

CHAPTER I Summary and Risk Factors

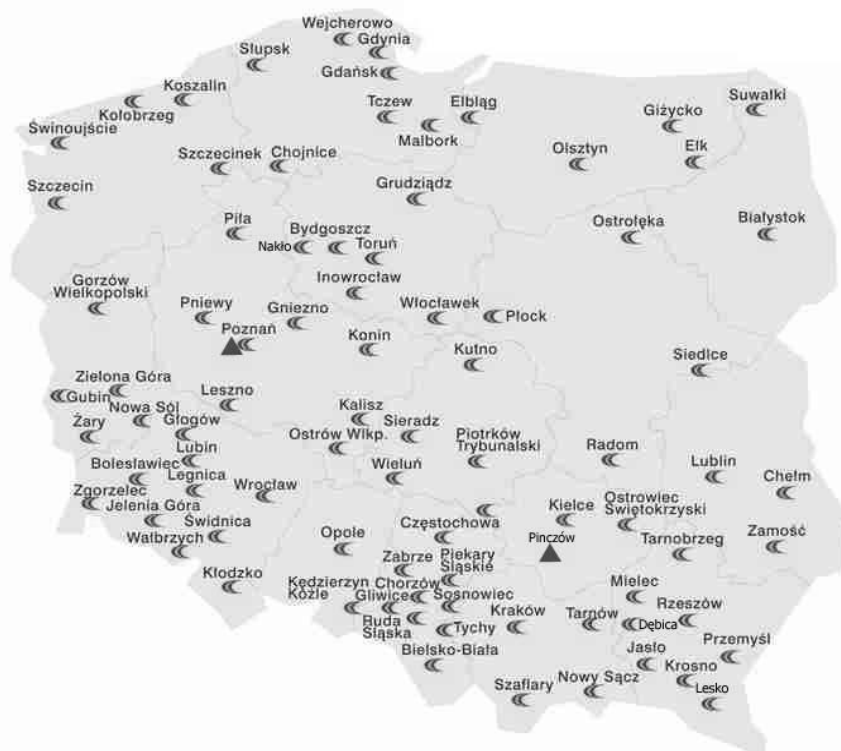
1. Key Information on the Issuer

1.1. Nature of the Issuer's Business

Eurocash operates a chain of discount wholesale cash & carry warehouse stores ("*Discount Cash & Carry*") from which it sells fast moving consumer goods (FMCG). In addition, the Company has developed a nationwide franchised network of more than 1,800 "abc" grocery shops that support its wholesale operations. The Management Board is currently reviewing the "abc" shops concept to determine the potential of increasing its contribution to the Company's sales, margins, and enterprise value.

As at the date this Prospectus was updated, the Eurocash wholesale chain comprised 83 Discounts Cash & Carry, supplied by two distribution centres, which allowed the Company to effectively reach its customers in every province in Poland. The Discount Cash & Carry chain provides supplies to more than 60,000 customers (including the "abc" shops) and in 2003 it generated sales of PLN 1,374.5m. Consequently, in terms of sales value, Eurocash ranks among the three largest FMCG warehouse store chains operating according to the cash & carry concept of its type country (after Makro and Selgros) in terms of sales value, while it is the largest in terms of the number of stores.

Fig. I.1. Location of Discounts Cash & Carry and distribution centres (as at 30 September 2004).



Source: the Issuer.

In 2003, on sales revenue of PLN 1,374.5m, the Company's EBITDA stood at PLN 19.3m and the net profit at PLN 4.1m. these healthy results were achieved in the first year of the management of Eurocash by its current Management Board, following the March 2003 MBO through which transfer of control of the Company was made to the current President of the Company's Management Board who had previously been engaged in the management of the Eurocash business (for a detailed description of the transaction see Section 7 of Chapter IV). The restructuring carried out by the current Management Board resulted in a significant improvement of the Company's margins in 2003, which continued into 2004. In January–September 2004, Eurocash achieved sales revenue of PLN 1,196.0m, EBITDA of 35.2m, and net profit of PLN 17.1m.

According to the Management Board, the distinctive feature of Discount Cash & Carry concept is its ability to offer low prices to its customers. The following combination of elements in the organisation of its operations allow the Company to implement the “low price” strategy:

- low expenditure required to open new Discounts Cash & Carry;
- low operating expenses,
- selected product range ensuring a high stock turnover;
- logistics system facilitating efficient distribution of goods;
- effective centralised chain management system; and
- minimisation of credit sales through cash & carry sales.

It is the opinion of the Management Board, the factors allowing the Issuer to execute its strategy comprise strict control of operating expenses, throughout all stages of the value chain:

- *Low initial expenditure* - can be achieved due to Discounts Cash & Carry being opened in buildings that are leased, rather than built by Eurocash, which significantly reduces capital expenditure on newly opened Discounts Cash & Carry. Furthermore, the leasing of premises mitigates the risk associated with the selection of location, since moving a Discount Cash & Carry to a new location, if necessary, does not entail significant expenses.
- *Low operating expenses of Discounts Cash & Carry* – for many management functions are centralised, the number of personnel employed in the Discounts Cash & Carry is relatively small. Furthermore, relieving the managers of Discounts Cash & Carry from administration duties allows them to focus on warehouse store management and customer service.
- *Selection of goods* – the high turnover of goods allows significant profits to be achieved despite low margins. In addition, the limited choice of products (ca. 3,500 items) and significant sales of individual items make Eurocash an important customer for its suppliers, which facilitates the obtainment of favourable prices and payment terms. The high turnover of goods also reduces warehouse losses, which typically constitute a significant cost item of FMCG distribution companies.
- *The effective logistics system* - results from the efficient management of distribution centres and outsourcing of transport services, usually provided by individual drivers (vehicle owners), which reduces the operating expenses.
- *Centralised management functions* – based on an efficient integrated IT system and high speed communications with the chain of 83 Discounts Cash & Carry, Eurocash is able to ensure a greater degree of centralisation of decisions relating to crucial business issues, to strictly control its operations and to react promptly to changing market conditions.
- *Minimum credit sales* – Eurocash has based its business model on a cash & carry concept (customers select their merchandise, pay in cash, and transport their own purchases), which brings the Company’s benefits comparable to those achieved in retail sales. Extended payment terms are offered to selected customers only, in order to support the best customers who have proved their potential (both in terms of order volume and reliability in paying the invoiced amounts) and creditworthiness. The utilisation of a modern IT system allows the Company to monitor delayed payments and to make rapid decisions in relation to defaulting payers.

The development of the “abc” franchised shops chain is an important tool in increasing the share of Eurocash in the total purchases of its customers, mainly small and medium-sized grocery shops below 300m² of retail space. The key objective behind the development of the “abc” network is to create a stable group of creditworthy customers making substantial purchases in the Discounts Cash & Carry. The Eurocash’s support gives the “abc” shops some competitive advantage on the market and allows them to develop the shops’ operations, which in turn contributes to a growth in Eurocash’s sales.

Individual shop owners may lack the financial capability to run effective marketing campaigns. The “abc” chain successfully combines personal contacts between the shop owners and their customers with the marketing and purchasing power of a large organisation, capable of supplying high quality, appropriately advertised products at competitive prices.

The operation concept of the Discounts Cash & Carry, coupled with the coverage provided by the “abc” shops’, gives Eurocash an exceptional position in relation to the customers of Discounts Cash & Carry, “abc” shops and the suppliers. Eurocash’s positioning in this area and the Company’s added value in these relations may be presented as follows:

Table I.1. Key elements of the Issuer’s business concept

Positioning with customers of Discounts Cash & Carry	Positioning of the “abc” franchised shop chain	Positioning with suppliers
<ul style="list-style-type: none"> ▪ Slogan: “Lowest Prices Warehouse Store” (low daily prices in the most popular products’ basket) ▪ Business strategy strictly adapted to the needs of the target group ▪ Customers receive: <ul style="list-style-type: none"> – low prices – quick and convenient shopping – availability of goods – per item sale – attractive promotions – interpersonal relations 	<ul style="list-style-type: none"> ▪ Slogan: “Largest neighbourhood shop chain” ▪ The benefits of participation in a major chain and the advantages of a neighbourhood shop ▪ Location enabling the building of neighbour-to-neighbour relations ▪ A shop-owner’s key role in positioning (neighbour-to-neighbour relations within the local society and responding to the needs of local market) ▪ Marketing, promotional and training support from Eurocash ▪ Shop design 	<ul style="list-style-type: none"> ▪ Slogan “All of Poland within your reach” ▪ Extensive, numerically superior points of distribution – the largest by segment of the market ▪ Optimisation of distribution – supplies to Eurocash’s two distribution centres ▪ Greater effectiveness of mass advertising campaigns by ensuring nationwide availability of products
Optimisation of operating expenses at all stages of the value chain		

Source: the Issuer.

1.2. History of Eurocash

The business currently operated by the Issuer was acquired in 1995 by a Portuguese distribution group Jeronimo Martins as part of a transaction that included the purchase of 48 warehouse stores and a distribution centre. Over the next several years, Jeronimo Martins performed a major restructuring of the cash and carry warehouse stores operating under the Eurocash brand. Strategic changes made in the Jeronimo Martins Group in 1999–2001 resulted in: (i) the Biedronka chain being incorporated in the Jeronimo Martins Dystrybucja, which reduced the purchases from this significant customer of “Eurocash” (the Biedronka chain started to source supplies directly from the suppliers of Jeronimo Martins Dystrybucja) and prompted the decision to create the Company’s own retail network (later named “abc”); (ii) the spin-off of non-strategic businesses, including the Discount Cash & Carry business under the brand Eurocash, then a division within the Jeronimo Martins Group’s organisation, which generated operating losses, as did the entire Jeronimo Martins Group during that period.

At the end of 2002, an organized part of the enterprise, comprising all rights and obligations relating to the operation of wholesale trade of fast moving consumer goods in the form of the Discounts Cash & Carry chain under the Eurocash brand, was contributed to Eurocash Sp. z o.o., whose owners were Jeronimo Martins Dystrybucja and Beleggingsmaatschappij Tand B.V.

On March 4th 2003, the current President of the Issuer’s Management Board, Mr Luis Manuel Conceicao do Amaral (who formerly managed Eurocash), and Politra and Kipi (companies controlled by Mr Luis Manuel Conceicao do Amaral), purchased from the former shareholders almost all shares in the Company. One share was retained by Jeronimo Martins Dystrybucja.

Following acquiring Eurocash, the Management Board focussed its activities on making the Company profitable at the operating level. The restructuring included essentially the following actions (described in more detail in Section 2 of Chapter VI): (a) cost restructuring and centralisation of selected operations, (b) restructuring of the “abc” shop chain by concentrating on more favourable locations, (c) introduction of a new incentive system for employees, (d) redefinition of the wholesale concept.

The restructuring actions resulted in the creation of the Discount Cash & Carry concept. Its management structure facilitates providing incentives to employees, and ensures control and effectiveness of operations, while maintaining low operating expenses and capital expenditure. The restructuring also affected the “abc” shops chain.

1.3. Key Products and Markets of the Issuer

1.3.1. Key Products of the Issuer

The strategic target group for Eurocash is small and medium-sized shops situated in medium-sized or small towns and villages. Such shops are retail vendors of food products, detergents and cosmetics. Therefore, Discounts Cash & Carry sell selected FMCG products, the small and medium-sized shops seek for. The needs of this target group are the primary factors for consideration in the Company's determination of its product range, which explains how the Eurocash product range may satisfy most of the needs of small and medium-sized shops.

The product range offered by a typical Discount Cash & Carry includes ca. 3,500 products, of which approximately 85% are food products and beverages.

In addition to offering well-known brands, Eurocash also markets products available exclusively in its chain; the sales of such products account for approximately 13% of the Company's total sales value. These private brands are autonomous and their image is independent of the Eurocash brand. As indicated on the products' wrappings, they are produced by recognised manufacturers.

The Eurocash offering also includes regional products and brands (e.g. brands of coffee and mayonnaise or dairy products), responding to the needs of local market customers.

1.3.2. Market Environment

Eurocash's principal market is that of retail FMCG distribution via traditional distribution channels; in the case of the Issuer, it consists primarily of the wholesale supply of food products, non-alcoholic and alcoholic beverages, tobacco products, as well as household and hygiene articles, to small shops with less than 300m² of retail space.

According to the research conducted by CAL, the FMCG market in Poland in 2003 was estimated at ca. PLN 128bn, compared with PLN 119bn–123bn in 2001. The predominant groups of products on that market are food and non-alcoholic beverages, accounting for ca. 72% of the market, that is PLN 92bn in 2003.

According to CAL data, in 2003 approximately 75% of FMCG distribution (approx. PLN 96bn) was carried out through what is known as the basic retail distribution channels, including modern distribution channels: hypermarkets, supermarkets and discount stores; and through traditional distribution channels, such as general goods grocery shops, specialist shops, as well as household chemicals and cosmetics shops. The remaining 25% of the market (PLN 32bn) is supported by what is known as the alternative FMCG distribution channels: the so-called HoReCa channels (hotels, restaurants, catering), kiosks, service stations and convenience stores.

Despite the growing importance of modern distribution channels, traditional channels (small, medium-sized and large grocery shops and specialist shops) continue to capture a dominant share in the Polish market both in terms of the value of sales (63% in 2003) and the number of shops. According to CAL's estimates, the traditional channels will continue to prevail on the market of retail distribution in Poland in the years to come, while the importance of the modern distribution channels will not come to equal that of traditional channels until 2010 at the earliest.

This high market share enjoyed by the traditional distribution channels is an outgrowth of the specific demographic structure of customers and their preferences:

- the majority of the Polish population live in rural areas and small towns, in which the traditional retail distribution channels continue to prevail;
- low mobility of the population limits the area considered for everyday shopping;
- living conditions encourage more frequent and smaller purchases.

These factors indicate that customers in Poland are more likely to engage in lower-value shopping and to buy goods in smaller quantities than in Western Europe.

Poland's market is often compared to that of Spain due to its demographic structure. However, in comparing these two markets, it must be borne in mind that the development of the modern structure of the retail market in Spain began in 1984 when the country joined the EU. Although the Spanish retail market is more mature than its Polish counterpart, and the country has been a member of the EU for 18 years, it is estimated that traditional shops account for ca. 40% of the FMCG market (CAL data).

Organised chains of small retail stores have gained importance in the fragmented segment of the traditional distribution channels. The key advantages of operating within a chain are improved shopping conditions, the ability to offer competitive prices, and taking part in joint marketing activities. Retail chains differ greatly in terms of operational policies and origin. Many of these groups were established by strong warehouse stores, that integrated the independent trade sector, thus establishing a loyal customer bases. This type of chain includes "abc" small shops chain (Eurocash), Lewiatan grocery store chain (DLS warehouse store), Groszek chain of small retail stores (Eldorado warehouse store)

and Chata Polska grocery store chain (Marol warehouse store). The other group comprises chains established independently of warehouse stores, for instance Sieć 34 or Żabka “convenience” stores.

According to the assessment by GfK, quoted by the *Handel* monthly, the share of the 116 largest franchised and integrated chains in the total FCMG retail market in Poland was ca. 14% in 2003. For a detailed description of the Issuer's market see Section 2 of Chapter V.

1.4. Plans and Forecasts Relating to the Factors Affecting Future Results of the Issuer

1.4.1. Economic Development in Poland

The pace of economic development, the level of household incomes and other macroeconomic factors all have a significant impact on the level of population's spendings and the dynamics of domestic demand, thereby affecting the Eurocash's revenue. From the second half of 2003, there has been an improvement in the general economic situation in Poland. If the current trends are sustained, they should have a positive impact on the results achieved by the Issuer. A noteworthy fact is that the demand for basic goods which are at the focus of the Eurocash's operations, including groceries and everyday products, is relatively less sensitive to changes in the economic situation.

1.4.2. Competition and Changes in Polish Retail and Wholesale Trade Structure

According to CAL, from 1994-2002 the number of wholesale operators decreased more than two-fold, while large warehouse store chains, which are able to offer competitive selection of merchandise and competitive terms, have been gaining in importance. The Issuer expects that a reduction in the number of local and regional warehouse stores will be accompanied by a growth in significance of large, nationwide or supraregional warehouse store chains.

In the Issuer's opinion, retail chains which bring together a number of outlets and enable their operators to obtain better purchase terms and to benefit from a common promotional and logistic policy will achieve prominence on the retail market.

1.4.3. Regulation of the Retail Market

Potential amendments of laws, particularly in respect of business activities and the labour and consumer protection laws, may affect the Issuer's activities. In the opinion of the Management Board, given the current trend in the regulation of certain areas of business in Poland, potential regulatory changes will probably create an environment favourable to small and medium-sized grocery shops, at the expense of large chains in modern distribution channels. However, in the opinion of the Management Board, these changes should not have a significant effect on the situation of Eurocash.

1.4.4. Management Staff

The Company's ability to implement the planned development strategy depends to a large extent on the professional skills and experience of the Eurocash management staff. The experience of the Company's Management Board and key operational managers in developing large distribution chains, both in Poland and abroad, is unique on the Polish market. All members of the Executive Committee have an almost decade-long track record in the retail sector and have managed companies in various economic conditions. The remuneration system of the management staff, as well as that of other employees, is to a great extent linked to the results of the Company. The Issuer also intends to introduce the Incentive Scheme for its key managers. For a detailed description of the rules of the Incentive Scheme see Section 6 of Chapter III.

1.4.5. Limited Needs for Financing

In the opinion of the Management Board, one of the most essential factors in the Company's competitive position are its low marginal development costs. As newly-established warehouse stores are located in pre-existing buildings, the costs of opening a new Discount Cash & Carry on an agency basis consist of only the selected, basic elements of a warehouse store equipment, e.g. storage shelves, freezers, cash registers, pallet-lift trucks, display panels and computer equipment. Limited expansion costs imply limited financing requirements and no increase in the investment risk.

1.4.6. Logistics Development

In view of the planned expansion, the Eurocash Management Board has made a decision to change the location of the distribution centre in Poznań. The new distribution centre is to consist of a warehouse section (approximately 20,000 m²) and an office section (approximately 3,200 m²). In the long-term perspective, it is also planned to house the Company's head office. The warehouse is scheduled to be put into commission in June 2005, and the offices in October 2005.

According to the plans of the Issuer's Management Board, the change of location will bring about no substantial change in the costs of leasing distribution centre premises. At the same time it will ensure a far larger warehousing area, which should contribute to improved efficiency of the distribution centre and will provide conditions for further development of the scale of the Company's operations.

1.4.7. IT Systems

An efficient computer system is a key element of an efficient distribution network. The head office, the distribution centres, and the individual Cash & Carry Discounts operate using a state-of-the-art, fully-integrated “mySAP Business Suite” computer system, and an extensive “ORACLE Database” containing over 60,000 registered active customers. The database supports analyses of customer behaviour and efficient marketing communication.

The functionality of the system constitutes the information platform for the management. The system enables to manage working capital in real time at the level of each Discount Cash & Carry, analyse sales by particular products and customers, optimise supplies and transport, and analyse each trade credit granted. Daily monitoring enables current control over the Company's activities. The system is also used by the Company's management when making the majority of business decisions and enables a prompt reaction to the market needs.

1.5. Development Strategy of the Issuer**1.5.1. Development Strategy of the Chain of Discounts Cash & Carry**

The current development strategy of Eurocash is specifically tailored to meet the requirements of the Polish market. In the opinion of the Management Board, the nature of this market (detailed in Section 2 of Chapter V) requires the deepest possible penetration of the target segment, which may be facilitated by the low expansion costs and tailoring of the product structure to meet the needs of the target group of customers (small and medium-sized shops).

In the opinion of the Management Board, the Polish market can ultimately support up to about 150 Discounts Cash & Carry. The Issuer plans to further expand its chain of Discounts Cash & Carry and assumes that the total number of its warehouse stores will exceed 100 over the next two years. The Management Board expects that the majority of the new Discounts Cash & Carry will operate on the basis of agency agreements.

In the opinion of the Management Board, low marginal costs of expansion combined with flexibility (most of the expenditure is incurred on movables that can be utilised in other outlets) enables Eurocash to penetrate the market more effectively than it is the case with many of its competitors, and reduces the investment risk. The Management Board expects an expansion in sales at the existing outlets concurrent with the opening of new Discounts Cash & Carry.

The Management Board also sees potential development opportunities in the selective acquisition of local medium-sized wholesalers, with the aim to achieve economies of scale and to make greater use of the logistics possibilities.

1.5.2. Development Strategy of the Chain of “abc” Franchise Stores

Simultaneously with the development of the chain of Discounts Cash & Carry, Eurocash plans the expansion of its chain of “abc” franchise stores. The Company forecasts that by the end of 2004 the “abc” chain will consist of approx. 2,000 outlets (compared with 1,838 as at the end of September 2004).

Similar to that of the Discounts Cash & Carry, the dynamic development of the “abc” chain is possible due to its low marginal costs of acquisition of new shops. In the opinion of the Management Board, the dynamic development of the chain of “abc” stores and the successful partnership-based formula of co-operation with the shop owners create significant opportunities for the implementation of innovative projects leveraging the advantages of a nationwide distribution network.

1.6. Management Staff of the Issuer

As at the date this Prospectus was updated, the Issuer's permanent executive staff consisted of the members of the Executive Committee, which included all members of the Management Board and five key directors of the Company:

Luis Manuel Conceicao do Amaral	President of the Management Board;
Rui Amaral	Member of the Management Board, Director General;
Katarzyna Kopaczewska	Member of the Management Board, Human Resources Director;
Ryszard Majer	Member of the Management Board, IT Director;
Arnaldo Guerreiro	Member of the Management Board, Financial Director; and
Pedro Martinho	Member of the Management Board, Sales Director.

The five key directors of the Company include:

Paweł Seidelt	Logistics Director;
Jarosław Mila	Regional Operating Director;
Gustaw Suleja	Regional Operating Director;
Ewa Borowska	Procurement Department Director; and
Helena Gomes	Marketing Department Director.

1.7. Shareholders Holding at Least 5% of the Total Vote at the General Shareholders Meeting

The Shareholder holding directly over 5% of the total vote at the General Shareholders Meeting is Politra, a company incorporated under the Dutch law, which holds 127,741,000 Series A Shares, representing 99.9992% of the Issuer's share capital. Mr Luis Manuel Conceicao do Amaral holds the remaining 1,000 Series A Shares, representing 0.0008% of the Issuer's share capital.

100% of the Shares and votes at the General Shareholders Meeting of Politra is held by Kipi, a company incorporated under the law of the Dutch Antilles. Mr Luis Manuel Conceicao do Amaral holds 100% of the Shares and votes at the General Shareholders Meeting of Kipi.

The entity holding directly and indirectly 100% of the Shares and votes at the Issuer's General Shareholders Meeting is the President of the Company's Management Board – Mr Luis Manuel Conceicao do Amaral, a Portuguese citizen living in Poland.

2. Factors Posing High Risk to Investors Acquiring the Issuer Shares

All investors who intend to acquire the Issuer Shares should consider the high investment risk related to the Issuer's business and the specific nature of the market in which the Issuer operates. In reviewing the information contained in this Prospectus, potential investors must always bear in mind all the risk factors mentioned herein, and any other Acts of God and circumstances beyond the Company's control and related to the Company's business, its existing Shareholders, its management and supervisory staff, as well as the securities market and the economic environment of the Issuer.

An investor acquiring the Company Shares should be aware that the risk of direct investment in equities on a capital market is significantly higher than the risk related to investments in State Treasury bonds or investment fund participation units, which is due to the unexpected changes in stock prices, both in the short and long term. In the case of the Polish capital market, this risk is relatively higher than on the mature markets, which follows from its early stage of development, the resultant significant fluctuations of the prices and relatively low liquidity, as well as a number of macroeconomic and external economic factors.

The occurrence of any of the risk factors specified below may have a material adverse effect on the Issuer's business and its financial performance as well as stock exchange prices of the Shares. Therefore, it should be considered that one or more of the risk factors may result in the investors losing a part of or even all funds invested in the Shares.

2.1. Risk Factors Related to the Issuer's Business

2.1.1. Risk of Potential Liability for the Debts of Jeronimo Martins Dystrybucja

The Issuer's business was previously an organised part of the enterprise of Jeronimo Martins Dystrybucja, comprising cash & carry wholesale operations. It was spun off and transferred to the Issuer as a contribution in kind in September 2002.

Pursuant to Art. 526 of the Polish Civil Code (as in effect at the transfer date of the Eurocash enterprise), the buyer of an enterprise is liable jointly and severally with the seller for the liabilities of the latter related to the enterprise's business, unless at the time of purchase the buyer was not aware of the liabilities despite exercising due professional care. The liability of the buyer is limited to the value of the purchased enterprise as at the purchase date and at the prices in effect at the date of satisfaction of the creditor; the liability cannot be limited or waived without the creditor's consent.

Therefore, there can be no assurance that the creditors of Jeronimo Martins Dystrybucja will not raise claims against the Issuer related to the operations of the Eurocash enterprise prior to its transfer to the Issuer. As possible claims concern the activities of a separate entity, not related to the Issuer, it is impossible to predict their extent. The risk of raising such claims exists until their limitation of actions period expires. The longest possible limitation of actions period expires in 2012.

Under the agreement of September 14th 2004, Jeronimo Martins Dystrybucja guaranteed to the Issuer that it would satisfy all the creditors' claims related to the operations of the Eurocash enterprise that arose not only before it was contributed to the Company, but also prior to March 4th 2003. If the Issuer is obliged to pay compensation to the creditors of Jeronimo Martins Dystrybucja, it will be entitled to recourse against Jeronimo Martins Dystrybucja. However, the obligor's ability to perform its obligation will depend on its financial situation and solvency at the time when the claim is raised by the Issuer.

As at the date this Prospectus was updated, none of creditors of Jeronimo Martins Dystrybucja had raised any claims against the Issuer. However, there can be no assurance that no such claims will be raised in the future.

2.1.2. Risk Related to the IT System

The Issuer operates across the entire territory of Poland, and the success and effectiveness of its business is largely dependent upon the discipline, reliability and speed of information flow and processing. Therefore, it is essential to ensure continuous improvement and failure-free operation of the IT tools supporting communication and management of the Issuer's enterprise. Though the end of July 2004, the Issuer used the Jeronimo Martins Dystrybucja information

system; since August 1st 2004 the Company has used its own separate IT system. Until the date this Prospectus was updated, the system change has caused no disruption in the Issuer's activities, and no failures had occurred in the system's operation. However, a certain degree of operational risk cannot be excluded, namely that the Issuer's IT system will be less efficient due to the change or other factors, including those outside the Issuer's control. Any decrease in the efficiency of the Issuer's IT system may have an impact on its business parameters.

2.1.3. Risk Associated with the Issuer's Management Staff

The Issuer's achievement of the projected economic objectives is to a large extent conditional upon the efficiency and quality of the management staff's work. A loss of persons comprising the Issuer's upper- or mid-level management staff might cause a deterioration of the results in the future, and adversely affect the effectiveness and feasibility of implementing the adopted growth strategy. The employment of new highly qualified specialists would mean prolonged recruitment, additional expenses (fees of intermediary head-hunting companies) and a lower productivity of the new personnel in the initial months of their employment. In order to prevent the fluctuation of its management staff, the Issuer has implemented an incentive remuneration system, supports professional development of the management staff on an ongoing basis and finances its training. The Issuer intends to enhance its incentive system through the introduction of the Incentive Scheme. There are five foreign nationals in the key management staff, which creates the risk of their expulsion from Poland in cases provided for in legal regulations. A decision to simultaneously expel all or most of them could temporarily disrupt management of the Company.

2.1.4. Risk Associated with the Selection of Locations for Discounts Cash & Carry

The selection of appropriate locations for new Discounts Cash & Carry is crucial for the future operational results of the Issuer. The Issuer plans to further expand over the entire territory of Poland. The location of Discounts Cash & Carry is deemed to be the most important factor with a bearing on future sales and margins recorded by individual stores. Thus, the financial profitability of new Discounts Cash & Carry will depend on the Company's ability to successfully assess potential future locations, while the selection of inappropriate new Discounts Cash & Carry locations may adversely affect the Company's results.

2.1.5. Risk Associated with the Expiry of Agreements under which the Company Uses Real Property for the Operation of Discounts Cash & Carry

The Issuer's wholesale activities depend on a number of factors, including the possibility of using warehouse buildings housing Discounts Cash & Carry. The vast majority of underlying agreements with persons holding title to the real property have been concluded for ten years, the longest period permitted for a specified-term lease agreement. These agreements, the first of which was concluded in 1995, will gradually expire or be transformed into agreements for unspecified term, which would be less favourable to the Issuer, as such an agreement could be terminated by the lessor. In order to safeguard its continued activities and in line with the adopted policy, the Issuer negotiates new agreements for specified terms and intends to do so in the future. The feasibility of extending the agreements concluded by the Issuer depends on the lessors' decisions and might affect the operations, or temporarily prevent the Issuer from operating, at certain locations.

2.1.6. Risk Associated with Possible Termination of Agency Agreements

Each party to an agency agreement under which an agent operates a Discount Cash & Carry, may terminate the agreement by providing three months' notice. The number of such agreements concluded by the Issuer does not exceed twenty. However, should these agreement be simultaneously terminated by the agents, it might adversely affect the Issuer's business and financial results.

2.1.7. Risk Associated with the Expansion of the Cash & Carry Discount Chain

The Issuer's future competitive position and possibility of maintaining an appropriately deep penetration of the wholesale market are conditional upon the number of new Discounts Cash & Carry opened by the Issuer and its agents, and upon the rate at which the new outlets are opened. Any delay or obstruction in the expansion of the Cash & Carry Discount chain by the Issuer might adversely affect the Issuer's market position and thus its business, financial results and financial standing.

2.1.8. Risk Associated with the Expansion of the "abc" Chain

The development of franchising activities and the related revenue of the Issuer are a function of its ability to select appropriate business partners. The Issuer's success in this area will primarily depend on the scale of operations and on consistent building, in cooperation with the franchisees, of the "abc" brand image with end customers. If the current growth rate is maintained and the Issuer's own structure is appropriately developed to ensure further optimisation of service for such customers, the Issuer's customers, and thus indirectly the Issuer itself, may gain a large share in the traditional retail distribution segment (i.e. the segment of small and medium-sized shops). However, the implementation

of the Issuer's plans depends on a number of factors which might delay or hinder the execution of the Issuer's plans with respect to the expansion of the "abc" chain.

2.1.9. Risk Associated with the Issuer's Suppliers

The Issuer cooperates with approximately 365 suppliers, with whom it has concluded agreements providing for discounts and favourable payment terms. While the share of the largest supplier in the Issuer's total product offering does not exceed 5%, termination or an unfavourable change of the terms of the agreements might adversely affect the Issuer's business and financial results.

2.1.10. Risk Associated with the Expiry of the Permits for Wholesale of Alcoholic Beverages

The Issuer holds three permits for wholesale trade in alcoholic beverages, with alcohol contents of up to 4.5% (including beer), from 4.5% to 18% (with the exception of beer), and in excess of 18%, respectively, as well as 52 licences for retail sale of alcoholic beverages. Under the legal acts applicable to the permits, granting permission for the wholesale vending of alcoholic beverages is conditional upon a number of factors, including the positive decision rendered by the competent County Sanitary Inspector that the warehouses indicated by the applicant for the storage of alcoholic beverages are fit for this purpose, as well as an opinion issued by the competent municipal/commune office to the effect that the warehouse location is consistent with the local land development plan or that the wholesale trade in alcoholic beverages is not prohibited at the location indicated. It may not be excluded that one or all of these permits is (are) not renewed. The Issuer will take steps to obtain such renewed permits. In the history of the Issuer's operation, its permits for trade in alcoholic beverages have always been extended.

2.1.11. Risk Associated with the Issuer's Shareholder Structure

Politra, indirectly controlled by Luis Manuel Conceicao do Amaral, President of the Issuer's Management Board, holds 99.9992% of the Issuer's Shares. The remaining 0.0008% of the Shares are held directly by Luis Manuel Conceicao do Amaral. Following the Offering, his share in the Issuer's share capital and the total vote at the Issuer's General Shareholders Meeting will be reduced to approximately 55%-65%, assuming that all of the Shares for Sale are acquired by investors. Moreover, under the Articles of Association, Politra is entitled to appoint and remove three out of the five members of the Issuer's Supervisory Board. Consequently, there is a risk that the acquirers of the Shares for Sale will not exercise material influence over the Issuer's operations.

2.1.12. Risk Associated with a Possible Infringement of the Labour Law

Given the scale and nature of the Issuer's business and the significant employment number, there can be no assurance that the Issuer has not infringed or will not infringe labour law regulations, which could result in employees raising claims against the Issuer under employment contracts. It may not be excluded that in certain cases the court will adjudicate in favour of the claimant. Therefore, the Issuer has created appropriate provisions for possible employee claims.

As at the date this Prospectus was updated, there were 13 proceedings related to employee claims underway. This number is relatively low given the scale of the Issuer's enterprise. Two of the proceedings ended amicably – the Issuer paid a total of PLN 1,600 as compensation. The total amount of claims sought in the continuing proceedings does not exceed PLN 73,000.

2.2. Risk Factors Related to the Issuer's Business Environment

2.2.1. Competition Risk

The Polish market of wholesale distribution remains largely fragmented and is subject to ongoing consolidation, as a result of which smaller and financially weaker companies are eliminated from the market, while new undertakings are established, whose scale of operations enables them to compete on the market of FMCG wholesale distribution. The market may be considered attractive by both domestic and foreign competitors conducting business similar to the Issuer's business. The Issuer adjusts its strategy to competitive conditions and the demographic structure of the Polish market. The Issuer's competitive advantages in the struggle to increase its market share, and, consequently, improve its revenues, include the reach of its operations and the pricing. There can be no assurance that in the future the Issuer's competitors will not take steps to accelerate their growth, or adopt an aggressive pricing policy addressed to the Issuer's existing and potential target customers; nor can there be assurance that the Issuer will maintain or increase its market share. Inability to effectively compete with other market participants may have an adverse effect on the Issuer's business as well as its financial standing and results.

2.2.2. Risk Related to a Change in the Retail Sales Structure in Poland

The market for the Issuer's services includes primarily traditional retail distribution channels, which prevail on the Polish market in terms of quantity and quality. However, since the beginning of the 1990s the structure of the retail distribution

market has been changing, which has been evidenced by the growth in importance of modern distribution channels gaining ground at the expense of traditional distribution channels. There can be no assurance that this tendency will not pick up pace in the future, which may have an adverse effect on the Issuer's market position, as well as its operations and financial standing.

2.2.3. Risk Related to the Macroeconomic Situation

All of the Issuer's revenues are generated on the domestic market. Although the Polish economy is forecast to grow, the potential risk exists that the economic situation may deteriorate. Possible fluctuations of growth tendencies in the Polish economy may result in a reduced inflow of foreign funds, lower profitability accompanied by increased investment risk, and an overall slump in the economic activity. These factors may result for example in a weaker growth rate of domestic consumption, and thus have an adverse effect on the Issuer's performance.

2.2.4. Risk Related to Legal Regulations

Another threat to the Issuer's business are the legislative changes and divergent interpretations of the law. Possible changes of the law, in particular changes to the tax legislation, legislation relating to business activities, the labour law and the social insurance legislation, all of which apply to the Issuer's business, may ultimately result in adverse effects for the Issuer, including greater administrative burdens or increased expenses on the employees' working environment. Additional risk related to legislative changes is posed by Poland's accession to the European Union. This results in significant amendments to the laws currently in force in Poland, in particular to the tax law, the customs law, the labour law, the consumer law, the health sanitation/hygiene law and the environmental protection law.

At present, the Polish Parliament is working on an amendment to the Act on entrepreneurs' duties regarding management of certain types of waste and on the product and deposit charges, which is likely to come into force at the beginning of 2005. According to the draft of the amendment, the recovery obligation, in particular the obligation to recycle packaging and post-use waste will extend to those entrepreneurs who, not being manufacturers of products or packaged products that are marketed in Poland, have such products manufactured and whose trademark is shown on the manufactured product. As the Issuer's trademarks are displayed on products sold at Discounts Cash & Carry, there is a risk that the Issuer will be subject to the obligations discussed above when the amended Act comes into force. This should not, however, materially affect the Issuer's financial results.

2.3. Risk Factors Related to the Issuer Shares

2.3.1. Risk of the Share Performance and Liquidity

The Issuer Shares have never been traded on any stock exchange. Consequently, there can be no assurance that after the introduction of the Shares to stock-exchange trading the liquidity of trading will be adequate, and that the price of the Shares will exceed the Selling Price. The Selling Price will be determined by the Selling Shareholder in consultation with the Offeror, on the basis of the bookbuilding among Institutional Investors. The Management Board cannot predict what volume of the Shares will be traded in by investors, and what the market for and the liquidity of the Shares will be. As part of the Public Offering, the Selling Shareholder may dispose of a significant block of the Shares for Sale to a limited range of Institutional Investors, which may temporarily limit an active market for the Shares after they are introduced to secondary trading. Consequently, the market price of the Shares may fluctuate considerably, which may, in turn, hinder efficient execution of buy and sell orders, and the Shareholders may find it difficult to dispose of the Shares at a price equal to or higher than the Selling Price.

The market price of the Shares may also be affected by other factors, including overall economic and market trends, changes in the situation of the securities market, legislative changes in Poland and the EU, Poland's economic situation, potential or actual supply of large blocks of the Shares on the secondary market, changes of the estimates of securities market analysts, actual or planned changes in the Issuer's business and conditions and results of the Issuer's business. Furthermore, changes in the situation on the capital market may have an adverse effect on the Shares' performance regardless of the Issuer's operating and financial performance.

2.3.2. Risk Related to Adverse Effects of Sale of the Shares by the Existing Shareholder on the Market Price of the Shares

In case the Public Offering is closed, the Issuer, subject to specific exceptions, will not increase its share capital through issue of new Shares or other securities incorporating the right to acquire new Shares without the Offeror's prior written consent, for 180 days from the allotment of the Shares for Sale. Furthermore, in case the Public Offering is closed, the Selling Shareholder will not offer, directly or indirectly, the Shares held by the Selling Shareholder without the Offeror's prior written consent for 360 days from the allotment of the Shares for Sale.

However, there can be no assurance as to the effect of the issue of the new Shares or sale of the existing Shares on the market price of the Shares or the significance of this effect. At the same time, a sale of a large block of shares by the

Issuer's existing Shareholder after the expiry of the lock-up period, which the Issuer cannot rule out, may have an adverse effect on the price of the Shares on the WSE. Furthermore, a sale of the Shares by the existing Shareholder after they are introduced to stock-exchange trading may adversely affect the possibility of increasing the Issuer's share capital at the time selected by the Issuer in the future and at a price satisfactory to the Issuer.

2.3.3. Risk of Non-Admission of the Shares to Stock-Exchange Trading

Admission and introduction of the Issuer Shares to stock-exchange trading is subject to the conditions stated in the Regulation of the Polish Council of Ministers on requirements to be met by official stock-exchange markets and issuers of securities admitted to trading on these markets, dated July 17th 2001 (Dz.U. No.86, item 939, as amended) and the approval of the relevant WSE's Management Board. The Issuer intends to apply for admission of all the Shares to stock-exchange trading.

Given the fact that the introduction of the Shares to stock-exchange trading is subject to prior obtaining of: (i) a decision of the Polish SEC to admit the Shares to public trading; (ii) a decision of the Polish NDS to take the Shares on deposit and assign an ISIN code to them; and (iii) a decision of the Management Board of the WSE to admit and introduce the Shares to stock-exchange trading. The Issuer can give no assurance that it will obtain the above decisions and that the Shares will be admitted to stock-exchange trading.

2.3.4. Risk of Non-Admission of Incentive Shares to Stock-Exchange Trading

The issue price of the Incentive Shares will be fixed and announced two weeks prior to the relevant Option Exercise Period. As it is possible that at the time of its fixing the issue price will be adjusted by the exercised rights attached to the Shares, there can be no assurance that the issue price will not be fixed below the market price. Therefore, pursuant to the Joint Position of the WSE's Supervisory Board and Management Board, dated June 4th 2003, regarding the public nature of new share issues, there is a risk of non-admission of these shares to stock-exchange trading before the lapse of 18 months from the date of issue price fixing if the issue price of the Incentive Shares considerably differs from the stock exchange price.

2.3.5. Risk of Suspension of Share Trading or Excluding the Shares from Stock-Exchange Trading

The WSE's Management Board may suspend trading in the Shares for up to three months if the Company infringes upon the regulations in force on the WSE. Suspension of trading in the shares may have a material adverse effect on the liquidity of secondary market for the Shares, which may affect their market value and make it difficult for the shareholders to sell them.

Pursuant to Par. 29.1 of the Rules of the WSE, the Management Board of the WSE may exclude securities from stock-exchange trading if: (i) said securities have lost the status of securities admitted to public trading, or (ii) their marketability has become limited.

Pursuant to Par. 29.2 of the Rules of the WSE, the Management Board of the WSE may exclude the Issuer Shares from stock-exchange trading in the following cases: (i) if the Issuer Shares cease to satisfy the conditions for admission to stock-exchange trading other than those specified in the preceding paragraph; (ii) if the Issuer repeatedly violates the rules in effect on the WSE; (iii) at the Issuer's request; (iv) as a result of the Issuer's bankruptcy or in the event of a dismissal by the court of a petition for the Issuer's bankruptcy due to the Issuer's assets being insufficient to cover the cost of proceedings; (v) in the event the Management Board of the WSE determines that the interest and safety of market participants necessitate such an exclusion; (vi) as a result of a decision on the Issuer's merger with another undertaking, its division or restructuring; (vii) if during three consecutive months no transaction is made on given securities; (viii) if the Issuer engages in activities prohibited under the existing laws; or (ix) as a result of commencement the Issuer's liquidation.

2.3.6. Exclusion of Securities from Public Trading

If the Issuer, as a publicly-traded company, fails to perform or unduly performs its disclosure obligations, the Polish SEC may, *inter alia*: (i) impose a monetary penalty of up to PLN 500,000 on the Issuer; (ii) decide to exclude the Shares from public trading; or (iii) impose both these penalties jointly.

2.3.7. Risk Associated with Possible Liquidation of one of the tranches

Pursuant to the rules of the Public Offering, the Selling Shareholder, in consultation with the Offeror, may change the number of Shares for Sale offered in the Public Offering and change the number of Shares for Sale offered in the Retail Offering and Institutional Offering. If such a decision is made, relevant information will be publicly announced in a Current Report, in line with the rules specified in Section 13 of Chapter III of this Prospectus. In an extreme case, all Shares for Sale offered in one tranche may be transferred to another tranche, thus one of the tranches will be liquidated.

The Selling Shareholder's intention is to allot Shares for Sale in each of the tranches described above. Therefore, the Selling Shareholder does not intend to liquidate or substantially limit allotment of Shares for Sale in neither tranche.

3. Selected Financial Data of the Issuer

Table I.2.

	Jan–Sep 2004	Jan–Sep 2003	Jan–Jul 2004	2003	2002***
Sales revenue (PLN '000)	1,195,982	1,019,463	907,615	1,374,545	274,560
EBITDA* (PLN '000)	35,247	11,360	24,340	19,284	(10,129)
Operating profit (loss) (PLN '000)	21,527	1,418	14,820	5,879	(13,575)
Pre-tax profit (loss) (PLN '000)	20,296	1,994	13,560	6,529	(13,464)
Net profit (loss) (PLN '000)	17,141	950	11,496	4,100	(10,402)
Total assets (PLN '000)	367,070	317,563	397,385	361,255	278,937
Total liabilities and provisions for liabilities (PLN '000)	228,544	205,125	264,447	245,667	173,053
Long-term liabilities (PLN '000)	3,790	0	28,113	24,824	0
Short-term liabilities (PLN '000)	214,165	192,311	224,187	211,456	167,362
Shareholder's equity (net assets) (PLN '000)	138,527	112,438	132,937	115,588	105,884
Share capital (PLN '000)	127,742	121,889	127,742	121,889	116,285
Number of shares ('000)**	127,742	127,742	127,742	127,742	127,742
Earnings (loss) per ordinary share (PLN)	0.13	0.01	0.09	0.03	(0.08)
Diluted earnings (loss) per ordinary share (PLN)	-	-	-	-	-
Dividend per share declared or paid (PLN)	-	-	-	-	-

No data for 2001 is disclosed in the table as the Company did not conduct any business activity in the year.

* EBITDA = earnings before interest, tax, depreciation and amortisation.

** Current number of Shares.

*** The Company has conducted business activities since October 2002.

4. Ratios Describing the Issuer's Operating Efficiency and Its Ability to Settle Liabilities

Table I.3.

	Jan–Sep 2004	Jan–Sep 2003	Jan–Jul 2004	2003	2002**
Return on equity (ROE)	16.5%*	1.1%*	14.8%*	3.5%	-
Return on assets (ROA)	6.2%*	0.4%*	5.0%*	1.1%	-
Net sales margin	1.4%	0.1%	1.3%	0.3%	(3.8%)
Dividend payout ratio	-	-	-	-	-
Debt to equity ratio	1.65	1.82	1.99	2.13	1.63

No data for 2001 is disclosed in the table as the Company did not conduct any business activity in the year.

* Based on annualised net profit.

** The Company has conducted business activities since October 2002.

Ratio formulas:

- Return on equity (ROE) – net profit for a given period / total shareholders' equity as at the end of the period (%);
- Return on assets (ROA) – net profit for a given period / total assets as at the end of the period (%);
- Net sales margin – net profit for a given period / sales revenue for the period (%);
- Dividend payout ratio – dividend paid for a given financial period / net profit for the financial period for which the dividend was paid;
- Debt to equity ratio – liabilities as at the end of a given period / shareholder's equity as at the end of the period (%).

5. Rating Assigned to the Issuer and Its Securities

As at the date this Prospectus was updated, neither the Issuer nor any securities issued by the Issuer were assigned any rating.

6. Objectives of the Issue of Series B Shares and Series C Shares

The issue of the Series B Shares and Series C Shares is connected with the issue of the Series A and Series B Bonds with the right to subscribe and acquire the Company shares.

Proceeds from the issue of the Series B Shares will depend on the issue price (indirectly on the selling price of the Offered Shares) and the number of acquired Series A Bonds.

Proceeds from the issue of the Series C Shares will depend on the issue price of the shares (indirectly on the average price of the Series A Shares on the Warsaw Stock Exchange in November 2005) and the number of acquired Series B Bonds.

Proceeds from the issue of the Series B Shares and Series C Shares will be used to increase the Issuer's working capital.

No additional funds will be required to execute the objective of the issue of the Series B Shares and Series C Shares.

The Issuer's Management Board does not intend to use the proceeds from the issue of the Series B Shares and Series C Shares towards repayment of debt.

Proceeds from the issue of the Series B Shares and Series C Shares are not intended to be used for acquisition of assets on terms materially different from the terms on which the Issuer has acquired assets to date.

The Issuer will not use the funds obtained as a result of acquisition of the Series B Shares and Series C Shares towards acquisition of assets from the Issuer's affiliates.

Proceeds from the issue will be directly transferred to the working capital.

7. Change of the Issue Objectives

The entity entitled to change the objectives of the issue is the General Shareholders Meeting. The objectives of the issue of the Series B Shares and Series C Shares may not be changed,

8. Factors having a Bearing on the Selling Price, the Issue Price of the Incentive Shares, and the Rules Governing their Determination

8.1. Factors having a Bearing on the Selling Price and the Rules Governing its Determination

The Selling Price will be determined by the Selling Shareholder on the basis of the Offeror's recommendation, taking into account:

- the Price Range within which investors participating in the bookbuilding process will indicate the price they are prepared to pay per Offered Share; and
- results of the bookbuilding process.

The Price Range will be established taking into account the following factors:

- conditions prevailing on the capital market; and
- projections of the Issuers' future results and development prospects.

8.2. Factors having a Bearing on the Issue Price of the Incentive Shares and the Rules Governing its Determination

Pursuant to the Incentive Scheme Resolution, the issue price of Series B Shares will be determined by the Supervisory Board and will be equal to the selling price of the Shares for Sale adjusted for the exercised rights attached to Series A Shares (e.g. dividend). This price will not be lower than the nominal price of the Shares. The issue price of the Series B Shares will be published in a Current Report not later than seven days prior to the commencement of the First Option Exercise Period.

Pursuant to the Incentive Scheme Resolution, the issue price of Series C Shares will be determined by the Supervisory Board and will be equal to average price of the Shares on the WSE in November 2005 adjusted for the exercised rights attached to Shares (e.g. dividend). This price will not be lower than the nominal price of the Shares. The issue price of Series C Shares will be published in a Current Report not later than seven days prior to the commencement of the Second Option Exercise Period.

The key factor with a bearing on the determination of the issue price of the Series B and Series C Shares is the fact that the issue of Series B and Series C Shares is executed to implement the Incentive Scheme designed to create new, effective incentives for persons responsible for the Issuer's management and development. This is the objective of the

adjustment for the exercised rights attached to the Shares. The adjustment is necessary in order to counterbalance any corporate action, beyond the Entitled Persons' control (e.g. payment of dividend or increase in share capital upon the exercise of pre-emptive rights), which may have an adverse effect on the shares market price and as a consequence, may negate the motivational nature of the Incentive Scheme. The Company hopes to thus ensure that the final value of the option, understood as the difference between the issue price and the market price of the shares, will be determined only by objective market factors and the Company's performance.

9. Dilution of the Net Book Value per Series B Share

Issue price per share: PLN [●].

Net book value per share prior to the issue: PLN [●].

Accretion of the net book value per share following the issue: PLN [●].

Net book value per share following the issue (*pro forma*): PLN [●].

Dilution of the net book value per acquired share: PLN [●].

Table I.4. Dilution of the net book value per Series B Share

	Shares acquired		Total cash contribution to the Company's equity		Average price paid per Share
	number	%	value	number	%
Existing Shareholders	127,742,000	[●]	127,742,000	[●]	[●]
New Shareholders	[●]	[●]	[●]	[●]	[●]
Total	[●]	[●]	[●]	[●]	[●]

10. Dilution of the Net Book Value per Series C Share

Issue price per share: PLN [●].

Net book value per share prior to the issue: PLN [●].

Accretion of the net book value per share following the issue: PLN [●].

Net book value per share following the issue (*pro forma*): PLN [●].

Dilution of the net book value per acquired share: PLN [●].

Table I.5. Dilution of the net book value per Series C Share

	Shares acquired		Total cash contribution to the Company's equity		Average price paid per Share
	number	%	value	%	
Existing Shareholders	[●]	[●]	[●]	[●]	[●]
New Shareholders	[●]	[●]	[●]	[●]	[●]
Total	[●]	[●]	[●]	[●]	[●]

11. Financial Data on the Issuer's Net Assets and Liabilities

The Issuer's book value PLN 138,527 thousand

The Issuer's liabilities PLN 228,544 thousand

Data as at 30 September 2004.