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北京京客隆商業集團股份有限公司

**BEIJING JINGKELONG COMPANY LIMITED\***

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

**(Stock Code: 814)**

## **CONTINUING CONNECTED TRANSACTIONS**

### **Summary**

Pursuant to the Equity Sale Agreement (the transaction under which is not a connected transaction of the Company), Mr. Wu has agreed to acquire a 20% equity interest of Chaopi Zhongde (a non-wholly owned subsidiary of the Company) from Zhongde Gaoya. Upon the Chaopi Zhongde Completion, Chaopi Zhongde will become a connected person of the Company under Chapter 14A of the Listing Rules, and the sales of the Chaopi Zhongde Products to any other member of the Group, and the provision of delivery and logistic services by another member of the Group to Chaopi Zhongde, would constitute continuing connected transactions of the Group under Rule 14A.14 of the Listing Rules. Accordingly, in compliance with Rule 14A.35(1) of the Listing Rules, on 16 March 2009, (i) the Company entered into the Zhongde Supply Agreement with Chaopi Zhongde for the supply of Chaopi Zhongde Products by Chaopi Zhongde to the Group, and (ii) Chaopi Trading entered into the Zhongde Service Agreement with Chaopi Zhongde for the provision of logistic and delivery services by Chaopi Trading to Chaopi Zhongde. Both the Zhongde Supply Agreement and the Zhongde Service Agreement are for a period commencing on the date of the Chaopi Zhongde Completion to 31 December 2011, and are conditional on the approval by the Independent Shareholders at the EGM with respect to such agreements and the related annual caps being obtained.

The Chaopi Zhongde Completion is conditional on the approval of the Zhongde Supply Agreement and the Zhongde Service Agreement and the relevant annual caps by the Independent Shareholders at the EGM being obtained.

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As the consideration ratio of the estimated annual transaction amounts over the relevant periods under each of the Continuing Connected Transactions as set out in this announcement for the period from the date of the Chaopi Zhongde Completion to 31 December 2009 and the two years ending 31 December 2011 exceeds 2.5% but is less than 25% and the annual consideration exceeds HK\$10 million, such transactions are subject to the reporting and announcement requirements set out under Rules 14A.45 to 14A.47 of the Listing Rules and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

A circular containing, among other things, details of the Continuing Connected Transactions, a letter from the Independent Board Committee to the Independent Shareholders and a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, together with the notice of the EGM for the Independent Shareholders to consider and approve the Zhongde Supply Agreement and the Zhongde Service Agreement in respect of the Continuing Connected Transactions and the relevant annual caps will be despatched to the shareholders of the Company within 21 days from the date of this announcement.

The Company understands that Mr. Wu is the owner of the entire equity capital of Beijing Gaoya, which is one of the promoters of and used to hold shares in the Company, and hence Mr. Wu, being an associate of a promoter, is a connected person of the Company; and Beijing Gaoya has transferred its entire shareholding in the Company to Mr. Wu, and Mr. Wu is a party to the Equity Sale Agreement and will own 20% equity interest in Chaopi Zhongde after the Chaopi Zhongde Completion. Accordingly, Mr. Wu and his associates will abstain from voting on the resolution to approve the Zhongde Supply Agreement and the Zhongde Service Agreement and the relevant annual caps at the EGM.

## **I. BACKGROUND INFORMATION**

Chaopi Zhongde (a non-wholly owned subsidiary of the Company), since its incorporation, has been supplying the Chaopi Zhongde Products to the Group for sale to its customers on a non-exclusive basis. Meanwhile, Chaopi Trading (a non-wholly owned subsidiary of the Company) has been providing delivery and logistic services to Chaopi Zhongde, for the delivery of the Chaopi Zhongde Products to both the Group and other third party customers.

Pursuant to the Equity Sale Agreement, Mr. Wu has agreed to acquire a 20% equity interest of Chaopi Zhongde from Zhongde Gaoya. Upon the Chaopi Zhongde Completion, Chaopi Zhongde will become a connected person of the Company under Chapter 14A of the Listing Rules, and the sales of the Chaopi Zhongde Products to any

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other member of the Group, and the provision of delivery and logistic services by another member of the Group to Chaopi Zhongde as aforementioned would constitute continuing connected transactions of the Group under Rule 14A.14 of the Listing Rules. Accordingly, in compliance with Rule 14A.35(1) of the Listing Rules, on 16 March 2009, (i) the Company entered into the Zhongde Supply Agreement with Chaopi Zhongde for the supply of Chaopi Zhongde Products by Chaopi Zhongde to the Group, and (ii) Chaopi Trading entered into the Zhongde Service Agreement with Chaopi Zhongde for the provision of logistic and delivery services by Chaopi Trading to Chaopi Zhongde. Both the Zhongde Supply Agreement and the Zhongde Service Agreement are for a period commencing on the date of the Chaopi Zhongde Completion to 31 December 2011.

The Chaopi Zhongde Completion is conditional on the approval of the Zhongde Supply Agreement and the Zhongde Service Agreement and the relevant annual caps by the Independent Shareholders at the EGM.

## **II. INFORMATION OF CHAOPI ZHONGDE**

Chaopi Zhongde was incorporated in the PRC on 7 February 2007, and is principally engaged in the wholesale distribution of general merchandise mainly including consumer sanitary products. Chaopi Zhongde is held as to 80% by Chaopi Trading, which is held as to 79.85% by the Company. Chaopi Zhongde is thus an indirect subsidiary of the Company. The other 20% equity interest of Chaopi Zhongde is being owned by Zhongde Gaoya before the Chaopi Zhongde Completion.

## **III. CONTINUING CONNECTED TRANSACTIONS**

### **1. Supply of Chaopi Zhongde Products by Chaopi Zhongde to the Group**

Chaopi Zhongde, since its incorporation, has been supplying, on a non-exclusive basis, various types of general merchandise mainly including consumer sanitary products (the “Chaopi Zhongde Products”) to the Group for sale to its customers.

On 16 March 2009, the Company and Chaopi Zhongde entered into the Zhongde Supply Agreement for a period commencing on the date of the Chaopi Zhongde Completion to 31 December 2011. Pursuant to the Zhongde Supply Agreement, Chaopi Zhongde has agreed to supply to the Group, on a non-exclusive basis, the Chaopi Zhongde Products for sale to the Group's customers. Upon its expiry, the Company has the right to renew the Zhongde Supply Agreement on no less favourable terms. Under the Zhongde Supply Agreement, Chaopi Zhongde has agreed that the consideration payable by the relevant member of the Group for the supply of the same Chaopi Zhongde Products will not be higher, on the same per unit price basis, than the

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consideration paid to it by any other third party and will not be higher than the then prevailing market prices. In addition, the Company will settle the purchase of the Chaopi Zhongde Products within one month after delivery. The Zhongde Supply Agreement is for a period commencing on the date of the Chaopi Zhongde Completion to 31 December 2011, and is conditional on the approval of the Independent Shareholders at the EGM with respect to such agreement and the related annual caps being obtained.

It is estimated that the total consideration payable by the Group to Chaopi Zhongde in relation to the purchase of the Chaopi Zhongde Products for the period commencing on the date of the Chaopi Zhongde Completion to 31 December 2009 and each of the two years ending 31 December 2011 will not exceed RMB44,260,000, RMB91,050,000 and RMB109,260,000, respectively, and these amounts have accordingly been set as the proposed annual caps for these Continuing Connected Transactions.

The proposed annual caps have been estimated primarily based on (i) the estimated growth of the sales of Chaopi Zhongde Products to the Group based on historical transaction amounts (further details of which are set out in the section headed "V. HISTORICAL FIGURES" below); (ii) the increase in demand for the Chaopi Zhongde Products arising from the integration of the retail network of Shou Lian, which are operated under the Group's franchise arrangements, into the Group; (iii) the estimated increase in the Group's demand for Chaopi Zhongde Products due to the currently anticipated opening of more hypermarkets, supermarkets and convenience stores in the three years ending 31 December 2011 (with approximately 20 new hypermarkets, supermarkets and/or convenience stores (as the case may be) to be opened each year) leading to higher sales volume of the Group; (iv) the general trend of growth in the retail industry and the expected continual growth of the local economy in the Greater Beijing Region; and (v) the estimated increase in the CPI and the price of food in the Greater Beijing Region (*Note*).

*Note: According to the data published by 北京市統計信息網 (Beijing City Statistical Information Net), the CPI and the price of food in Beijing for 2008 increased by approximately 5.1% and approximately 16%, respectively, compared to 2007.*

## **2. Provision of delivery and logistic services by Chaopi Trading to Chaopi Zhongde**

Chaopi Trading, since the incorporation Chaopi Zhongde, has been providing delivery and logistic services to Chaopi Zhongde for the delivery of the Chaopi Zhongde Products to both the Group and other third party customers.

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On 16 March 2009, Chaopi Trading and Chaopi Zhongde entered into the Zhongde Service Agreement for a period commencing on the date of the Chaopi Zhongde Completion to 31 December 2011. Pursuant to the Zhongde Service Agreement, Chaopi Trading has agreed to provide delivery and logistic services to Chaopi Zhongde for the delivery of the Chaopi Zhongde Products to both the Group and other third party customers. Upon its expiry, Chaopi Trading has the right to renew the Zhongde Service Agreement on no less favourable terms. Under the Zhongde Service Agreement, the consideration payable by Chaopi Zhongde to Chaopi Trading for the provision of such delivery services will not be less than (i) the prevailing market fees; and (ii) the consideration charged by Chaopi Trading for the provision of similar services to any other party. The consideration for the provision of the said delivery and logistic services is settled on a monthly basis. The Zhongde Service Agreement is for a period commencing on the date of the Chaopi Zhongde Completion to 31 December 2011, and is conditional on the approval of the Independent Shareholders at the EGM with respect to such agreement and the related annual caps being obtained.

It is estimated that the total consideration payable by Chaopi Zhongde to Chaopi Trading in relation to the provision of delivery and logistic services for the period commencing on the date of the Chaopi Zhongde Completion to 31 December 2009 and each of the two years ending 31 December 2011 will not exceed RMB14,030,000, RMB28,850,000 and RMB34,620,000, respectively, and these amounts have accordingly been set as the proposed annual caps for these Continuing Connected Transactions.

The proposed annual caps have been estimated primarily based on (i) the historical transaction amounts of the delivery and logistic services provided by Chaopi Trading to Chaopi Zhongde (further details of which are set out in the section headed "V. HISTORICAL FIGURES" below); (ii) an estimated growth in total sales of Chaopi Zhongde by 20% each year from 2009; (iii) an expected increase in energy and labour costs in the Greater Beijing Region (*Note*); and (iv) the increase in the geographical area and the number of delivery points to be served by Chaopi Trading arising from the expansion of the customer base of Chaopi Zhongde to the rural areas as a result of the continuous urbanisation of Beijing, which in turn is expected to increase the cost of delivery of Chaopi Trading.

*Note: According to the data published by 北京市統計信息網 (Beijing City Statistical Information Net), the costs of energy and power in Beijing increased by approximately 32% in 2008, compared to 2007.*

#### **IV. LISTING RULES IMPLICATIONS**

The Company understands that Mr. Wu is the owner of the entire equity capital of Beijing Gaoya, which is one of the promoters of and used to hold shares in the Company, and hence Mr. Wu, being an associate of a promoter, is a connected person of the Company (and Beijing Gaoya has transferred its entire shareholding in the

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Company to Mr. Wu). Following the Chaopi Zhongde Completion, Mr. Wu will own 20% equity interest in Chaopi Zhongde (being a non-wholly owned subsidiary of the Company) and, as a result thereof, Chaopi Zhongde will become a connected person of the Company.

The Directors estimate that the consideration ratio of the proposed annual transaction amounts over the relevant periods under each of the Continuing Connected Transactions for the period from the date of the Chaopi Zhongde Completion to 31 December 2009 and each of the two years ending 31 December 2011, exceeds 2.5% but is less than 25% and the annual consideration exceed HK\$10 million. Accordingly the Zhongde Supply Agreement and the Zhongde Service Agreement are subject to the reporting and announcement requirements and the independent shareholders' approval requirement under Rules 14A.35 (3) and 14A.35 (4) respectively.

An Independent Board Committee will be established to advise the Independent Shareholders on the terms of the Zhongde Supply Agreement and the Zhongde Service Agreement for the Continuing Connected Transactions. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Zhongde Supply Agreement and the Zhongde Service Agreement for the Continuing Connected Transactions.

An EGM will be held for the Independent Shareholders to consider and approve the Zhongde Supply Agreement and the Zhongde Service Agreement for the Continuing Connected Transactions and the relevant annual caps. Any voting of the Independent Shareholders shall be taken by poll. An announcement will be made in respect of the results of the poll. As Mr. Wu is a shareholder and connected person (other than at the level of the Company's subsidiaries) of the Company and is a party to the Equity Sale Agreement and will own a 20% equity interest in Chaopi Zhongde after the Chaopi Zhongde Completion, Mr. Wu and his associates will abstain from voting on the resolution to approve the Zhongde Supply Agreement and the Zhongde Service Agreement and the relevant annual caps.

A circular containing, among other things, details of the Continuing Connected Transactions, a letter from the Independent Board Committee to the Independent Shareholders and a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, together with the notice convening the EGM will be despatched to the shareholders of the Company within 21 days from the date of this announcement.

## **V. HISTORICAL FIGURES**

The following table sets out the amounts of each category of the Continuing Connected Transactions for each of the two years ended 31 December 2008:

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	<b>Year ended 31 December 2007 RMB'000</b>	<b>Year ended 31 December 2008 RMB'000</b>
1. Supply of Chaopi Zhongde Products by Chaopi Zhongde to the Group	24,008*	63,224
2. Provision of delivery and logistic services by Chaopi Trading to Chaopi Zhongde	5,929*	20,032

*\* Represented amounts incurred from 7 February 2007, being the date of incorporation of Chaopi Zhongde, to 31 December 2007*

## **VI. PROPOSED ANNUAL CAPS FOR THE CONTINUING CONNECTED TRANSACTIONS FOR THE THREE YEARS ENDING 31 DECEMBER 2011**

The table below summarises the proposed annual caps of the Continuing Connected Transactions for the period from the Chaopi Zhongde Completion to 31 December 2009 and the two years ending 31 December 2011:

	<b>Period from Chaopi Zhongde Completion to 31 December 2009 RMB'000</b>	<b>Year ending 31 December 2010 RMB'000</b>	<b>2011 RMB'000</b>
1. Supply of Chaopi Zhongde Products by Chaopi Zhongde to the Group	44,260	91,050	109,260
2. Provision of delivery and logistic services by Chaopi Trading to Chaopi Zhongde	14,030	28,850	34,620

## **VII. REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS**

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As the Group has been conducting transactions in nature similar to the Continuing Connected Transactions with Chaopi Zhongde before the Zhongde Supply Agreement and the Zhongde Service Agreement were entered into, and the Group has built up a long term strategic and solid business relationship with Chaopi Zhongde, the Directors, excluding the independent non-executive Directors (whose views are subject to the advice of the Independent Financial Adviser in respect of the Continuing Connected Transactions), consider it to be beneficial to the Group to continue to conduct these Continuing Connected Transactions in order to ensure and maximise operating efficiency and stability of the operations of the Group, which are in line with the expansion strategy of the Group.

The Directors, excluding the independent non-executive Directors (whose views are subject to the advice of the Independent Financial Adviser in respect of the Continuing Connected Transactions), consider that the Continuing Connected Transactions have been subject to arm's length negotiation between the Group and Chaopi Zhongde, and have been entered into in the ordinary and usual course of business of the Group and are either (i) on normal commercial terms or better; or (ii) on terms no less favourable to the Group than those available to or from (as appropriate) Independent Third Parties.

The Directors, excluding the independent non-executive Directors (whose views are subject to the advice of the Independent Financial Adviser in respect of the Continuing Connected Transactions), are of the view that the Continuing Connected Transactions, and the relevant proposed annual caps, are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## **VII. INFORMATION OF THE GROUP**

The Group is principally engaged in the retail and wholesale distribution of daily consumer products in the Greater Beijing Region. The Company is principally engaged in retail distribution of daily consumer products in the Greater Beijing Region. Chaopi Trading is principally engaged in the wholesale distribution of daily consumer products in the Greater Beijing Region.

## **VIII. DEFINITIONS**

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
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“Beijing Gaoya”	北京高雅華立科貿有限公司 (Beijing Gaoya Huali Kemao Company Limited*), a company incorporated in the PRC and is one of the Company’s promoters
“Board”	the board of directors of the Company
“Chaopi Trading”	北京朝批商貿有限公司 (Beijing Chaopi Trading Company Limited*), a limited liability company incorporated in the PRC on 31 May 2002 and an approximately 79.85% held subsidiary of the Company
“Chaopi Zhongde”	北京朝批中得商貿有限公司 (Beijing Chaopi Zhongde Trading Company Limited*), a limited liability company incorporated in the PRC on 7 February 2007 and a 80% held subsidiary of Chaopi Trading
“Chaopi Zhongde Completion”	completion of the Equity Sale Agreement, which is expected to occur at or about the end of May 2009
“Chaopi Zhongde Products”	has the meaning ascribed to it under the section headed “III. Continuing Connected Transactions – 1. Supply of Chaopi Zhongde Products by Chaopi Zhongde to the Group” in this announcement
“Company”	北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited*), a joint stock limited company incorporated in the PRC, the H shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	the continuing connected transactions of the Group as set out in the sections headed “III. Continuing Connected Transactions” in this announcement
“CPI”	the consumer price index

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“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held for the purposes of considering and, if thought fit, approving, among other things, the Zhongde Supply Agreement and the Zhongde Service Agreement for the Continuing Connected Transactions and the relevant annual caps
“Equity Sale Agreement”	the equity sale agreement dated 16 March 2009 entered into between Zhongde Gaoya as vendor and Mr. Wu as purchaser in relation to a 20% equity interest in Chaopi Zhongde owned by Zhongde Gaoya
“Greater Beijing Region”	the region covering the whole Beijing city and parts of its periphery
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee, comprising Mr. Fan Faming, Mr. Huang Jiangming and Mr. Chung Chi Kong, all of whom are the independent non-executive Directors
“Independent Financial Adviser”	Kingsway Capital Limited (滙富融資有限公司), a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the independent financial adviser to the Independent Board Committee and the Independent Shareholders

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“Independent Shareholders”	any shareholders of the Company that is not required to abstain from voting at a general meeting to approve a connected transaction under the Listing Rules
“Independent Third Party(ies)”	a person or company who/which is not a director, supervisor, promoter, chief executive or substantial shareholder of the Company or any of its subsidiaries or any of their respective associates
“Listing Rules” or “Rule(s)”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Wu”	Mr. Wu Shaohua, who owns (i) approximately 1.26% of the shares of the Company and (ii) as the Company understands, the entire equity interest in Beijing Gaoya
“PRC”	the People’s Republic of China
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Shou Lian”	北京首聯商業集團有限公司 (Beijing Shou Lian Group Enterprises Limited*), a limited liability company established in the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhongde Gaoya”	北京中得高雅經貿有限責任公司 (Beijing Zhongde Gaoya Trading Company Limited*) a limited liability company incorporated in the PRC and owns 20% of the equity interest in Chaopi Zhongde before the Chaopi Zhongde Completion
“Zhongde Service Agreement”	has the meaning ascribed to it under the section headed “III. Continuing Connected Transactions – 2. Provision of delivery and logistic services by Chaopi Trading to Chaopi Zhongde” in this announcement
“Zhongde Supply Agreement”	has the meaning ascribed to it under the section headed “III. Continuing Connected Transactions

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– 1. Supply of Chaopi Zhongde Products by Chaopi Zhongde to the Group” in this announcement

*By Order of the Board*  
Beijing Jingkelong Company Limited\*  
Wei Tingzhan  
*Chairman*

Beijing, the PRC  
16 March 2009

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

*\* For identification purposes only*