisory Committee considers that the second session of the Board of the Group has since its inauguration formulated and implemented the operating strategies for the development of the Group in accordance with the operating targets as determined in the general meetings. Against the backdrop of keen competitive in the domestic retail market, the Board has made proper decisions according to the operating environment, conducted operations prudently and sought expansion aggressively. The Supervisory Committee considered that each Director in the Board has performed their duties in a diligent and responsible manner. The Supervisory Committee also complimented the Board for their persistent efforts in improving the various internal management systems of the Group in response to the requirements applicable to public companies.

As more and more retail chains are seeking to be listed in Hong Kong, international investors will maintain their interests in the potential of retail businesses in the People's Republic of China. Good corporate governance proactive and open and fair disclosures of information will facilitate the Group in building up a good corporate image in the international capital market. As such, the Group will continue to improve its various internal operations and systems. In the coming year, the Supervisory Committee will diligently discharge its solemn responsibilities to protect and ensure maximization of the interests of the Group and its shareholders.