
SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As the following is a summary, it does not contain all the information that is important to you. You should read the entire prospectus before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in the section headed "Risk factors" in this prospectus. You should read that section carefully before making any decision to invest in the Offer Shares.

BUSINESS OVERVIEW

The Group is one of the leading distributors of daily consumer products in the Greater Beijing Region, with a turnover of more than RMB4.1 billion for the year ended 31 December 2005. The Group operates its distribution business under the well-known brands of “京客隆” and “朝批”. According to China Chain Store & Franchise Association, the Group was ranked 21st among the top 100 fast-moving consumer goods retail chains in China and 34th among the top 100 chain enterprises in China in 2005.

The distribution network of the Group spans across retail and wholesale distribution channels. As at 30 June 2006, the retail distribution network of the Group comprised 169 Retail Outlets, of which 68 were directly-operated and 101 were under franchise arrangements; and the Group's directly-operated Retail Outlets comprised four hypermarkets, 29 supermarkets and 35 convenience stores, while the Group's franchised Retail Outlets comprised five supermarkets and 96 convenience stores. The Group also operates a wholesale distribution business through Chaopi Trading and its subsidiaries and associated companies under the well known “朝批” brandname for the wholesale supply of daily consumer products to customers including the Retail Outlets and other retail operators and trading companies. Operating in these retail and wholesale distribution formats, the Group has positioned itself to cater to the needs of a diverse range of customers, ranging from retail operators to end consumers.

Since its inception, the Group has been principally operating in the Greater Beijing Region, with a particularly strong network in the Chaoyang District, which is one of the most affluent inner city regions of Beijing. With the hosting of the Beijing Olympic Games in 2008 and the principal event auditoriums being located in the Chaoyang District, the Directors believe that any increase in tourism and the construction of various infrastructure and residential projects will further stimulate economic and population growth in and increase the urbanization of the Greater Beijing Region, particularly the Chaoyang District, hence providing Chaoyang-based retail chain operators such as the Group with growth opportunities.

Retail distribution channels

The retail distribution channels of the Group comprise hypermarkets, supermarkets and convenience stores, with a geographical focus in the Greater Beijing Region. Leveraging on the established “京客隆” brandname of the Group, the Group has expanded its business model into managing and operating supermarket and convenience store franchises. The daily consumer products distributed through the retail distribution channels include live and fresh produce, dry products, beverages, processed food and daily necessities.

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The Retail Outlets are generally located at easily accessible and highly visible locations, such as in the vicinity of residential neighbourhoods, public transport systems and major roads. This also enhances public awareness of the Group's Retail Outlets and allows the Group to build a strong corporate identity.

In addition, the Chaoyang District of Beijing, where most of the Retail Outlets are located, is easily accessible by four major motorways in Beijing, namely 京張高速公路(Jingzhang Motorway), 京石高速公路(Jingshi Motorway), 京津唐高速公路(Jingjintang Motorway) and 京沈高速公路(Jingshen Motorway). The Directors believe that the strategic location and accessibility of the Chaoyang District allows the Group to tap into a large pool of consumers.

All Retail Outlets, whether directly-operated or under franchise arrangements, are operated under the “京客隆” service mark. These Retail Outlets generally followed a uniform and distinctive design, layout and colour scheme, and their staff are attired in standard uniform. The Directors believe that the use of a common layout, colour scheme and design distinguishes the Group from other chain operators and enhances the public recognition of the “京客隆” brand.

The Group's retail distribution network is supported by two specially designed Logistics Centres, namely the live and fresh produce Logistics Centre and the dry product Logistics Centre. Both of these Logistics Centres are located in the Chaoyang District of Beijing. They are connected by the Group's management information systems to the directly-operated Retail Outlets, and they facilitate the Group's logistics requirements by consolidating orders for, and warehousing and coordinating the delivery of daily consumer products to, the Retail Outlets in the Greater Beijing Region.

Both of these two Logistics Centres are connected to the Group's intranet ordering system thus enabling the directly-operated Retail Outlet to place their orders with such centres electronically through the intranet system. This enables the Group to achieve maximum flexibility in delivering goods without fixed schedules within 24 hours of receiving an order. The Group is thus able to meet various demand conditions at the Retail Outlets efficiently, hence minimizing disruptions to the flow of daily consumer products.

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The table below sets out the locations of the Retail Outlets as at 30 June 2006:–

	Hypermarkets		Supermarkets		Convenience stores		Total	
	Number of stores	Net operating area (sq.m.)	Number of stores	Net operating area (sq.m.)	Number of stores	Net operating area (sq.m.)	Number of stores	Net operating area (sq.m.)
Directly operated by the Group								
朝陽區 (Chaoyang District)	2	19,450	23	56,774	35	8,065	60	84,289
	–	–	–	–	1 ⁽¹⁾	400	1	400
密雲縣 (Miyun County)	–	–	1	4,580	–	–	1	4,580
廊坊市 (Langfang City)	1	9,381	1	2,620	–	–	2	12,001
昌平區 (Changping District)	1	9,807	–	–	–	–	1	9,807
順義區 (Shunyi District)	–	–	1	1,390	–	–	1	1,390
通州區 (Tongzhou District)	–	–	8 ⁽¹⁾	12,590	1 ⁽¹⁾	124	9	12,714
東城區 (Dongcheng District)	–	–	1	1,800	–	–	1	1,800
西城區 (Xicheng District)	–	–	1	2,400	–	–	1	2,400
海澱區 (Haidian District)	–	–	1	2,845	–	–	1	2,845
Sub-total	4	38,638	37	84,999	37	8,589	78	132,226
Operated by franchisees								
朝陽區 (Chaoyang District)	–	–	3	2,580	75	14,506	78	17,086
房山區 (Fangshan District)	–	–	1	1,350	–	–	1	1,350
昌平區 (Changping District)	–	–	–	–	2	436	2	436
海澱區 (Haidian District)	–	–	–	–	2	568	2	568
豐台區 (Fengtai District)	–	–	–	–	7	1,512	7	1,512
通州區 (Tongzhou District)	–	–	–	–	2	500	2	500
順義區 (Shunyi District)	–	–	–	–	3	754	3	754
大興區 (Daxing District)	–	–	–	–	3	695	3	695
宣武區 (Xuanwu District)	–	–	–	–	2	109	2	109
延慶縣 (Yanqing County)	–	–	1	1,900	–	–	1	1,900
Sub-total	–	–	5	5,830	96	19,080	101	24,910
Total	4	38,638	42	90,829	133	27,669	179	157,136

⁽¹⁾ Lease agreements have been signed and the relevant outlets have or will be opened in the second half of 2006.

Wholesale distribution channels

The Group's wholesale distribution network is operated through Chaopi Trading and its subsidiaries and associated companies under the “朝批” brandname, and is supported by its Distribution Centres, which provide wholesale supply of daily consumer products to the Retail Outlets and its other customers comprising, principally, retail operators and trading companies.

The Group operates two Distribution Centres, one in the Chaoyang District of Beijing and the other in Tianjin. The daily consumer products distributed through the Distribution Centres include processed food products, beverages, wine products, non-staple food and non-food products. The Distribution Centres do not distribute fresh or frozen food products.

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Each of these Distribution Centres uses an independent management information system to manage its inventory and deliveries. This enables the Group to provide up-to-date product availability information to its wholesale customers.

The Directors believe that the Group's wholesale distribution strengths lie with its on-the-ground resources (such as its sales teams and local delivery capabilities) and inventory management which allows daily fulfilment, and an established network of wholesale trade customers.

Complementary operations of Logistics Centres and Distribution Centres

All Logistics Centres and Distribution Centres are able to support and supplement each other in terms of order fulfilment and replenishing the needs of the Group's retail and wholesale distribution networks. For example, a Distribution Centre may utilise part of its capacity to assist the dry product Logistics Centre, especially during peak seasons. The Directors believe that such inter-transferability of capacity between the Group's Logistics Centres and Distribution Centres can enhance distribution efficiency.

COMPETITIVE STRENGTHS

The Directors believe that the Group's competitive strengths have enabled the Group to become one of the leading distributors of daily consumer products in the Greater Beijing Region and enable the Group to be well-positioned to take advantage of future growth in the distribution businesses in the PRC. The Group's competitive strengths include:

- Well-recognised brands
- Locality of operations – the Greater Beijing Region (in particular the Chaoyang District)
- Integrated retail and wholesale distribution networks
- Centralised Logistics Centres and Distribution Centres
- Efficient management information systems
- Multi-tiered retail distribution network
- Experienced and stable management

BUSINESS OBJECTIVES AND STRATEGIES

The Group's mission is to strengthen its foothold in the Greater Beijing Region and to expand into other parts of northern China and eastern China. The Group aims to become one of the leading retail and wholesale distribution network operators in the PRC through leveraging on and enhancing its competitive strengths. To achieve its business objectives, the Group has developed the following business strategies:–

- Expanding distribution network
- Increasing operating efficiency
- Further brand-building

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RISK FACTORS

The Group's business is subject to certain risks which can be broadly categorised into (a) risks relating to the Group; (b) risks relating to the PRC distribution industry; (c) risks relating to the PRC; and (d) risks relating to the H Shares. Details of these risks are set out in the section headed "Risk Factors" in this prospectus.

RISKS RELATING TO THE GROUP

- Locations of Distribution Outlets, rental exposure and renewal of leases
- Resumption of Retail Outlets and neighbourhood property
- Risks associated with leased property interests of Chaopi Trading and the Company
- Inability to successfully implement its strategy for future growth
- Potential failure on software and hardware systems
- Keen competition in the distribution business
- Potential change of distribution method by suppliers and manufacturers
- Inability to obtain all requisite licences on time
- Product liability
- Quality control on franchisees' operations
- Reliance on key management personnel
- Stock control
- Intellectual property protection and infringement
- Certain loans to the Group
- The use of the Jingkelong cards and the membership reward cards
- Net current liabilities
- Future dividends

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RISKS RELATING TO THE PRC DISTRIBUTION INDUSTRY

- Domestic competition
- Foreign competition
- Change in consumer preferences and/or purchasing power

RISKS RELATING TO THE PRC

- Political and economic policies of the PRC government
- The PRC legal system
- Holders of the H Shares may not be able to successfully enforce their Shareholders' rights in the PRC under the Company Law or relevant Hong Kong regulatory provisions
- Taxation of holders of H Shares
- Changes in foreign exchange regulations and fluctuation of the RMB
- Payment of dividends subject to restrictions under PRC law
- Domestic Shares may be converted into H Shares

RISKS RELATING TO THE H SHARES

- Development of an active market for the H Shares
- Potential dilution of the H Shares

FINANCIAL INFORMATION

The following is a summary of the consolidated results of the Group for the periods indicated, which has been derived from, and should be read in conjunction with, the audited financial statements included in the Accountants' Report set out in Appendix I to this prospectus. These financial statements have been prepared in accordance with HKFRSs.

	Year ended 31 December 2003		Year ended 31 December 2004		Year ended 31 December 2005		Six months ended 30 June 2005		Six months ended 30 June 2006			
	Continuing operations RMB'000	Discontinued operations ⁽¹⁾ RMB'000	Total RMB'000	Continuing operations RMB'000	Discontinued operations ⁽¹⁾ RMB'000	Total RMB'000	Continuing operations RMB'000	Discontinued operations ⁽¹⁾ RMB'000	Total RMB'000	Continuing operations RMB'000	Discontinued operations ⁽¹⁾ RMB'000	Total RMB'000
Revenue	2,894,108	364,926	3,259,034	3,568,865	97,893	3,666,758	4,121,748	-	4,121,748	2,053,799	-	2,053,799
Cost of sales	(2,544,695)	(326,157)	(2,870,852)	(3,164,852)	(89,137)	(3,253,989)	(3,621,667)	-	(3,621,667)	(1,808,520)	-	(1,808,520)
Gross profit	349,413	38,769	388,182	404,013	8,756	412,769	500,081	-	500,081	245,279	-	245,279
Other income	111,191	2,145	113,336	154,700	1,362	156,062	143,668	-	143,668	83,375	-	83,375
Selling and distribution costs	(280,309)	(22,767)	(303,076)	(317,899)	(7,232)	(325,131)	(369,764)	-	(369,764)	(179,580)	-	(179,580)
Administrative expenses	(92,102)	(12,048)	(104,150)	(88,285)	(1,358)	(89,643)	(88,924)	-	(88,924)	(50,337)	-	(50,337)
Other expenses	(5,967)	(1,571)	(7,538)	(5,800)	(1,422)	(7,222)	(20,452)	-	(20,452)	(9,399)	-	(9,399)
Profit from operating activities	82,226	4,528	86,754	146,729	106	146,835	164,609	-	164,609	89,338	-	89,338
Finance costs	(20,183)	(2,761)	(22,944)	(20,988)	(1,330)	(21,118)	(19,073)	-	(19,073)	(10,547)	-	(10,547)
Share of net profits and losses of associates	3,725	(334)	3,391	2,177	508	2,685	(32)	-	(32)	(60)	-	(60)
Profit before tax	65,768	1,433	67,201	127,918	484	128,402	145,504	-	145,504	78,731	-	78,731
Tax	(20,519)	(658)	(21,177)	(44,127)	(106)	(44,233)	(47,158)	-	(47,158)	(26,794)	-	(26,794)
Profit for the year/period	45,249	775	46,024	83,791	378	84,169	98,346	-	98,346	51,937	-	51,937
Attributable to:												
Equity holders of the Parent	38,172	695	38,867	73,167	361	73,528	75,098	-	75,098	38,422	-	38,422
Minority interests	7,077	80	7,157	10,624	17	10,641	23,248	-	23,248	13,515	-	13,515
Dividends	45,249	775	46,024	83,791	378	84,169	98,346	-	98,346	51,937	-	51,937
Earnings per Share ⁽¹⁾												
- basic for profit for the year/period (RMB)	15.8 cents		15.8 cents	29.8 cents		29.8 cents	30.5 cents		30.5 cents	15.6 cents		15.6 cents
- basic for profit from continuing operations (RMB)	15.5 cents		15.5 cents	29.7 cents		29.7 cents	30.5 cents		30.5 cents	15.6 cents		15.6 cents

(1) The pharmaceutical and motor vehicle and repair operations were discontinued in 2003 and 2004, respectively. For details, please refer to section headed "History and Development and Reorganisation" in this prospectus.

(2) Earnings per Share for each financial year/period in the Track Record Period have been computed by dividing the net profit attributable to equity holders of the parent for each year/period by the number of Shares in issue during the Track Record Period on the assumption that the 246,620,000 Shares in issue as at the date of the Accountants' Report had been in issue throughout the Track Record Period.

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OFFER STATISTICS

	Based on an Offer Price of HK\$3.90	Based on an Offer Price of HK\$4.50
Market capitalisation of the H Shares ⁽¹⁾	HK\$514.8 million	HK\$594.0 million
Historical price/earnings multiple ⁽²⁾	13.0 times	15.0 times
Unaudited pro forma adjusted net tangible asset per Share ⁽³⁾	HK\$2.10 (RMB2.14)	HK\$2.28 (RMB2.33)

- (1) The calculation of market capitalisation is based on 132,000,000 H Shares expected to be in issue following completion of the Share Offer, assuming the Over-allotment Option will not be exercised.
- (2) The calculation of the price/earnings multiple is based on the historical earnings per share of approximately RMB30.5 cents for the year ended 31 December 2005 and the respective Offer Prices of HK\$3.90 and HK\$4.50 per H Share.
- (3) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in the paragraph headed “Unaudited pro forma financial information” in Appendix II to this prospectus and on the basis of a total of 366,620,000 Shares expected to be in issue following the completion of the Share Offer. This calculation assumes that the Over-allotment Option will not be exercised.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

The Group estimates that the net proceeds of the Share Offer accruing to the Company, after deducting relevant expenses payable by the Company in relation thereto, and assuming the Over-allotment Option will not be exercised, will amount to approximately HK\$462.0 million based on an Offer Price of HK\$4.20 per H Share (being the mid-point of the indicative Offer Price range of HK\$3.90 to HK\$4.50). The Directors presently intend to use such net proceeds as follows:

- approximately HK\$281.8 million for the expansion of the Group’s retail network in the PRC;
- approximately HK\$138.6 million for the improvement and development of the Group’s information and logistics systems; and
- approximately HK\$41.6 million for general working capital purposes, including but not limited to brand building.

If the Over-allotment Option is exercised in full, the additional estimated net proceeds of approximately HK\$73.0 million to be received by the Company will primarily be used, as to HK\$44.5 million, for expanding the Group’s retail network in the PRC, as to HK\$21.9 million for the improvement and development of the Group’s information and logistics systems, and as to HK\$6.6 million for general working capital purposes.

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In the event that the Offer Price is fixed at HK\$3.90 per H Share, being the lowest point of the indicative price range, the net proceeds accruing to the Company (compared to that based on the mid-point of the Offer Price range as stated above and assuming to Over-allotment Option is not exercised) will be reduced by approximately HK\$34.7 million. In such circumstances, the Directors intend to reduce the application of the proceeds for expanding and improving the Group's retail network in the PRC by HK\$21.2 million, for the improvement and development of the Group's information and logistics systems by HK\$10.4 million, and for general working capital purposes by HK\$3.1 million.

In the event that the Offer Price is fixed at HK\$4.50 per H Share, being the highest point of the indicative price range, the net proceeds accruing to the Company (compared to that based on the mid-point of the Offer Price range as stated above and assuming to Over-allotment Option is not exercised) will increase by approximately HK\$34.7 million. In such circumstances, the Directors intend to increase the application of proceeds for expanding and improving the Group's retail network in the PRC by HK\$21.2 million, for the improvement and development of the Group's information and logistics systems by HK\$10.4 million, and for general working capital purposes by HK\$3.1 million.

As set out in the paragraph headed "Implementation plan" in the "Statement of business objectives" section, the Directors estimate that the total costs for the implementation of the Group's business plan will be approximately HK\$616.6 million. The Directors intend to meet the remaining funding requirements of approximately HK\$154.6 million for the implementation of the Group's business plan from internally-generated cash flow from the Group's operations, bank borrowings and/or other borrowings. To the extent that the net proceeds of the Share Offer accruing to the Company are not immediately applied for the uses set out above, the Group intends that such portion of the proceeds, to the extent permitted by relevant PRC laws and regulations, be placed into interest-bearing accounts with banks in Hong Kong or China.

The net proceeds from the sale of the Sale H Shares in the Share Offer (after deducting underwriting fees and estimated expenses payable by Chaoyang Auxillary in connection with the Share Offer), assuming an Offer Price of HK\$4.20 per H Share, being the mid-point of the indicative Offer Price range, will be approximately HK\$48.6 million or (if the Over-allotment is exercised in full) approximately HK\$55.9 million. The Company will not receive any of such proceeds. In accordance with the relevant PRC laws and regulations, such net proceeds will be required to be remitted to the NSSF Council.