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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: 814)**

**ANNUAL RESULTS ANNOUNCEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

#### **HIGHLIGHTS**

- Adding 39 new retail outlets with net operating area of approximately 23,600 square metres and the total number of retail outlets reached 242;
- Revenue was approximately RMB6,694.4 million, representing a 18.7% growth as compared to 2007;
- Gross profit was approximately RMB934.8 million, 29.5% higher than that of 2007;
- Gross profit margin was approximately 13.96%, 1.16% higher than that of 2007;
- Profit attributable to equity holders was approximately RMB156.8 million, represented a 25.8% growth as compared to 2007;
- Basic earnings per share was approximately RMB38 cents, an increase of 19.1% over 2007; and
- Final dividend per share was RMB21 cents (tax inclusive, 2007: RMB17.5 cents).

\* For identification purpose only

The board of directors (the “Board”) of Beijing Jingkelong Company Limited (the “Company” or “Jingkelong”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2008 (the “Reporting Period”).

## CONSOLIDATED INCOME STATEMENT

*Year ended 31 December 2008*

	Notes	2008 RMB'000	2007 RMB'000
REVENUE	4	<b>6,694,357</b>	5,640,599
Cost of sales		<u>(5,759,521)</u>	<u>(4,918,762)</u>
Gross profit		<b>934,836</b>	721,837
Other income and gains	4	<b>345,568</b>	242,961
Selling and distribution costs		<b>(680,336)</b>	(521,598)
Administrative expenses		<b>(195,360)</b>	(137,008)
Other expenses		<b>(33,333)</b>	(23,493)
Finance costs	5	<b>(91,100)</b>	(27,397)
Share of profits/(losses) of associates		<u><b>(11)</b></u>	<u>4</u>
PROFIT BEFORE TAX	6	<b>280,264</b>	255,306
Tax	7	<u><b>(76,581)</b></u>	<u>(86,434)</u>
PROFIT FOR THE YEAR		<u><b>203,683</b></u>	<u>168,872</u>
Attributable to:			
Equity holders of the parent		<b>156,758</b>	124,593
Minority interests		<u><b>46,925</b></u>	<u>44,279</u>
		<u><b>203,683</b></u>	<u>168,872</u>
DIVIDENDS – Proposed final	8	<u><b>86,566</b></u>	<u>72,139</u>
Dividend per share (RMB)	8	<u><b>21.0 cents</b></u>	<u>17.5 cents</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (RMB)	9	<u><b>38.0 cents</b></u>	<u>31.9 cents</u>

**CONSOLIDATED BALANCE SHEET***31 December 2008*

	Notes	<b>2008</b> <b>RMB'000</b>	2007 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>1,528,479</b>	1,296,834
Investment properties		<b>7,783</b>	8,240
Lease prepayments for land use rights		<b>74,549</b>	76,462
Interests in associates		-	202
Available-for-sale investments		<b>1,085</b>	53,680
Intangible assets		<b>8,583</b>	7,964
Other long term lease prepayments		<b>67,434</b>	20,299
Total non-current assets		<b>1,687,913</b>	1,463,681
<b>CURRENT ASSETS</b>			
Available-for-sale investments		<b>50,000</b>	-
Inventories		<b>710,080</b>	599,550
Trade receivables	10	<b>970,086</b>	743,006
Prepayments, deposits and other receivables		<b>272,700</b>	197,610
Loan receivable		<b>50,000</b>	50,000
Investment deposit		-	100,000
Pledged deposits		<b>30,387</b>	19,414
Cash and cash equivalents		<b>543,028</b>	501,940
Total current assets		<b>2,626,281</b>	2,211,520
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	11	<b>798,976</b>	816,795
Debentures		<b>370,000</b>	370,000
Tax payable		<b>72,510</b>	60,006
Other payables and accruals		<b>497,779</b>	328,472
Interest-bearing bank and other borrowings	12	<b>1,008,513</b>	577,462
Deferred income - current portion		<b>267</b>	267
Total current liabilities		<b>2,748,045</b>	2,153,002
NET CURRENT ASSETS/(LIABILITIES)		<b>(121,764)</b>	58,518
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>1,566,149</b>	1,522,199

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	12	56,000	100,375
Deferred income		2,932	3,199
Deferred tax liabilities		11,601	12,333
Other long term payable		7,000	-
Total non-current liabilities		<u>77,533</u>	<u>115,907</u>
Net assets		<u>1,488,616</u>	<u>1,406,292</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		412,220	412,220
Reserves		826,233	758,636
Proposed final dividend	8	86,566	72,139
		<u>1,325,019</u>	<u>1,242,995</u>
Minority interests		<u>163,597</u>	<u>163,297</u>
Total equity		<u>1,488,616</u>	<u>1,406,292</u>

## **NOTES TO FINANCIAL STATEMENTS**

At 31 December 2008

### **1. CORPORATE INFORMATION**

The Company is a joint stock limited company incorporated in the People's Republic of China (the "PRC").

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 "Greater Beijing Region").

In the opinion of the directors, the controlling shareholder of the Company is Beijing Chaoyang Auxiliary Food Company ("Chaoyang Auxiliary"), a state-owned enterprise established in the PRC.

### **2.1 BASIS OF PREPARATION**

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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 the equity 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.

As at 31 December 2008, the Group had net current liabilities of RMB121,764,000. Based on the Group's history of obtaining financing, available banking facilities, operating performance, working capital forecast and financial obligations in the next twelve months, the directors consider that there are sufficient financial resources available to the Group to meet its liabilities as when fall due and to carry on its businesses in the foreseeable future. Accordingly, the directors have prepared the financial statements on a going concern basis.

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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. An acquisition of minority interest is accounted for using the parent existing extension method whereby the difference between the consideration and the book value of share of net assets acquired is recognised as goodwill.

## **2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements.

### **HKAS 39 & HKFRS 7**

Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> and HKFRS 7 <i>Financial Instruments: Disclosures – Reclassification of Financial Assets</i>
HK(IFRIC)-Int 11	HKFRS 2 – <i>Group and Treasury Share Transactions</i>
HK(IFRIC)-Int 12	<i>Service Concession Arrangements</i>
HK(IFRIC)-Int 14	HKAS 19 – <i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>

The adoption of these new interpretations and amendments has had no significant financial effect on the financial statements and there have been no significant changes to the accounting policies applied in the financial statements.

## **2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS**

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First – time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
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HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HKAS 39 Amendment	Amendment to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
HK(IFRIC)-Int 17	<i>Distribution of Non-cash Assets to Owners</i>

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs*, but not yet effective, which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording.

### 3. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are contributed 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 the hypermarkets, supermarkets and/or convenience stores of the Group;
- (ii) the wholesaling segment engages in the wholesale supply of daily consumer products to consumers including the Group's hypermarkets, supermarkets and/or convenience stores, 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 equipment.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

### Year ended 31 December 2008

	<b>Retailing</b> RMB'000	<b>Wholesaling</b> RMB'000	<b>Others</b> RMB'000	<b>Eliminations</b> RMB'000	<b>Consolidated</b> RMB'000
<b>Segment revenue:</b>					
Sales to external customers	3,094,092	3,594,310	5,955	-	6,694,357
Intersegment sales	267,352	557,517	9,324	(834,193)	-
Other income and gains	<u>281,490</u>	<u>90,399</u>	<u>609</u>	<u>(26,930)</u>	<u>345,568</u>
Total	<u>3,642,934</u>	<u>4,242,226</u>	<u>15,888</u>	<u>(861,123)</u>	<u>7,039,925</u>
<b>Segment results</b>	<u>175,296</u>	<u>195,579</u>	<u>500</u>	<u>-</u>	<u>371,375</u>
Finance costs	(61,898)	(46,275)	-	17,073	(91,100)
Share of losses of associates	-	(11)	-	-	<u>(11)</u>
Profit before tax					280,264
Tax					<u>(76,581)</u>
Profit for the year					<u>203,683</u>
<b>Assets and liabilities:</b>					
Segment assets	2,710,577	1,654,737	5,008	(56,128)	<u>4,314,194</u>
Segment liabilities	(1,725,693)	(1,153,139)	(2,874)	56,128	<u>(2,825,578)</u>
<b>Other segment information:</b>					
Capital expenditure	289,485	67,602	8	-	357,095
Depreciation:					
property, plant and equipment	98,405	22,728	89	-	121,222
investment properties	457	-	-	-	457
Amortisation of intangible assets	817	1,120	-	-	1,937
Recognition of lease prepayments					
for land use rights	1,913	-	-	-	1,913
Foreign exchange differences	<u>(263)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(263)</u>

Year ended 31 December 2007

	Retailing RMB'000	Wholesaling RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
<b>Segment revenue:</b>					
Sales to external customers	2,688,648	2,948,000	3,951	-	5,640,599
Intersegment sales	240,410	462,196	11,213	(713,819)	-
Other income and gains	<u>197,072</u>	<u>58,028</u>	<u>601</u>	<u>(12,740)</u>	<u>242,961</u>
Total	<u>3,126,130</u>	<u>3,468,224</u>	<u>15,765</u>	<u>(726,559)</u>	<u>5,883,560</u>
<b>Segment results</b>	<u>101,100</u>	<u>181,176</u>	<u>423</u>	<u>-</u>	<u>282,699</u>
Finance costs	(9,941)	(30,196)	-	12,740	(27,397)
Share of profits of associates	-	4	-	-	<u>4</u>
Profit before tax					255,306
Tax					<u>(86,434)</u>
Profit for the year					<u>168,872</u>
<b>Assets and liabilities:</b>					
Segment assets	2,573,930	1,353,464	4,992	(257,387)	3,674,999
Interests in associates	-	202	-	-	<u>202</u>
Total assets					<u>3,675,201</u>
Segment liabilities	(1,567,140)	(956,178)	(2,978)	257,387	<u>(2,268,909)</u>
<b>Other segment information:</b>					
Capital expenditure	317,386	49,665	3	-	367,054
Depreciation:					
property, plant and equipment	57,803	14,703	94	-	72,600
investment properties	457	-	-	-	457
Amortisation of intangible assets	516	653	-	-	1,169
Recognition of lease prepayments for land use rights	842	-	-	-	842
Impairment loss on items of property, plant and equipment	3,634	-	-	-	3,634
Write-off of inventories	-	1,899	-	-	1,899
Write-down of inventories to net realisable value	2,725	-	-	-	2,725
Foreign exchange differences	<u>7,714</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,714</u>

#### 4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and discounts. An analysis of the Group's revenue, other income and gains is as follows:

	2008 RMB'000	2007 RMB'000
<b>Revenue</b>		
Direct sale of merchandise and produce:		
Retailing	3,076,134	2,688,648
Wholesaling #	<u>3,594,310</u>	<u>2,948,000</u>
	6,670,444	5,636,648
Commissions from concessionaire sales	17,958	-
Others	<u>5,955</u>	<u>3,951</u>
Total revenue	<u><u>6,694,357</u></u>	<u><u>5,640,599</u></u>
<b>Other income and gains</b>		
Income from suppliers:		
Promotion income	182,438	100,739
Display space leasing fee	6,213	42,707
Others	<u>21,560</u>	<u>18,684</u>
	210,211	162,130
Gross rental income	72,063	49,486
Net compensation on demolished properties	1,231	2,817
Compensation for early termination of rental agreements	-	6,000
Interest income	22,921	9,691
Government grants	12,283	267
Excess over the cost of acquisition of minority interests	4,667	-
Gain on liquidation of associates	158	-
Franchise fee	8,785	1,778
Others	<u>13,249</u>	<u>10,792</u>
Total other income and gains	<u><u>345,568</u></u>	<u><u>242,961</u></u>

# Included in the balances as at 31 December 2008 are sales to franchisees amounting to RMB474,475,000 (2007: RMB 257,289,000).

## 5. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest on bank loans wholly repayable within five years	51,968	36,808
Interest on other borrowings wholly repayable within five years	<u>40,854</u>	<u>15,872</u>
	92,822	52,680
Less: Interest capitalised	<u>(1,722)</u>	<u>(25,283)</u>
	<u>91,100</u>	<u>27,397</u>

## 6. PROFIT BEFORE TAX

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

	<b>2008</b>	2007
	<b>RMB'000</b>	RMB'000
Cost of inventories sold	<b>5,759,521</b>	4,918,762
Depreciation:		
Property, plant and equipment	<b>121,222</b>	72,600
Investment properties	<u><b>457</b></u>	<u>457</u>
	<u><b>121,679</b></u>	<u>73,057</u>
Amortisation of intangible assets	<b>1,937</b>	1,169
Recognition of lease prepayments for land use rights	<b>1,913</b>	842
Minimum lease payments under operating lease on properties	<b>104,023</b>	77,693
Losses/(gains) on disposal of items of property, plant and equipment, net	<b>366</b>	(242)
Reversal of impairment of trade and other receivables	<b>(1,430)</b>	(8,344)
Write-off of inventories	-	1,899
Write-down of inventories to net realisable value	-	2,725
Net rental income	<b>(63,572)</b>	(42,692)
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	<b>8,491</b>	6,794
Impairment loss on items of property, plant and equipment	-	3,634
Auditors' remuneration	<b>2,200</b>	2,050
Staff costs:		
Directors' emoluments	<b>2,983</b>	2,352
Other staff costs		
Wages, salaries and social security costs	<b>291,884</b>	204,962
Retirement benefit contributions	<u><b>24,581</b></u>	<u>20,871</u>
	<u><b>316,465</b></u>	<u>225,833</u>
Staff costs	<u><b>319,448</b></u>	<u>228,185</u>
Foreign exchange differences	<b>(263)</b>	7,714

## 7. 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 25% (2007: 33%) on their respective taxable incomes.

The income tax in the consolidated income statement of the Group comprised the following:

	<b>2008</b> <b>RMB'000</b>	2007 RMB'000
Current income tax - PRC	<b>77,313</b>	92,780
Deferred income tax	<u>(732)</u>	<u>(6,346)</u>
Total tax charge for the year	<u><b>76,581</b></u>	<u>86,434</u>

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:

	<b>2008</b>		2007	
	<b>RMB'000</b>	<b>%</b>	<b>RMB'000</b>	<b>%</b>
Profit before tax	<u><b>280,264</b></u>		<u>255,306</u>	
Income tax at PRC statutory income tax rate	<b>70,066</b>	<b>25.0</b>	84,251	33.0
Expenses not deductible for tax	<b>5,625</b>	<b>2.0</b>	4,243	1.7
Tax losses not recognised	<b>2,026</b>	<b>0.7</b>	3,704	1.4
Effect on change in deferred tax rate	-	-	(5,687)	(2.2)
Tax effect of non-taxable income	<b>(1,167)</b>	<b>(0.4)</b>	-	-
Others	<u><b>31</b></u>	<u>-</u>	<u>(77)</u>	<u>-</u>
Tax charge at the Group's effective rate	<u><b>76,581</b></u>	<u><b>27.3</b></u>	<u>86,434</u>	<u>33.9</u>

## 8. DIVIDENDS

	2008 RMB'000	2007 RMB'000
Proposed final – RMB21.0 cents (2007: RMB17.5 cents) per ordinary share	<u>86,566</u>	<u>72,139</u>

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

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.

## 9. 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.

	2008 RMB'000	2007 RMB'000
<i>Earnings:</i>		
Profit attributable to ordinary equity holders of the parent	<u>156,758</u>	<u>124,593</u>

	Number of shares 2008	2007
<i>Shares:</i>		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	<u>412,220,000</u>	<u>390,719,448</u>

The Company's weighted average number of shares in issue used in the basic earnings per share calculation for the year ended 31 December 2007 is determined by adjusting 27,600,000 new H shares issued on the placement on 12 October 2007.

Diluted earnings per share for the years ended 31 December 2008 and 2007 have not been presented because no diluting events existed during these two years.

## 10. TRADE RECEIVABLES

The Group normally allows a credit period of not more than 60 days to its customers. A longer credit period is granted to its major customers with long term relationship. The Group seeks to maintain strict control over its outstanding receivables. Overdue

balances are reviewed regularly by senior management. The Group's trade receivables comprised about 2,500 (2007: 3,500) customers with amounts ranging from RMB0.001 million to RMB344.3 million (2007: RMB 0.1 million to RMB192.1 million). Trade receivables are non-interest bearing.

An aged analysis of the Group's trade receivables as at the balance sheet date, based on invoice date and net of provision, is as follows:

	<b>2008</b>	<b>2007</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Within 2 months	<b>620,419</b>	602,686
2 to 6 months	<b>223,477</b>	136,353
6 months to 1 year	<b>126,184</b>	3,855
1 to 2 years	<u><b>6</b></u>	<u>112</u>
	<b><u>970,086</u></b>	<b><u>743,006</u></b>

## **11. TRADE AND BILLS PAYABLES**

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

	<b>2008</b>	<b>2007</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Within 2 months	<b>702,836</b>	739,648
2 to 6 months	<b>90,293</b>	69,333
6 months to 1 year	<b>2,815</b>	3,162
1 to 2 years	<b>1,035</b>	430
Over 2 years	<u><b>1,997</b></u>	<u>4,222</u>
	<b><u>798,976</u></b>	<b><u>816,795</u></b>

The trade payables are non-interest bearing and are normally settled on 60-days terms.

## 12. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2008		2007	
	Maturity	RMB'000	Maturity	RMB'000
<b>Current</b>				
Bank loans - secured	2009	459,138	2008	334,712
Bank loans - unsecured	2009	205,000	2008	180,000
Other loans - unsecured	2009	300,000	2008	20,000
Current portion of long term bank loans - secured	2009	<u>44,375</u>	2008	<u>42,750</u>
		<b>1,008,513</b>		<b>577,462</b>
<b>Non-current</b>				
Secured bank loans	2010 - 2011	<u>56,000</u>	2009 - 2011	<u>100,375</u>
		<b><u>1,064,513</u></b>		<b><u>677,837</u></b>

All of the Group's bank loans, which are denominated in RMB, bear fixed interest rates ranging from 4.9% to 7.5% (2007: 5.5% to 7.5%) per annum. As at 31 December 2008, the secured bank loans of the Group amounting to RMB500.4 million (2007: RMB443.1 million) were secured by certain of the Group's buildings, investment properties and lease prepayments for land use rights with aggregate net book values of approximately RMB578.7 million (2007: RMB452.3 million). In addition, the secured bank loans of the Group amounting to RMB59.1 million (2007: RMB34.7 million) were secured by certain of the Group's pledged time deposits amounting to RMB17.7 million (2007: RMB10.4 million). As at 31 December 2008, the unsecured bank loans of the Group amounting to RMB185 million (2007: RMB 160 million) were guaranteed by the Company. There were entrusted loans from a third party amounting to RMB20 million (2007: RMB 20 million) as at 31 December 2008.

As at 31 December 2008, the unsecured borrowing of the Group was a borrowing from New Time Trust & Investment Company Limited, an independent third party, amounting to RMB300 million which was guaranteed by the Company. The unsecured other borrowing of the Group as at 31 December 2007 was a borrowing from the Chaoyang State-owned Assets Supervision and Administration Commission amounting to RMB20 million which was fully settled in 2008. All of the Group's other borrowings are denominated in RMB and bear a fixed interest rate of 7.3% per annum (2007: 6.6%).

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

In 2008, since the third quarter, the China economy has slowed down under the impact of intensively growing global financial crisis. In the face of grim economic situation, the China government has acted decisively to make timely adjustments on the macroeconomic policy, promptly introduced measures to expand domestic demand and formulated a series of related economic policies which made up a systematic and comprehensive package plan aimed at promoting steady and relatively fast economic growth. With its healthy banking system, effective monetary and fiscal policy and robust domestic consumption market, China economy has achieved remarkable growth in 2008. According to the report of the National Bureau of Statistics of China, the GDP of China grew by 9.0%.

According to the information published by the Beijing Municipal Bureau of Statistics, the per capita disposable income and the per capita consumption expenditure increased by 12.4% and 7.4% respectively in 2008. Development of the economy and consumption market in China and Beijing region provides us the opportunities and challenges for growth and expansion of our wholesale and retail businesses in the Greater Beijing Region.

The integrated development of the Group's wholesale and retail businesses is a unique operation mode and one of its competitive advantages. During the Reporting Period, the Group executed its operating strategies and development plans in its retail and wholesale businesses and both achieved stable development.

#### ***Positive and steady development of distribution network***

During the Reporting Period, the Group further strengthened its regional superiority in the Greater Beijing Region, with 16 new directly-operated retail outlets (including 1 hypermarket, 8 supermarkets and 7 convenience stores) and 23 franchise convenience stores being opened. The Group's retail network covered all the 18 districts and counties of Beijing City; and with 2 new stores opened in Langfang of the Hebei Province, a retail network comprising 1 hypermarket, 3 supermarkets and 1 convenience store has been developed in the Hebei Province.

During the Reporting Period, the Group continued to further integrate the resources of Beijing Shou Lian Trading Company Limited ("Shou Lian") according to its plan. With the foundation of integrating the business systems of the Shou Lian delegated stores into the systems of centralised procurement, logistics, settlement and management information of Jingkelong, the Group concentrated its efforts in taking positive measures to gradually improve the operation capability and profitability of the Shou Lian delegated stores. During the Reporting Period, the Group adopted the current design requirements of its retail outlets to redesign, renovate and revamp the Shou Lian delegated stores. By now, 6 delegated shops have been subsequently reopened for business with improved shopping environment and operation conditions, enlarged self-operating area, rational shop layout and operating results were obviously promoted.

For Shou Lian reorganisation purpose, on 23 December 2008, the Company entered into a

sales and purchase agreement with Beijing Jinyang Jiulong Trading Company Limited (“Jinyang Jiulong”), an independent third party, to dispose of its 11.04% equity interest in Shou Lian to Jinyang Jiulong, for a cash consideration of RMB50 million (the “Disposal”). After the Disposal, Jinyang Jiulong owns 100% equity interest in Shou Lian. On the same date, the Company and Shou Lian entered into an equity delegation agreement for the delegation of the 100% equity interest in Beijing Shou Lian Supermarket Company Limited (“Shou Lian Supermarket”) to the Company for a period from 23 December 2008 to 28 February 2010 (the “Equity Delegation Agreement”). Shou Lian Supermarket is wholly owned by Shou Lian and has taken up all the operations of Shou Lian. The principal terms of the Equity Delegation Agreement are basically similar to the co-operation agreement entered into between the Company, Shou Lian and Beijing Xi Dan You Yi Group on 10 February 2007. This co-operation agreement has been terminated after entering the Equity Delegation Agreement.

The following table set out the number and net operating area of the Group’s retail outlets as at 31 December 2008:

	Department stores	Hypermarkets	Supermarkets	Convenience stores	Total
Number of retail outlets					
Directly-operated	1	7	47	54	109
Franchise-operated	-	-	1	105	106
Shou Lian delegated stores	<u>1</u>	<u>3</u>	<u>23</u>	<u>=</u>	<u>27</u>
	<u>2</u>	<u>10</u>	<u>71</u>	<u>159</u>	<u>242</u>
Net operating area (square metres)					
Directly-operated	27,800	60,138	103,163	12,294	203,395
Franchise-operated	-	-	880	20,058	20,938
Shou Lian delegated stores	<u>19,300</u>	<u>21,185</u>	<u>48,389</u>	<u>=</u>	<u>88,874</u>
	<u>47,100</u>	<u>81,323</u>	<u>152,432</u>	<u>32,352</u>	<u>313,207</u>

The coverage of the Group’s wholesale network further extended to Northern China and the Economic Circle of Bohai. During the Reporting Period, the number of sole distributorship brands supplied to the supermarkets, shopping centers and, catering and entertainment businesses in Beijing, Northern China, Eastern China and the Bohai circle has reached 72. The scale of turnover and profitability from wholesale business has been promoted steadily.

### ***Strengthening commodity quality supervision***

During the Reporting Period, the Group’s internal commodity quality entire process control system has been revised pursuant to the relevant laws and regulations stipulated in the Food Security Regulations of Beijing City effective from 1 January 2008. QS market assess system has been fully applied to all commodities under the scope of QS compulsory

authentication according to the relative regulations and requirements. On-site inspection and appraisal were conducted on the newly introduced commodity channels. By adhering to the standards of safety, healthiness and freshness to select reliable commodity procurement base, the safety in sourcing commodity has been enhanced. Meanwhile, the Company's examination centre has fully displayed its scientific technique in conducting non-periodical commodity spot-check to assure customers' confidence.

During the Reporting Period, the Group launched a network management system of suppliers' certificate identification to promote the efficiency in the management of commodity quality and certificate identification. By utilising the Group's food security early warning mechanism, commodities with quality problems can be promptly removed from display area and handled in the shortest time.

### ***Promoting the customer-oriented marketing concept***

The Group continued to implement the consumer-oriented marketing concept based on consumer characteristics and behavior. During the Reporting Period, the data application system was installed in the Group's retail outlets, which could provide data reference for the shop management teams to adjust product mix, display layout and marketing strategy timely on the basis of classifying, combining, digging and analysing data information.

Following the extension of retail outlets to the 18 districts and counties of the Beijing City, and the Hebei Province, the Group implemented regional marketing strategy based on its scale superiority. Differential management and marketing were implemented based on the consumption conditions in different commercial sectors and characteristic research as well as the location, type and conditions of retail outlets. By having the opportunity of hosting the Olympic Games, festivals, shop celebration, and based on the conditions of commercial sectors to adjust shop layout, commodity display design and optimisation of product mix, the Group positively arranged various characteristic marketing activities.

### ***Enhancing logistics and distribution systems***

During the Reporting Period, the Group insisted on refinery management of its centralised logistics system. The live and fresh produce logistics centre strengthened the construction of its live and fresh produce base, extended procurement sources and reduced unnecessary procedures to form the live and fresh operation pattern of "supermarket plus base". The perfection of live and fresh produce purchase network and enhancement of logistics management ability enabled the Company to save costs and improve operation results efficiently.

During the Reporting Period, the wholesale distribution centre installed the large-scale automatic classifying and picking assembly system. The classifying and picking capacity was promoted to 9,000 boxes per hour resulting in promoting distribution efficiency and concurrently reducing error rate of classification and picking. The rapid development of the Group's wholesale business was thus safeguarded by its strong logistics system.

### *Consolidating customer loyalty*

The Group continued to stick with the long-term commitment of “limited demand, unlimited service” in promoting customer service. During the Reporting Period, the Group implemented the “cents storage” project in membership reward card originated from the business segment which enhances collection efficiency and convenience to customer shopping. Through the introduction of “member price” commodities, exchange and purchase with accumulated points recorded in membership reward cards during festivals and holidays, the accumulated points reward and other activities under the membership reward scheme provides more valued-added services.

During the Reporting Period, with the opportunities from the Olympic Games, the Group conducted food safety knowledge education in the surrounding community of its retail outlets and used the theme of “happy kitchen” to explain to residents of cooking know-how, nutrition knowledge as well as introduce the Group’s commodity production flow, procurement flow and quality control skill.

### *Operation results*

The retail revenues are categorised to include the sales of goods generated from the Group’s directly-operated retail outlets and the commissions from concessionaire sales. Over 99% of the Group’s retail turnover and contribution to retailing profit is attributable to the operation and management of the Group’s directly-operated hypermarkets, supermarkets and convenience stores in the Reporting Period. During the Reporting Period, the Group recorded commissions of approximately RMB18 million earned from the concessionaire sales of approximately RMB124.1 million recognised in the Jiulong department store which commenced business in November 2007.

An analysis of the revenue and gross profit margin contributed by the Group’s directly-operated hypermarkets, supermarkets and convenience stores is set out below:

	<b>Revenue (RMB’000)</b>		<b>Increase</b>
	<b>2008</b>	<b>2007</b>	<b>(%)</b>
Hypermarkets	<b>1,007,300</b>	682,380	<b>47.6</b>
Supermarkets*	<b>1,818,988</b>	1,763,647	<b>3.1</b>
Convenience stores	<b><u>249,846</u></b>	<u>212,904</u>	<b><u>17.4</u></b>
Total	<b><u>3,076,134</u></b>	<u>2,658,931</u>	<b><u>15.7</u></b>
Gross profit margin (%)	<b><u>16.7</u></b>	<u>15.8</u>	<b><u>0.9</u></b>

- \* The revenue of supermarkets included the amount generated by the Guanzhuang supermarket which was transformed to a hypermarket in 2008. Excluding the revenue of the Guanzhuang supermarket, the revenue of supermarkets increased by approximately 10% in 2008.

The increase in the 2008 revenue of the Group's directly-operated hypermarkets, supermarkets and convenience stores of approximately 15.7% was mainly attributable to (i) the same store sale growth of approximately 7.2%, (ii) contributions from the full years sales performance of the new stores opened in 2007, and (iii) inclusion of the sales performance of the new stores opened in the Reporting Period.

The increase in gross profit margin generated from the hypermarket operation, supermarket operation and convenience store operation from approximately 15.8% in 2007 to approximately 16.7% in the Reporting Period, was mainly contributed by (i) higher gross profit margin generated by self-operated live and fresh produce, (ii) bargaining power with suppliers strengthened based on the increase in purchase volume as a result of expansion of distribution network, and (iii) continuous optimisation of product mix.

The wholesale revenues are categorised to include the sales recognised by Beijing Chaopi Trading Company Limited ("Chaopi Trading") and its subsidiaries and sales to franchisees recognised by the Company.

	<b>2008</b> <b>RMB'000</b>	2007 RMB'000	Increase (%)
Revenue recognised by Chaopi Trading and its subsidiaries	<b>3,677,352</b>	3,152,907	16.6
Less: Intersegment sales	<b>(557,517)</b>	(462,196)	20.6
Sales to franchisees	<b><u>474,475</u></b>	<u>257,289</u>	84.4
Consolidated wholesale revenue	<b><u>3,594,310</u></b>	<u>2,948,000</u>	21.9
Gross profit margin*	<b><u>10.3%</u></b>	<u>9.5%</u>	0.8

\* *Represents gross profit margin* recognised by Chaopi Trading and its subsidiaries including intersegment sales.

The increase in wholesale revenue recognised by Chaopi Trading and its subsidiaries of approximately 16.6% during the Reporting Period was primarily due to (i) the in line expansion of wholesale business with the rapid expansion of domestic retail business, (ii) the full year contribution in 2008 by Chaopi Zhongde, Chaopi Huilong, and Chaopi Taiyuan with businesses commenced in mid and late 2007 respectively, and (iii) the increase in the number of regional sole distributorship brands.

The increase in gross profit margin from approximately 9.5% in 2007 to 10.3% during the Reporting Period was mainly because of (i) better bargaining power with suppliers due to increase in purchase volume, (ii) the increase in the regional sole distributorship brands with higher gross profit margin, and (iii) the continuous optimisation of product mix.

## FINANCIAL RESULTS

	2008 RMB'000	2007 RMB'000
Revenue	<b>6,694,357</b>	5,640,599
Gross profit	<b>934,836</b>	721,837
Gross profit margin (%)	<b>13.96</b>	12.80
Other income and gains	<b>345,568</b>	242,961
Selling and distribution costs	<b>(680,336)</b>	(521,598)
Administrative expenses	<b>(195,360)</b>	(137,008)
Other expenses	<b>(33,333)</b>	(23,493)
Finance costs	<b>(91,100)</b>	(27,397)
Tax	<b>(76,581)</b>	(86,434)
Profit for the year	<b>203,683</b>	168,872
Net profit margin (%)	<b>3.0</b>	3.0
Profit attributable to equity holders of the parent	<b>156,758</b>	124,593
Net profit margin attributable to equity holders of the parent (%)	<b>2.3</b>	2.2
Basic earnings per share-RMB	<b>38.0 cents</b>	31.9 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 18.7%, from approximately RMB5,640.6 million in 2007 to approximately RMB6,694.4 million, primarily due to the increase in retail and wholesale revenue by approximately 15.1% and 21.9%, respectively.

### ***Gross profit and gross profit margin***

During the Reporting Period, the gross profit of the Group was approximately RMB934.8 million, representing an increase of approximately 29.5% compared to approximately RMB721.8 million last year. The increment was in line with the increase in revenue. The increase in gross profit margin from approximately 12.80% to approximately 13.96% in the current year was mainly attributable to the increase in gross profit margins of both the retail and wholesale businesses.

### ***Other income and gains***

Other income and gains mainly comprises of income from suppliers for display space leasing fee and promotion income, rental income from leasing and sub-leasing of properties and counters, and interest income.

The Group's other income and gains increased by approximately 42.2% from approximately RMB243 million to approximately RMB345.6 million in the Reporting Period, mainly due

to the increase in income from suppliers and rental income of approximately 29.7% and 45.6%, respectively.

### ***Selling and distribution costs***

Selling and distribution costs mainly comprise of 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 were approximately RMB680.3 million in the Reporting Period. The selling and distribution costs ratio against revenue increased from approximately 9.2% to 10.2% in the current year. The increase was primarily due to (i) the increase in salary and welfare, and (ii) the inclusion of selling and distribution costs of the new retail outlets and wholesale subsidiaries set up and commenced operation in the second half of 2007 and during the Reporting Period.

### ***Administrative expenses***

Administrative expenses mainly comprise of salary and welfare, social security costs (including retirement benefit contribution), depreciation expenses and entertainment expenses, etc.

The Group's administrative expenses were approximately RMB195.4 million in 2008. The administrative expenses ratio against revenue increased from approximately 2.4% to 2.9% in the current year. The increase was mainly attributable to (i) the increase in salary, welfare and social security costs as a result of a general increase in salary, and (ii) the inclusion of administrative expenses of the new retail outlets and wholesale subsidiaries set up and commenced operation in the second half of 2007 and during the Reporting Period.

### ***Other expenses***

Other expenses primarily comprise of business tax, city construction tax and surcharges mainly charged on rental income and service income.

The Group's other expenses increased from approximately RMB23.5 million to approximately RMB33.3 million in 2008. The increase was mainly because of increase in business tax, city construction tax and surcharges as a result of increase in rental income and service income in 2008.

### ***Finance costs***

Finance costs represent interest on bank loans, other borrowings and debenture.

The Group's finance costs significantly increased from approximately RMB27.4 million to approximately RMB91.1 million in 2008, and was primarily due to (i) the increase in bank loans and other borrowings during the Reporting Period as well as the short-term debenture issued in December 2007, (ii) the increase of the one-year benchmark lending rate from

6.84% in July 2007 to 7.47% in December 2007, and 7.2% in September 2008, and (iii) a decrease of capitalised interest of approximately RMB23.6 million mainly due to the completion of the construction projects by the end of 2007. Taking into account of the interest income of RMB22.9 million (2007: RMB9.7 million) recorded in other income and gains, the net finance costs would be approximately RMB68.2 million for the Reporting Period (2007: RMB17.7 million).

### ***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 25% during the Reporting Period (2007: 33%) on their respective taxable profit pursuant to the relevant PRC tax laws and regulations.

Income tax decreased from approximately RMB86.4 million to approximately RMB76.6 million in 2008, primarily due to the decrease in corporate income tax rate from 33% in 2007 to 25% in 2008.

### ***Profit for the year***

Profit for the year increased by approximately 20.6% from approximately RMB168.9 million to approximately RMB203.7 million in the current year. The increase was mainly attributable to an increase in gross profit of approximately 29.5% and an increase in other income and gains of approximately 42.2%.

### ***Basic earnings per share***

The Group recorded basic earnings per share of approximately RMB38 cents for 2008, which was calculated on the basis of the number of 412,220,000 shares, representing approximately 19.1% higher than RMB31.9 cents of last year.

## **LIQUIDITY AND FINANCIAL RESOURCES**

During the Reporting Period, the Group mainly financed its operations through internally generated cash flows, bank and other borrowings and the proceeds from the H shares placement in October 2007.

As at 31 December 2008, the Group had non-current assets of approximately RMB1,688 million, which mainly comprised property, plant and equipment of approximately RMB1,528.5 million, and non-current liabilities of approximately RMB77.5 million mainly comprised interest-bearing bank and other borrowings of RMB56 million.

As at 31 December 2008, the Group had the net current liabilities of approximately RMB121,764,000. Current assets mainly comprised cash and cash equivalents (mainly denominated in RMB) of approximately RMB543 million, inventories of approximately RMB710.1 million, trade receivables of approximately RMB970.1 million and prepayments,

deposits and other receivables of approximately RMB272.7 million. Current liabilities mainly comprised of trade and bills payables of approximately RMB799 million, interest-bearing bank and other borrowings of approximately RMB1,008.5 million, short-term debentures of RMB370 million and, other payables and accruals of approximately RMB497.8 million.

## **INCREASE IN INTERESTS IN SUBSIDIARIES**

During the Reporting Period, the Company contributed cash of approximately RMB147.1 million to Chaopi Trading, resulting in the increase of the Group's direct equity interest in Chaopi Trading from approximately 76.42% to 79.85%.

During the Reporting Period, Chaopi Trading acquired an interest of approximately 6.3% in Beijing Chaopi Huilong Trading Company Limited ("Chaopi Huilong") from a minority shareholder of Chaopi Huilong by cash of approximately RMB849,000. Accordingly, the Group's indirect equity interest in Chaopi Huilong increased from approximately 39.05% to 45.83%.

## **FOREIGN CURRENCY RISK**

The Group's operating revenues and expenses are principally denominated in Renminbi.

During the Reporting Period, the Group did not encounter any material effect on its operation or liquidity as a result of fluctuation in currency exchange rates.

## **EMPLOYEES**

As at 31 December 2008, the Group employed 5,057 (2007: 5,068) full-time employees in the PRC. The total staff costs (including directors' and supervisors' remunerations) of the Group for the Reporting Period amounted to approximately RMB319.4 million (2007: RMB228.2 million). The staff emolument (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.

As required by the PRC laws and regulations, the Group participates in the defined contribution retirement benefits scheme for its employees operated by the relevant local government authorities in the PRC. The Group is required to make contributions for those employees who are registered as permanent residents in the PRC at a rate of 20% (2007: 20%) of the employees' salaries, bonuses and certain allowances. The Group has no further obligation associated with the said defined contribution retirement benefits scheme beyond the annual contributions. The Group's contributions to the defined contribution retirement benefits schemes amounted to approximately RMB24,981,000 for the Reporting Period (2007: RMB21,115,000).

During the Reporting Period, 103 training seminars such as pre-job training, staff back-up support, etc. had been conducted.

## INDEBTEDNESS AND PLEDGE OF ASSETS

As at 31 December 2008, the Group had an aggregate borrowings (all denominated in RMB) of approximately RMB1,434.5 million, consisted of secured short-term bank loans of approximately RMB503.5 million, unsecured short-term bank loans of RMB205 million, secured long-term bank loans of RMB56 million, unsecured short-term other borrowing of RMB300 million and unsecured short-term debentures of RMB370 million (fixed interest rate of 6.8% per annum). All the Group's bank loans bear fixed interest rates ranging from 4.9% to 7.5% per annum. All the Group's other borrowing bears a fixed interest rate of 7.3% per annum. The secured bank loans were secured by:

- Certain of the Group's buildings, investment properties and lease prepayments for land use rights with an aggregate carrying value of approximately RMB578.7 million as at 31 December 2008; and
- Certain of the Group's time deposits of approximately RMB17.7 million as at 31 December 2008.

Certain of the Group's time deposits of approximately RMB12.6 million were pledged for bills payable as at 31 December 2008.

The Group's net gearing ratio\* was approximately 57.8% as at 31 December 2008 which was higher than 37.4% as at 31 December 2007. The increase was primarily due to an increase of bank loans and other borrowing, and acquisition of property, plant and equipment during the Reporting Period.

*\* Represented by: (Total borrowings (including debentures)-pledged deposits, and cash and cash equivalent)/Total equity*

According to an independent legal opinion, all the borrowings incurred in 2008 were in compliance with the relevant PRC applicable laws.

## CONTINGENT LIABILITIES

As at 31 December 2008, the Group had no material contingent liabilities.

## STRATEGIES AND PLANS

The financial crisis did not change the economic development of China basic situation and long-term development trends. To effectively meet the global financial crisis, the central government has been making every effort to serve the goal of ensuring sturdy and rapid economic development in China as the top one overarching objective, and will also preserve the well-being of the people and stability in China.

Both the central government and local governments will draw up feasible measures to expand consumption and stimulate domestic demand to promote economic growth. The investment to improve people's livelihood will drive the economic growth. The improvement of education and health system will expand consumption, and the expansion of consumption will in turn improve the structure and quality of economic growth.

Looking forward, we believe in the sustainable development of our country with enormous potential, strong motivation and ability to prevent risks. We expect that the Group's retail and wholesale businesses have immense development opportunity in spite of encountering stringent challenge caused by the global financial crisis as well as gradual intensified competition. We believe that room and potential are still available for the Group's development in the Greater Beijing Region.

With respect to the development strategy, the Group will continue to look for new location for retail outlets in the Greater Beijing Region and establish new wholesale network in the second-tier cities of the Northern China, the Eastern China and the Economic Circle of Bohai at a stable speed. At the same time, we shall adopt effective measures to promote the operating results of the Group's existing retail and wholesale networks.

With respect to the marketing management, the Group will continue to optimise product mix, strengthen marketing strategy, adapt to customer consumption concept and changes in consumption structure. We shall promote the marketing capability of in-house branded commodities.

With respect to the supply chain, the Group will thoroughly improve the flow of logistics centers, reduce logistics costs practically, enhance distribution efficiency, develop commodity sub-packing and processing capability and explore new profitable sources.

With respect to the internal control and management, the Group will gradually improve its internal control system and strengthen the establishment of a risk management organisation system. By integrating the Group's management and marketing mode, we shall implement the KPI evaluation system for each management department, retail outlet and logistics centre to promote the Group's operating efficiency.

## **OTHER INFORMATION**

### **CORPORATE GOVERNANCE**

In the opinion of the directors, the Company has applied the principles of and complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the “GEM Listing Rules”) before the migration of the listing of the H shares of the Company from the Growth Enterprise Market to the Main Board of the Stock Exchange of Hong Kong Limited ( the “Main Board Migration”) and Appendix 14 of the Rules Governing the Listing of Securities on the Main Board (the “Listing Rules”) after the Main Board Migration during the Reporting Period, saving for the directors’ retirement by rotation as explained below.

Both the provision A4.2 of Appendix 15 of the GEM Listing Rules and Appendix 14 of the Listing Rules require that every director, including those appointed for a specific term, of a listed issuer should be subject to retirement by rotation at least once every three years. The Company’s Articles of Association stipulates that each director shall be elected in general meeting of the Company for a term of not more than three years, and eligible for re-election upon the expiry of the term. Having taken into account of the continuity of the Group’s operation and management policies, the Company’s Articles of Association contains no express provision for the directors’ retirement by rotation and thus deviating from the aforesaid provision A4.2.

### **AUDIT COMMITTEE**

The audit committee of the Company has reviewed the Group’s 2008 audited annual results and discussed with the management and the external auditors on the accounting principles and practices adopted by the Group, internal control and financial reporting matters.

### **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 Reporting Period and up to the date of this announcement.

## DISTRIBUTION OF DIVIDENDS/CLOSURE OF REGISTER OF MEMBERS

The directors have proposed a final dividend of RMB21 cents per share (tax inclusive) payable to the shareholders whose name appear on the register of members of the Company on the date of the annual general meeting 2008 (the “AGM”), subject to the approval of the shareholders at the AGM by way of ordinary resolution. The register of members of the Company will be closed from 30 April 2009 to 20 May 2009, both days inclusive, during which no transfer of shares of the Company will be effective. Dividends will be payable on or before 24 June 2009. Payment to domestic shareholders of the Company will be made in RMB, while payment to the H shareholders will be made in HK\$.

Pursuant to the “Enterprise Income Tax Law of the PRC” and the “Detailed Rules for the Implementation of the Enterprise Income Tax Law of the PRC”, beginning from 1 January 2008, any Chinese domestic enterprise which pays dividends to a non-resident enterprise shareholder (i.e. legal person shareholder) in respect of accounting periods beginning from 1 January 2008 shall withhold and pay enterprise income tax for such shareholder. Since the Company is a H share listed company in Hong Kong, the proposed 2008 final dividend of RMB21 cents per share (tax inclusive) will be subject to the aforesaid Enterprise Tax Laws.

In order to properly carry out the withholding and payment of income tax on dividends to non-resident enterprise shareholders, the Company will strictly abide by the law and identify those shareholders who are subject to the withholding and payment of income tax based on the register of its H shareholders as at the end of 29 April 2009. In respect of all shareholders whose names appear in the register of H shareholders kept at Computershare Hong Kong Investor Services Limited, the Company’s H-Shares Registrar and Transfer Office in Hong Kong as at the end of 29 April 2009 who are not individuals (including HKSCC Nominees Limited, corporate nominees or trustees, and other entities or organizations that are all considered as non-resident enterprise shareholders), the Company will distribute the 2008 final dividends after deducting income tax of 10%. The 10% income tax will not be deducted from the 2008 final dividends payable to any natural person shareholders whose names appear in the register of the Company’s H shareholders kept at Computershare Hong Kong Investor Services Limited as at the end of 29 April 2009.

By order of the Board  
**Wei Tingzhan**  
Chairman

Beijing, PRC  
27 March 2009

*As at the date of this announcement, the executive directors of the Company are Wei Tingzhan, Li Jianwen, Li Chunyan and Liu Yuejin; the non-executive directors are Gu Hanlin and Li Shunxiang; and the independent non-executive directors are Fan Faming, Huang Jiangming and Chung Chi Kong.*