

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 chain 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 under 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 for 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 urbanization of the Greater Beijing Region, particularly the Chaoyang District, hence providing Chaoyang-based retail chain operators such as the Group with growth opportunities.

With such positioning, the Group has established strengths in the daily consumer product distribution industry. The Group aims to deliver high service quality to its customers while maintaining cost efficiency, hence maintaining a leading position in the daily consumer product distribution industry and enhancing its competitiveness. The Group believes in “customers come first” and “honesty”, which are the foundations of the Group’s consumer-oriented marketing strategy.

The infrastructure of extensive wholesale and retail distribution channels enables the Group to maintain a stable supply of daily consumer products to its Retail Outlets, even for certain popular seasonal products during peak seasons. At the same time, it also facilitates the timely collection of first-hand feedback on market trends and end consumer preferences, which enables the Group to implement market-driven merchandising and stocking at the wholesale level. The Directors believe that these advantages are not available to those distribution operators who do not possess complementary capabilities on both retail and wholesale capabilities.

BUSINESS

The following table shows the number and operating areas of the different retail and wholesale distribution formats of the Group as at 30 June 2006.

	Retail distribution business			Wholesaling distribution business
	Hypermarkets	Supermarkets	Convenience stores	Distribution Centres
Number of Distribution Outlets				
– directly-operated	4	29	35	2
– franchise-operated	–	5	96	–
	<u>4</u>	<u>34</u>	<u>131</u>	<u>2</u>
Net operating area (sq.m.)				
– directly-operated	38,638	72,409	8,065	70,431
– franchise-operated	–	5,830	19,080	–
	<u>38,638</u>	<u>78,239</u>	<u>27,145</u>	<u>70,431</u>

In order to excel within the daily consumer product distribution industry in the Greater Beijing Region, the Group plans to continue to increase the number of its Retail Outlets and franchise stores, which will in turn enhance economies of scale and the consumers' awareness of its “京客隆” brandname, and thereby further capitalising on the Group's established “京客隆” brandname and extensive retail distribution network. In addition, the Group will also explore opportunities for the expansion of the Group's wholesale distribution network, both by increasing the number of Distribution Centres and extending the reach of the Group's wholesale distribution network.

COMPETITIVE STRENGTHS

Well-recognised brands

The Group has more than 10 years of experience in the daily consumer product distribution industry, operating under the “京客隆” and “朝批” brandnames. In this respect, both brandnames have since been established as leading brands in the retail and wholesale daily consumer product distribution industry.

As at 30 June 2006, the Company has a retail distribution network comprising 169 Retail Outlets with more than 144,000 sq.m. of operating area. In 2005, the Group generated approximately RMB4.1 billion in sales, and was ranked 21st among the top 100 fast moving consumer goods retail chain in China in 2005. The easy accessibility of the Group's daily consumer products in many convenient Retail Outlets serves to build brand loyalty and enhances the Group's relationship with its consumers.

The Group's wholesale distribution network is supported by two Distribution Centres, both of which supply wholesale daily consumer products to customers including the Retail Outlets and other retail operators and trading companies.

Locality of operations – the Greater Beijing Region (in particular the Chaoyang District)

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. According to the Beijing Municipal Bureau of Statistics, in 2005, the working population of the Chaoyang District was approximately 840,000, ranking it the second most populous district (out of 18 districts) of Beijing with an average per capita annual income of approximately RMB42,000. Additionally, with the main hosting of the Olympic Games in Beijing in 2008 and the principal event auditoriums being located in the Chaoyang District, it is anticipated that the increasing tourism and the commencement of various infrastructural projects in relation to the Olympic Games will stimulate economic growth in the Greater Beijing Region, particularly the Chaoyang District, hence providing the Group with tremendous growth opportunities.

Integrated retail and wholesale distribution networks

Unlike traditional retail chain operators, the Group is also engaged in the wholesale distribution of daily consumer products, integrating this with its retail distribution operations to form a distribution network spanning wholesale and retail distribution channels and customers. The Directors believe that an integrated retail and wholesale distribution model provides the Group with a competitive edge in:

- facilitating the implementation of its uniform policies throughout its retail and wholesale distribution networks, resulting in stability in both the sourcing of products (via the wholesale operations) and the distribution of the same (via the retail channel);
- having the ability to buy in bulk, which allows the Group to enjoy considerable bargaining power, leading to better concessions from suppliers and lower costs for the Group's customers;
- facilitating the timely collection of first-hand feedback on market trends and end-consumer preferences at the retail level, which enables the Group to implement market-driven merchandising and stocking at the wholesale level.

Centralised Logistics Centres and Distribution Centres

In order to maximise the efficiency of its retail and wholesale distribution network, the Group maintains two centralised and modern Logistics Centres, comprising the dry product Logistics Centre and the live and fresh produce Logistics Centre, and two Distribution Centres, in order to cater to various demands of its Retail Outlets and its wholesale customers. The Logistics Centres and all directly-operated Retail Outlets are linked via a management information system, hence providing effective inventory control and facilitating product distribution and ensuring a smooth coordination of the Group's retail operations. In addition, by centralising the inventory and distribution facilities, the Group is able to minimise its inventory and distribution costs, hence allowing the Group to increase its profit margins.

Efficient management information systems

The Group's management information systems are designed to enhance inventory control and facilitate timely distribution of its daily consumer products. The Directors believe that with advanced management information systems, the Group is able to maintain low but effective levels of stock for all Retail Outlets, Logistics Centres and Distribution Centres, and to make timely decisions regarding distribution, merchandising and other strategic decisions. The management information systems are also able to minimise counter payment time at the Retail Outlets.

Multi-tiered retail distribution network

The Group adopts a multi-tiered retail model – hypermarkets, supermarkets and convenience stores – which caters to the preferences of a broad range of consumers with different shopping habits and needs.

The Group's hypermarkets target consumers who require a comprehensive “one-stop” shopping experience. They provide a broad range of quality products and services at competitive prices.

Compared with hypermarkets, the target consumers of the Group's supermarkets are those who are located in residential areas with the need for daily necessities. Convenience stores target consumers with the need for fast, efficient and convenient shopping services, and are usually located near residential neighborhoods.

Experienced and stable management

The Group has an experienced and stable management team with diverse backgrounds and substantial expertise in the distribution of daily consumer products in the PRC. Most of the Group's senior management staff has many years of experience in the PRC retail and wholesale distribution industry. The Directors believe that with stability at the senior management level, the Group has been able to formulate a clear business direction and carry out its business strategies effectively. The Directors believe that the Group's experienced management team, together with its emphasis on staff development, has enabled the Group to efficiently allocate its resources and adjust its development strategies according to market conditions.

During the Track Record Period, the Group expanded its retail and wholesale operations, both in terms of geographical coverage and product mix, with the aim of strengthening its market presence within the Greater Beijing Region. For its retail distribution business, the Group's revenue increased from approximately RMB1,864.7 million for the year ended 31 December 2003 to approximately RMB2,060.6 million for the year ended 31 December 2005, representing a CAGR of approximately 5.0%. For its wholesale distribution business, the Group's revenue increased from approximately RMB1,026.6 million for the year ended 31 December 2003 to approximately RMB2,057.4 million for the year ended 31 December 2005, representing a CAGR of approximately 41.5%. One of the Company's subsidiaries, Chaopi Trading, acquired additional equity interest in two former associates in June 2004 which were then become the subsidiaries of the Group. If such effect was adjusted, the Group's revenue from the wholesale distribution business increased from approximately RMB1,026.6 million for the year ended 31 December 2003 to approximately RMB1,532.1 million for the year ended 31 December 2005, representing a CAGR of approximately 22.2%.

In order to excel within the daily consumer product distribution industry in the Greater Beijing Region, the Group plans to continue to increase the number of its Retail Outlets, which will in turn enhance economies of scale and the consumers' awareness of its “京客隆” brandname. In addition, the Group will also explore opportunities for the expansion of the Group's wholesale distribution network by increasing the number and extending the reach of Distribution Centres.

PRODUCTS

The daily consumer products distributed by the Group through its retail distribution network range from fresh and frozen meat, seafood, vegetables, cooked and processed food products, tea leaves, confectionary, plants, snacks, bakery, seasoning, household paper products, plastic products, groceries, home appliance, softwares, mobile phones and accessories, footwear and headwear, textiles, books, watches, electrical appliances to general household products.

The daily consumer products distributed by the Group through its wholesale distribution network include processed food products, beverages, wine products and non-staple food. The Group does not distribute fresh or frozen food products at the wholesale level.

The Directors believe that the Group is well positioned to secure further distributorships as a result of the coordination of the wholesale and retail distribution channels of the Group, hence enhancing the competitiveness of the Group and growing its profit margins.

DISTRIBUTION NETWORKS

As at 30 June 2006, the Group distributed daily consumer products through (i) its retail distribution network comprising 169 Retail Outlets, of which all four hypermarkets, as well as 29 supermarkets and 35 convenience stores, were directly-operated by the Group, while five supermarkets and 96 convenience stores were operated under franchise arrangements; and (ii) its wholesale distribution network comprising two Distribution Centres.

The network of the Group's Distribution Outlets comprised the following as at 30 June 2006:

	Directly-operated	Franchises
Retail distribution business:		
Hypermarkets	4	–
Supermarkets	29	5
Convenience stores	35	96
	<hr/>	<hr/>
	68	101
	<hr/>	<hr/>
Wholesale distribution business:		
Distribution Centres	2	–
	<hr/>	<hr/>
Total	70	101
	<hr/> <hr/>	<hr/> <hr/>

Details of the location of each of the Group's Distribution Outlets (directly-operated) and Logistics Centres are set out in Appendix III to this prospectus.

The Directors believe that the complementary infrastructure comprising both wholesale and retail distribution channels has enabled the Group to achieve a high level of cost efficiency. As a result of the Group's established retail and wholesale distribution network, the Group has the ability to buy in bulk and enjoys considerable purchasing power. In this respect, the Group is able to enjoy economies of scale, leading to lower costs as well as being able to capture the profit margins at the retail level.

In addition, the coordination of the wholesale and retail distribution networks ensure the sufficiency and stability of the supply of daily consumer products in various demand conditions. The visibility in the demand for these daily consumer products at the retail level is increased as the Retail Outlets enable the Group to timely collect information on market trends and consumer preferences, hence optimising the efficacy of the merchandising and stocking at the distribution network. Similarly, volatility at the wholesale sourcing level is reduced. Furthermore, the Group's distribution capability allows for optimal product distribution through the control of how daily consumer products are being distributed or retailed at the Retail Outlets.

(i) Logistics Centres

The Group's retail distribution network is supported by two specially designed Logistics Centres in the Chaoyang District of Beijing, which consolidate orders for, warehouse and provide daily consumer products to, the Retail Outlets in the Greater Beijing Region.

The Group has a live and fresh produce Logistics Centre and a dry product Logistics Centre. These two Logistics Centres 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 the two Logistics Centres have intranet ordering systems by which each directly-operated Retail Outlet can place its orders 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.

Most suppliers of the Company are also linked with the Company's automatic ordering system, hence allowing the dry product Logistics Centre to conveniently replenish low inventory levels. As a matter of practicality, the smaller suppliers do not participate in the Company's automatic ordering system but are instead connected by other means. The Company is therefore able to ensure the stability of product supplies and a fast order turnaround.

Live and fresh produce Logistics Centre

The Group operates a live and fresh produce Logistics Centre, located in the Chaoyang District, Beijing, the site of which is leased to the Group by Chaoyang Auxillary with a lease term of 20 years, and which provides live and fresh produce to the Retail Outlets. This Logistics Centre obtained its business licence in November 2004 and commenced operation in January 2005. The Group has invested a total of approximately RMB53 million in the live and fresh produce Logistics Centre.

The gross area of this Logistics Centre is approximately 20,000 sq.m. It has a total storage capacity of approximately 1,400 tonnes of products, and is equipped with sub-zero temperature storage capabilities.

The Directors believe that with rising income levels and changing lifestyle habits of the consumers in the Greater Beijing Region, the increasingly discerning consumers are likely to choose to purchase live and fresh produce at hypermarkets, supermarkets and/or convenience stores over the traditional wet markets. In order to ensure that the quality, cleanliness and freshness of the products are rigorously maintained, the Group is able to achieve an average stock turnover days of approximately five days for its sales operations.

Dry product Logistics Centre

The Group operates a dry product Logistics Centre also in the Chaoyang District of Beijing, the site of which is rented by the Group from an Independent Third Party with a lease term of 20 years. Dry products include food products such as alcoholic and non-alcoholic beverages, dried food and vegetables, seasonings and processed food products, as well as non-food products such as household items.

This Logistics Centre was established in 2001 and comprises a total area of approximately 22,500 sq.m. The Group has invested a total of approximately RMB57 million in this Logistics Centre.

(ii) Distribution Centres

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.

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 allow daily fulfillment, and an established network of wholesale trade customers.

Due to its advantageous position of being both a retail and wholesale distributor, the Group is also able to monitor market demand and fluctuations at the retail level effectively, hence reducing the risk of stock obsolescence and excessive inventory levels.

Distribution Centre in Beijing

The Group's Distribution Centre was established in 1994. It moved to its current location in the Chaoyang District of Beijing in 2004, comprising a total area of approximately 69,000 sq.m, which is rented by the Group from Independent Third Parties with lease terms of five years and 10 years respectively. The Group has invested a total of approximately RMB18.6 million in this Distribution Centre. The products distributed through this Distribution Centre include foods, edible oil, drinks, flavourings, alcohol and general merchandise.

This Distribution Centre, comprising three warehouses, has round-the-clock operations and is insured against theft, fire and bursting of water pipes. This centre can ensure that it is responsive to the demands of wholesale trade customers in an efficient and professional manner.

Distribution Centre in Tianjin

Since November 2003, another Distribution Centre was established in Tianjin, serving areas other than the Beijing. It comprises a total area of approximately 4,800 sq.m. which is rented by the Group from an Independent Third Party with a lease term of five years. The Group has invested a total of approximately RMB2.6 million in this Distribution Centre. The products distributed through this Distribution Centre include foods, edible oil, drinks, flavourings, alcohol and general merchandise.

This centre has round-the-clock operations and is insured against theft, fire and bursting of water pipes. The Directors believe that there are abundant business opportunities for further development of the wholesale supply and distribution of daily consumer products to wholesale trade customers, in addition to the supply and distribution of daily consumer products to the Retail Outlets of the Group.

(iii) Complementary Operations of the 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 the replenishment 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 enables the Group to achieve higher productivity gains, cost efficiencies and attain economies of scale by ensuring that no single Logistics Centre or Distribution Centre is overloaded as well as reducing the risk of stock obsolescence and excessive inventory levels. In addition, the Directors believe that such inter-transferability of capacity between the Group's Logistics Centres and Distribution Centres can enhance distribution efficiency.

(iv) Retail Outlets

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 brandname of the Group, the Group has expanded its business model into managing and operating supermarket and convenience store franchises. All Retail Outlets, whether directly-operated or under franchise arrangements, are operated under the “京客隆” service mark. The daily consumer products distributed through the retail distribution channels include live and fresh produce, dry products, beverages, processed food and daily necessities. The Retail Outlets are classified accordingly to the classification standards set by the MOC.

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The table below shows the Rules of Classification of Retail Formats 2004 issued by the MOC:

	Sales Area	Commodities
Hypermarket	6,000 m ² or above	Featuring self-branded products and a wide range of daily consumer products
Supermarket	Under 6,000 m ²	Packaged foods, daily consumer products, live and fresh products are available for sales
Convenience Store	Approximately 100 m ²	Featuring around 3,000 types of products with prices higher than the average market prices

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

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.

The Chaoyang District's strategic location also enhances the distribution efficiency of the Group's distribution network by allowing the Logistics Centres to meet the various product demands of the Retail Outlets in a timely manner. Complemented with the Group's management information systems and own delivery trucks, the Directors believe that the Group is able to enhance its distribution capabilities.

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.

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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 will be opened in the second half of 2006.

The table below sets out the aggregate revenue of the Retail Outlets directly-operated by the Group for the periods indicated:

	Year ended 31 December					Six months ended 30 June				
	2003		2004		2005		2005		2006	
Aggregate turnover	Aggregate turnover	Aggregate turnover	Aggregate turnover	Aggregate turnover	Aggregate turnover	Aggregate turnover	Aggregate turnover	Aggregate turnover	Aggregate turnover	
RMB('000)	(%)	RMB('000)	(%)	RMB('000)	(%)	RMB('000)	(%)	RMB('000)	(%)	
(Unaudited) (Unaudited)										
Hypermarkets	591,619	31.7	653,687	32.5	694,362	33.7	354,271	33.7	360,685	32.2
Supermarkets	1,120,717	60.1	1,208,077	60.1	1,205,007	58.5	621,717	59.0	675,540	60.2
Convenience stores	152,336	8.2	147,506	7.4	161,204	7.8	76,811	7.3	85,411	7.6
	1,864,672	100.0	2,009,270	100.0	2,060,573	100.0	1,052,799	100.0	1,121,636	100.0

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In addition to revenue the Group derives from sales, the Group also derives income from the following activities during the Track Record Period, including but not limited to:

- promotion income of approximately RMB19.6 million, RMB35.6 million, RMB42.8 million and RMB31.4 million respectively derived from suppliers for subsidizing promotional campaigns;
- display space leasing fee of approximately RMB8.8 million, RMB12.9 million, RMB18.3 million and RMB19.3 million respectively derived from suppliers for displaying products at prime area of the Retail Outlets;
- rental income of approximately RMB32.8 million, RMB34.5 million, RMB37.0 million and RMB19.6 million respectively derived from the leases and sub-leases of certain designated area of the Retail Outlets to, among others, restaurants, fast food outlets, photo shops and banks.

Hypermarkets

As at 30 June 2006, the Group owned and operated four hypermarkets, through which it distributes its in-house branded products and other daily consumer products. The hypermarkets target consumers who require a comprehensive “one-stop” shopping experience whereby they can complete their shopping all under one roof. Accordingly, the hypermarkets offer a broad range of quality products at competitive prices and various ancillary services to satisfy the needs of an one-stop shopping experience of the consumers such as laundry, banking, pharmacy, watch repair and photo-finishing services.

Details of Hypermarkets

The following table sets out the total number of hypermarkets and the total operating space of the directly-operated hypermarkets of the Group as at the periods indicated:

	As at 31 December			As at 30 June	
	2003	2004	2005	2005	2006
Directly-operated hypermarkets	4	4	4	4	4
Total operating area ('000 sq.m.)	38.6	38.6	38.6	38.6	38.6

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The table below sets out the approximate average transaction figures for the hypermarkets of the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
Turnover (<i>RMB million</i>)	592	654	694	354	361
Average daily sales (<i>RMB'000</i>)	1,634	1,786	1,902	1,957	1,993
Average number of daily transactions	34,576	38,904	39,289	38,581	38,200
Turnover per operating area per day (<i>RMB</i>)	42.3	46.2	49.2	50.7	51.6
Average value per transaction (<i>RMB</i>)	47.3	45.9	48.4	50.7	52.1

As at 30 June 2006, two hypermarket sites were leased to the Group by Independent Third Parties, with two other sites being owned by the Group. Such leases are for 20 years.

Supermarkets

As at 30 June 2006, the Group operated 29 supermarkets directly, and operated 5 supermarkets under franchise arrangements, through which it distributed its in-house branded products and other daily consumer products. The supermarkets tend to be located in more densely-populated residential areas and have smaller store sizes as compared to the hypermarkets.

Details of Supermarkets

The following table sets out the total number of supermarkets and the total operating space of the directly-operated supermarkets of the Group as at the periods indicated:

	As at 31 December			As at 30 June	
	2003	2004	2005	2005	2006
Directly-operated supermarkets	27	26	26	26	29 ⁽¹⁾
Total operating area of directly-operated supermarkets (<i>'000 sq.m.</i>)	65.1	66.9	65.4	67.9	72.4
Supermarkets operated under franchise agreements	4	4	5	5	5

⁽¹⁾ Excluding 8 supermarkets which will be opened in the second half of 2006.

The table below sets out the approximate average transaction figures for the directly-operated supermarkets of the Group for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
Turnover (<i>RMB million</i>)	1,121	1,208	1,205	622	676
Average daily sales (<i>RMB'000</i>)	3,395	3,408	3,623	3,602	3,753
Average number of daily transactions	133,093	136,213	130,286	126,338	123,278
Turnover per operating area per day (<i>RMB</i>)	51.2	48.1	46.9	49.2	51.8
Average value per transaction (<i>RMB</i>)	25.5	25.0	27.8	28.5	30.4

BUSINESS

As at 30 June 2006, 11 supermarket sites were principally leased to the Group by Independent Third Parties, with 17 other sites being principally leased to the Group by Chaoyang Auxillary, with one other site being owned by the Group. Such leases usually have a term of 20 years.

Convenience stores

As at 30 June 2006, the Group directly-operated 35 convenience stores, and operated 96 convenience stores under franchise agreements. These convenience stores target consumers with the need for fast, efficient and convenient services. Their sizes generally are much smaller than the other formats of Retail Outlets and they tend to be located near residential neighborhoods. They offer a more selective range of daily consumer products and the prices are generally higher than those sold in the hypermarkets and supermarkets.

Details of Convenience Stores

The following table sets out the total number of convenience stores and the total operating space of the directly-operated convenience stores of the Group as at the periods indicated:

	As at 31 December			As at 30 June	
	2003	2004	2005	2005	2006
Directly-operated convenience stores	34	34	35	34	35 ⁽¹⁾
Total operating area of directly-operated convenience stores ('000 sq.m.)	7.7	8.2	8.1	8.2	8.1
Convenience stores operated under franchise agreements	46	72	88	84	96

⁽¹⁾ Excluding two convenience stores which will be opened in the second half of 2006.

The table below sets out the approximate average transaction figures for the directly-operated convenience stores of the Group for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
Turnover (RMB million)	152	148	161	77	85
Average daily sales (RMB'000)	444	410	439	423	470
Average number of daily transactions	42,981	44,075	49,071	50,758	53,886
Turnover per operating area per day (RMB)	54.5	49.7	55.3	51.8	58.2
Average value per transaction (RMB)	10.3	9.3	9.0	8.3	8.7

As at 30 June 2006, eight convenience stores sites were leased to the Group by Independent Third Parties, with 26 other sites being leased to the Group by Chaoyang Auxillary, with one other site being owned by the Group. Such leases usually have a term of 20 years.

CUSTOMERS

Under the Group's retail distribution business, the majority of the Group's customers are individual residents in the area near the relevant store. Customers typically settle payments in cash for merchandise purchased from the Group. As such, 100% of the revenue from retail distribution business during the Track Record Period were received in cash, representing 64.4%, 56.3%, 50.0% and 51.9% of the Group's revenue from continuing operations respectively.

Under the Group's wholesale distribution business, the majority of the Group's customers are retail store operators, retail chain store operators and wholesale operators. During the Track Record Period, the Group had granted credit terms of not more than 60 days to the customers of wholesale distribution business. Accordingly, during the Track Record Period, 35.6%, 43.7%, 50.0% and 48.1% of the Group's revenue from continuing operations were settled in credit terms respectively.

The aggregate turnover attributable to the Group's five largest customers represented less than 18% of the audited turnover of the Group for each of the three years ended 31 December 2005 and six months ended 30 June 2006.

During the Track Record Period, sales to the Group's twenty largest customers represented approximately 20.2%, 20.8%, 30.5% and 33.2% of the Group's turnover respectively. To the best knowledge of the Directors, sales to State owned enterprises represented approximately 14.9%, 14.7%, 12.2% and 12.5% of the sales to the Group's twenty largest customers for each of the three years ended 31 December 2005 and six months ended 30 June 2006.

FRANCHISE OPERATIONS

Due to the success of the branding of the Group's hypermarkets, supermarkets and convenience stores, the Group has received invitations from interested parties to franchise "京客隆" retail outlets. As at 30 June 2006, there were five supermarkets and 96 convenience stores operating under the Group's franchise arrangements. All such supermarkets and convenience stores are also operated under the logo of "京客隆".

The Directors are of the opinion that franchising the "京客隆" brand is an effective way to expand the reach of the Group's distribution network geographically without utilising a substantial amount of the Group's resources. In addition, the Directors believe that, through franchise arrangements, the Group can further enhance public recognition of its "京客隆" brand.

The Group received franchise fee of approximately RMB0.8 million, RMB1.3 million, RMB1.7 million and RMB1.1 million respectively, during the Track Record Period. The maximum amount of franchise fees for convenience stores and supermarkets is approximately RMB20,000 and RMB90,000 respectively and are on a fixed one-off basis. In addition, the Group received monthly fees based on a percentage of the store's revenue, or at a fixed amount up to a maximum of RMB4,800. The franchisees are responsible for the fixed assets and operating expenses of the franchise stores.

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The franchised Retail Outlets purchase products from the Company or other suppliers approved by the Company. The sales to franchised Retail Outlets from the Company was approximately RMB44.6 million, RMB52.1 million, RMB55.5 million and RMB27.8 million, respectively, during the Track Record Period. Revenue on goods sold to franchisees is recognised when the significant risks and rewards of ownership of goods have passed to franchisees and the amount of revenue can be measured reliably. As such, such goods sold are owned by franchisees.

For the goods supplied to a franchisee, it is contractually stipulated that the risk of damage, loss or non-conformance passes to the franchisee when the goods are accepted on delivery. All convenience store franchisees pay on a cash-on-delivery basis.

There are several criteria the Group will focus on when selecting franchisees:

1. Whether the franchisee is entitled or possesses the legal capacity to conduct the proposed franchised business;
2. Whether the franchisee is able to conduct the proposed franchised business independently with sufficient human resources;
3. Whether the franchisee occupies an outlet which is suitable for the operation of the proposed franchised business; and
4. Whether the franchisee agrees with the operation rationale of the Group and is willing to be bound by the Group's operational policies.

The term of a franchise is usually five years, which can be extended with the mutual consent of both parties before the expiry of the franchise agreement. The franchisee is responsible for the daily operations and management of its store, and to ensure that the franchise store projects a unified branding image in line with the Group's brand policy. In addition, the franchisee has an obligation to order exclusively from the Company. The Group would charge a franchise fee to each of the franchisee which would be recorded as "franchise fee" under the other income in the profit and loss account. The basis of the franchise fee depends on the size of the franchise store. There is no unsold goods return policy.

The main difference between a supermarket and convenience store franchise is payment credit terms. For a supermarket franchisee, it is given credit payment terms of approximately a week, while there are no credit terms for a convenience store franchisee.

The Group will provide certain support to the franchisees such as training programs to educate them on the Group's management information systems, store decoration, financial planning, operational guidance and staff training. The costs to provide management information systems, store decoration, financial planning and staff training to the franchisees amounted approximately RMB0.7 million, RMB0.4 million, RMB0.3 million and RMB4,500, respectively, during the Track Record Period. The Group has received fees in advance from its franchisees for providing such activities and any related costs incurred will be debited to the receipt in advance account.

DEVELOPMENT OF IN-HOUSE BRANDNAMES

The Group has developed four in-house brandnames – “曼妙 (“Manmiao”)”, “惠廉 (“Huilian”)”, “蜜屋 (“Miwu”)” and “京客隆 (“Jingkelong”)”, for which the Group would outsource to manufacturing suppliers, which are all Independent Third Parties, to produce the daily consumer products for sale only through the Group’s Retail Outlets. The Directors believe that the in-house brandnames allow the Group to improve its profitability through the expansion of the earnings base and the generation of additional quality revenue streams.

As at 30 June 2006, there are 13 suppliers to which the Group outsources for the production of approximately 170 daily consumer products, ranging from food products to home-use products. The typical outsourcing terms provide that the products will be competitively priced in relation to the current market prices, and the Group will receive an annual rebate as a fraction of the size of the orders in the relevant year. According to the agreements between the Company and the suppliers, the suppliers have agreed to offer the Company the lowest production prices within the Beijing region. The total purchases during Track Record Period were approximately RMB7.6 million, RMB10.5 million, RMB21.1 million and RMB9.2 million respectively.

The Directors intend to position the in-house brandnames as quality brandnames offering value for money products to consumers, and also as alternatives to other popular brandnames offering similar daily consumer products. The recommended retail prices for the in-house branded products are directly controlled by the Group, which are set by taking into account the costs, the competitors’ selling prices and the Group’s marketing strategies for each specific in-house branded product.

During the Track Record Period, sales of the in-house branded products in the Group’s Retail Outlets amounted to approximately RMB15.3 million, RMB25.0 million, RMB29.0 million and RMB11.1 million, respectively, which represented approximately 0.5%, 0.7%, 0.7% and 0.5%, respectively of the total revenue from continuing operations of the Group for the respective relevant period.

MANAGEMENT INFORMATION SYSTEMS

The Group has two separate and independent management information systems for its retail and wholesale distribution networks. The Directors believe that an efficient management information system significantly improves product procurement, delivery schedules, inventory management and merchandising, thus minimising the cost of maintaining levels of inventories and allows for better space allocations and overall sales performance. In this respect, the Group has invested over RMB30 million during the Track Record Period in various information system hardware and software and related services.

For the retail distribution network, the Group’s management information system includes an automatic ordering system, logistics management system and accounting and finance system. For the wholesale distribution network, the Group utilises a management information system which includes a warehouse management system and accounting and finance system.

The Group also utilises a bar code system to identify different merchandise. By scanning through a barcode scanner, item information can be displayed on-screen immediately and this enhances Retail Outlet checking-out efficiency. In addition, checking-out information is book to the database immediately such that figures can be seen in real-time, and this enhances the efficiency of clearing and data collection.

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The investment in the management information systems during the Track Record Period was recorded in fixed assets, intangible assets and expenses in the Accountants' Report set out as Appendix I.

INTERNAL CONTROL – CASH AND INVENTORY

The Group has set out a detailed policy on stock taking. In carrying quarterly and year end stock take to monitor the inventory levels of all the merchandise, the responsible staff will be penalized if a loss of a certain percentage of the total stock value is reached. For expired and damaged product, it would be delivered back to the Logistics Centers and replaced by the suppliers and/or manufacturers as majority of the inventories in questions were refundable or exchangeable with suppliers. The Directors confirmed that there have been no significant returns or exchanges or subsequent to the end of the Track Record Period.

The average stock turnovers of the Group during the Track Record Period were approximately 46 days, 41 days, 37 days and 34 days respectively. A general stock provision of 0.5% on inventory is usually maintained by the Group. As at 31 December 2003, 2004, 2005 and 30 June 2006, the Group has a provision of approximately RMB2.6 million, RMB3.3 million, RMB2.5 million and RMB2.0 million respectively against obsolete and slow-moving inventories.

The management information systems of the Group are designed to record and report the expiry dates of inventories. The Group also performs regular inventory counts to identify obsolete inventories.

Given the cash-based nature of the retail industry, stringent cash control measures are therefore very important to the Group's operation. The Group has adopted strict internal control procedures for cash handling at all Retail Outlets, including recording of all sales data in the Group's management information system, daily reconciliation of sales receipts to the computer record by the Group's finance department, accountability of cashiers in case of discrepancies found in the daily reconciliation, and daily deposits of surplus cash generated at most of the Retail Outlets. In addition, the Group is in the process of installing surveillance cameras in hypermarkets and supermarkets to monitor the activities around the cashiers' counters.

COMPLIANCE AND APPROVALS

Each Retail Outlet and third party counter in Retail Outlets offering ancillary services, Logistics Centres and Distribution Centres are required to obtain certain licences and/or permits from the relevant PRC governmental authorities including but not limited to (i) hygiene permit, (ii) permit for tobacco monopoly retail business, (iii) permit for circulation of publications, and (iv) animal quarantine permits, in order to sell certain categories of daily consumer products. It is an offence to sell certain products without the relevant licences and permits.

As confirmed by the PRC legal advisers to the Company, throughout the Track Record Period, the Group has obtained all required licences and permits for its Retail Outlets, Logistics Centres and Distribution Centres and has not been subject to any penalties nor any compensation orders.

MERCHANDISING

The Directors believe that the quality of suppliers plays an important role in the distribution chain. Therefore, the Group has adopted a strict policy concerning supplier selection. Product quality, price competitiveness and supply capability are the three criteria the Group will focus on when selecting suppliers.

As a result of the Group's established retail and wholesale distribution network, the Group has the ability to buy in bulk and enjoys considerable purchasing power. Hence, negotiations with suppliers are jointly conducted by Chaopi Trading and the Company. The Directors believe that the resultant increased bargaining power will enable the Group to enjoy economies of scale, leading to lower costs as well as being able to capture the profit margins at the retail level. In this respect, the Directors believe that, by maintaining a positive and stable relationship with suppliers, the costs of merchandising could be further reduced.

In addition, Chaopi Trading supplies daily consumer products on a wholesale basis to the Company, hence ensuring stability in the sourcing of products for the Group's retail distribution network, even during peak seasons.

During the Track Record Period, approximately 76%, 77%, 81% and 80% of the Group's merchandise respectively is purchased directly from the manufacturers while the remaining 24%, 23%, 19% and 20% of the merchandise respectively is purchased from wholesalers. By purchasing directly from the manufacturers, the Group can further take advantage of bulk purchase rates and ensure that the quality, quantity and cost of the products are able to meet the pricing and merchandising strategies of the Group.

QUALITY CONTROL AND ASSURANCE

The Directors recognise the importance of quality control to maintain the success of the Group's distribution network. The Group places strong emphasis on the quality of products that it receives from the suppliers and manufacturers.

In addition, the Group has adopted the following quality control policy, which sets out the steps that will be taken prior to placing an order for any product:

- a. The merchandise management department will conduct research on a particular product that the Group plans to source including obtaining samples and approval documents;
- b. The merchandise management department will verify the information provided in accordance with relevant legal requirements and corporate quality management policy;
- c. The merchandise management department also pays close attention to suppliers that have attracted governmental or public concern about their quality standards. Site inspections will be carried out at the suppliers' premises, if deemed necessary. The merchandise management department will also complete a 《供應商渠道評估表》 (supplier assessment form) in its evaluation of the suppliers' quality standards;

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- d. All Logistics Centres, Distribution Centres and Retail Outlets perform a series of checks upon the receipt of the merchandise. The checks include the delivery method, appearance, smell, packaging, date of production, expiry date, net weight and brand logo. Insofar as fresh produce, dairy products and meats are concerned, approval documents and certificates have to be available for verification before they can be officially received.

AWARDS AND ACHIEVEMENTS

The Group has received many awards and recognition in the PRC for the development of its business. The Directors confirm that the awards and recognition received were not based on any reports commissioned by the Group. The following table sets out some of the major awards and industry rankings of the Group:

Awards and certificates	Year of Award	Issuing organisation
中國百家快速消費品連鎖零售企業第21名 (Ranked 21st amongst the top 100 fast moving consumer goods retail chain)	2005	中國連鎖經營協會 (China Chain Store & Franchise Association)
中國百強連鎖企業第34名 (Ranked 34th amongst the top 100 PRC chain enterprises)	2005	中國連鎖經營協會 (China Chain Store & Franchise Association)
北京市百強企業第35名 (Ranked 35th amongst the top 100 enterprises in Beijing, PRC)	2005	北京市企業聯合會／ 北京市企業家聯合會 (Beijing Enterprise Confederation/ Beijing Enterprises Directors Association)
中國服務業企業500強第143名 (Ranked 143rd amongst the top 500 PRC services industry)	2005	中國企業聯合會／ 中國企業家聯合會 (China Enterprise Confederation/ China Enterprise Directors Association)
中國企業500強第324名 (Ranked 324th amongst the top 500 PRC enterprises)	2004	中國企業聯合會／ 中國企業家協會 (China Enterprise Confederation/ China Enterprise Directors Association)
北京市百強企業第40名 (Ranked 40th amongst the top 100 enterprises in Beijing, PRC)	2004	北京企業聯合會／ 北京市企業家協會 (Beijing Enterprise Confederation/ Beijing Enterprise Directors Association)

In addition, the quality assurance infrastructure and the quality control procedures adopted by the Group have demonstrated its commitment to internationally recognised quality management system standard. Hence, the Company, the 56 directly-operated Retail Outlets and the dry product Logistics Centre were awarded the ISO 9001:2000 certification in August 2005.

MARKETING AND PROMOTION






The Directors believe in the importance of building a good corporate image and maintaining public recognition of the Group's “京客隆” logo, “朝批” as well as the Group's in-house branded products. Therefore, the Group's marketing strategies focus on offering high quality and competitively priced products as well as excellent customer services, so as to foster a loyal customer base.

As part of the Group's marketing strategy to promote consumer loyalty to its Retail Outlets, the Jingkelong card was launched in December 2003 and the membership reward card was launched in September 2004. As at 30 June 2006, the membership reward card scheme had over 530,000 members and the total amount of value stored in the Jingkelong Cards was approximately RMB105 million. In relation the Jingkelong cards and the membership reward cards launched by the Group, the Jingkelong card is a stored value card which allows a consumer to use as a substitute to cash and offers the benefits of a convenient and hassle-free way of shopping. No deposit is required for Jingkelong Card. The membership reward card allows a consumer to accumulate points in exchange for certain rewards upon reaching a certain threshold of points. The points accumulated in the membership reward cards are subject to a 1-year expiry period. The rewards year run from 1 April to 31 March. The points accumulated and eligible to be rewarded during the relevant period are accrued and reported as expenses for that period. They are neither debit nor credit cards.

Through careful implementation of various marketing and promotion activities, the Directors believe that Retail Outlets will be able to maintain a competitive position in the retail chain business. The Group's total marketing and advertising expenditure on public media and advertising campaigns during the Track Record Period was approximately RMB8.6 million, RMB11.1 million, RMB14.3 million and RMB6.3 million, respectively, accounting for approximately 0.3%, 0.3%, 0.3% and 0.3%, respectively, of the revenue from continuing operations.

INTELLECTUAL PROPERTY RIGHTS

The Directors believe that trademarks are important to the business of the Group as these trademarks will enable the customers to differentiate the Group from the Group's competitors.

All Retail Outlets, whether directly owned or franchise operated, are managed and operated under the logo of “ 京客隆”. In addition, the Group has developed four in-house brandnames – “ 曼妙 (“Manmiao”)”, “ 惠廉 (“Huilian”)”, “ 蜜屋 (“Miwu”)” and “ 京客隆 (“Jingkelong”)”. Details of the registered trademarks and registering trademarks of the Group are set out in the section headed “Statutory and general information – intellectual property rights of the Group” in Appendix V to this prospectus.

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RELATIONSHIPS WITH MAJOR SUPPLIERS OF THE GROUP (OTHER THAN INTRA-GROUP)

The five largest suppliers to the Group accounted for approximately 21.3%, 18.1%, 16.9% and 15.3%, respectively, of the total purchases of the Group during the Track Record Period. All of the five largest suppliers have had relationships of over five years with the Group. The largest supplier to the Group accounted for approximately 4.5%, 5.0%, 3.7% and 3.9%, respectively, of the total purchases of the Group during the Track Record Period.

The following table sets out the top five suppliers during the periods indicated:

Supplier	Products supplied	Percentage of total purchases (%)				
		Year ended 31 December			Six months ended 30 June	
		2003	2004	2005	2005	2006
						(Unaudited)
四川省宜賓五糧液集團 進出口有限公司 (Sichuan Wuliangye Group Company Limited)	alcoholic beverage	N/A*	N/A*	N/A*	N/A*	3.9
上海雀巢產品服務有限公司 北京分公司 (Shanghai Nestle Company)	food and beverage	4.4	5.0	3.7	4.7	3.2
北京金六福酒有限公司 (Beijing Jinliufu Wine Company)	alcoholic beverage	4.5	3.9	N/A*	N/A*	2.9
北京紅星股份有限公司 (Beijing Red Star Company)	alcoholic beverage	3.7	3.5	3.6	3.4	2.7
北京蒙牛宏達乳製品 有限責任公司 (Beijing Mengniu Dairy Products Company)	milk products, ice-cream and other dairy products	N/A*	3.0	N/A*	2.6	2.6
天津嘉里糧油工業有限公司 (Tianjin Kerry Edible Oil Industrial Company)	edible oil	N/A*	N/A*	3.1	3.0	N/A*
萊陽魯花濃香花生油有限公司 北京分公司 (Laiyang Luhwa Peanut Oil Company)	edible oil	4.3	N/A*	3.7	2.9	N/A*
北京市朝陽煙草公司 (Beijing Chaoyang Tobacco Company)	tobacco	N/A*	2.7	2.8	N/A*	N/A*
南海油脂工業(赤灣)有限公司 北京分公司 (Nanhai Edible Oil Industrial (Chiwan) Company)	edible oil	4.4	N/A*	N/A*	N/A*	N/A*

* not among the top five suppliers

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Although the Group obtains a significant portion of the merchandise from the above suppliers, the Directors are of the view that the Group is not dependent on any one major supplier as the Directors believe that the Group would be able to obtain the merchandise from alternative suppliers should any of the above suppliers cease to be the Group's supplier.

During the Track Record Period, purchases from the Group's twenty largest suppliers represented approximately 40.9%, 36.8%, 40.0% and 34.7% of the Group's purchases respectively. To the best knowledge of the Directors, purchases from State owned enterprises represented approximately 27.1%, 28.3%, 31.1% and 34.4% of the purchases from the Group's twenty largest suppliers during the Track Record Period.

COMPETITION

The Group operates in a highly competitive industry and the Group expects to face intense competition from existing competitors as well as new market entrants in the future. In April 2004, the MOC, promulgated a new law entitled "The Regulations on Management of Foreign Investment in the Commercial Sector". It lowered most of the entry barriers faced by foreign investors in accessing the PRC domestic retail and wholesale market, such as significantly reducing the registered capital requirement and expanding the allowable business scope. As China must further open its domestic retail and wholesale segments to international competition, the Directors believe that the competition of the retail and wholesale distribution businesses will intensify as foreign players enter to compete in this market.

Top international retail companies such as Carrefour and Wal-mart, have begun to enter into China's market. Some of these companies have already set up more than 20 stores in some big cities in China. With their excellent financial and management resources, distribution and logistics management and technical expertise, their market share is increasing continuously. In this respect, the entrance of foreign retail chain stores will pose great pressure to their counterparts in China. Furthermore, the Group also faces intense competition from domestic retail chain operators, local retail operators and wholesale operators.

According to the PRC Chain Store Almanac 2005, in 2004, there were 103 retail chain store operators in the PRC, of which 13 of them had sales exceeding RMB1 billion, representing 12.6% of the PRC retail chain industry. The top domestic retail chain operators in Beijing are Beijing Hualian and Wumart Group.

The table below set out the top supermarket chain operators in Beijing in terms of sales in 2005.

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Top Supermarket Chain Operators in Beijing in 2005

	Types of Retail Outlets	Number of Retail Outlets	(Sales in RMB million)
物美集團 (Wumart Group)	Hypermarkets/Supermarkets/ Convenience Stores	615	17,389
北京京客隆 (Beijing Jingkelong)	Hypermarkets/Supermarkets/ Convenience Stores	156	5,510 ⁽¹⁾
北京美廉美 (Beijing Mei Lian Mei)	Hypermarkets/Supermarkets	20	1,898
北京超市發 (Beijing Chao Shi Fa)	Supermarkets	44	1,683
北京順天府 (Beijing Shun Tian Fu)	Supermarkets	20	941

Source: China Chain Store & Franchise Association

Note:

- (1) The figure reported by the China Chain Store & Franchise Association represents the aggregated sales of members of the Group before any elimination of intra-group transactions, audit adjustments and GAAP adjustments. Therefore the figure is not the same as the consolidated revenue amount appears in Appendix I to this prospectus.

The Directors believe that the principal competitive factors that will distinguish the Group from other chain store operators, international players as well as local retail operators and wholesale operators are:

1. Price and product range: The Directors believe that the competitive pricing of its products and its ability to offer “value-for-money” products and services give the Group an advantage over its competitors. Additionally, the Group further distinguishes itself by offering an extensive selection of products, including in-house brand products, hence providing the convenience of one-stop shopping solution for consumers. Product knowledge of its sales staff as well as its local knowledge of its customers’ shopping preferences are all critical factors which have contributed to its success in competing with its rivals.
2. Store locations: The Directors believe that having prime store locations for its Retail Outlets is the key to maximising sales of the Retail Outlets and thus the profitability of the Group. Through its tenancy agreements with Chaoyang Auxillary, the Directors believe that the Group has been able to obtain strategically located properties on favorable terms that would otherwise be unavailable to it.
3. Brand recognition: The Group has undertaken various promotional and marketing activities, including the launching of the Jingkelong card and the membership reward card, aimed at strengthening brand awareness among consumers. Additionally, through its franchisee stores, the Directors believe that the Group has been able to build up its brandname principally in the Greater Beijing Region.

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4. Efficient employment of advanced technologies: The Directors believe that the Group's investment in improving its management information systems has allowed the Group to improve product procurement, delivery schedules, inventory and inventory management and turnover days, thus minimising the cost of maintaining levels of inventories and allowing for better space allocations and overall sales performance.
5. Complementary wholesale and retail distribution networks: The infrastructure of extensive wholesale and retail distribution channels enables the Group to maintain a stable supply of daily consumer products to its Retail Outlets, even for certain popular seasonal products during peak seasons. At the same time, it also facilitates the timely collection of first-hand feedback on market trends and end consumer preferences, which enables the Group to implement market-driven merchandising and stocking at the wholesale level. The Directors believe that these advantages are not available to those distribution operators who do not possess complementary capabilities on both retail and wholesale capabilities.

The Group's competitiveness can be proven by its increase in turnover and profit, and expanding retail and wholesale network, as well as the introduction of products bearing its in-house brandnames. The Group's principal competitive strengths and the business strategies based on which these strengths are divided are set out in the paragraphs headed "Business – competitive strengths" and "Statement of business objectives – strategies" of this prospectus.

PRICING POLICY

The Directors believe that it is important for the Group's continued success to maintain a steady supply of quality daily consumer products at competitive prices.

At the retail level, the pricing policy for each retail format varies according to each retail format's business model and its emphasis on products and services offered. The emphasis of the pricing policy for the hypermarket business is on the overall strategy of providing a "one-stop" shopping experience. The emphasis of the pricing policy for the supermarket business is on the provision of a balanced product mix and the ability to offer "quick-sell" promotions. The idea of promoting the convenience store business as one's "local corner store" has meant that the emphasis of the pricing policy for this aspect of the Group's retail business is on the provision of a friendly, fast and convenient shopping service.

With the above in mind, the Group's merchandising division implements such policy by:

- jointly conducting some negotiations with the Company and Chaopi Trading, taking full advantage of the Group's economies of scale to secure favourable terms and prices from the Group's suppliers and manufacturers;
- maintaining a good communication channel with the Group's suppliers and manufacturers in order to capture first mover advantage on new products and to discuss ways of promoting sales;

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- conducting evaluation of competitors' performance and market research into customer trends with a view to formulating the Group's merchandising strategies.

INSURANCE

The Group maintains insurance policies which cover the Group's fixed assets and inventories at the Group's Retail Outlets, Logistics Centres and Distribution Centres against damages or loss caused by theft, fire and bursting of water pipes. The Directors consider that the Group's insurance coverage is adequate and the Directors confirmed that the Group had no insurance claim under such policies in the past.

The Group also maintains workers compensation insurance in relation to its employees, which covers personal injury and death of employees during their course of employment.

COMPLIANCE WITH REGULATORY REQUIREMENTS

The Group intends to set up the following measures for the ongoing compliance of the regulatory requirements in the PRC and Hong Kong:

- Li Chunyan has been appointed as the compliance officer of the Group.
- Regular meetings and seminars within the Group to provide updates on the latest business development of the Group and regulatory requirements in relation to the retail and wholesale distribution industries.
- Regular meetings and seminars within the Group on regulatory requirements applicable to companies listed on the Stock Exchange and update on any amendments thereto from time to time.
- Regular conversations with the compliance adviser for the update of regulatory requirements.
- Consult the compliance adviser for any proposed transactions or events that may be subject to the disclosure and approval requirements under the GEM Listing Rules.
- All management and staff are required to report to the Directors and the compliance officer(s) promptly any events that may be subject to the various regulatory requirements in the PRC and Hong Kong.