Wumart Stores, Inc.

北京物美商業集團股份有限公司

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

ANNUAL REPORT 2003

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This annual report, for which the directors of Wumart Stores, Inc. (the "Directors") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to Wumart Stores, Inc. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and that the contents are not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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BOARD OF DIRECTORS

Executive Directors

Dr. Zhang Wen-zhong (張文中博士),
Chairman and President
Dr. Wu Jian-zhong (吳堅忠博士),
Vice Chairman and Vice President
Dr. Meng Jin-xian (蒙進暹博士),
Vice President

Non-Executive Director

Mr. Wang Jian-ping (王堅平先生)

Independent Non-Executive Directors

Mr. Han Ying (韓英先生)
Dr. Robert E. Larson

SUPERVISORS

Mr. Fan Kui-jie (范奎杰先生)
Ms. Xu Ning-chun (許寧春女士)
Mr. Wang Jin-yue (王勁躍先生)

SENIOR MANAGEMENT

Mr. Mak Tak Cheong, Edmund (麥德昌先生)
Ms. Li Dong-nu (李冬女女士)
Ms. Jin Xiao-qin (金曉琴女士)
Ms. Zhang Feng-ru (張鳳茹女士)
Mr. Xu Shao-chuan (許少川先生)
Mr. Guo Tu-wei (郭涂偉先生)
Ms. Xie Dong (謝東女士)

QUALIFIED ACCOUNTANT

Mr. Mak Tak Cheong, Edmund
(CPA, AICPA, AHKSA)

COMPANY SECRETARIES

Mr. Mak Tak Cheong, Edmund
(CPA, AICPA, AHKSA)
Ms. Xie Dong

AUDIT COMMITTEE

Mr. Han Ying
Dr. Robert E. Larson

COMPLIANCE OFFICER

Dr. Wu Jian-zhong

AUTHORISED REPRESENTATIVES

Dr. Wu Jian-zhong
Ms. Xie Dong

AUDITORS

Deloitte Touche Tohmatsu

SPONSOR

Cazenove Asia Limited

LEGAL ADVISERS

As to Hong Kong Law:
Coudert Brothers

As to PRC Law:
Haiwen & Partners

PRINCIPAL BANKERS

Agricultural Bank of China
Industrial and Commercial Bank of China
China Merchants Bank

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716,
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

LEGAL ADDRESS

Room 5610
1 Shixingdong Street
Badachu High Tech Park District
Shijingshan District
Beijing
The PRC

HEAD OFFICE

10th Floor, Yuquan Building
Yu Quan Road
Shijingshan District
Beijing
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

39th Floor, Gloucester Tower
The Landmark, 11 Pedder Street
Central
Hong Kong

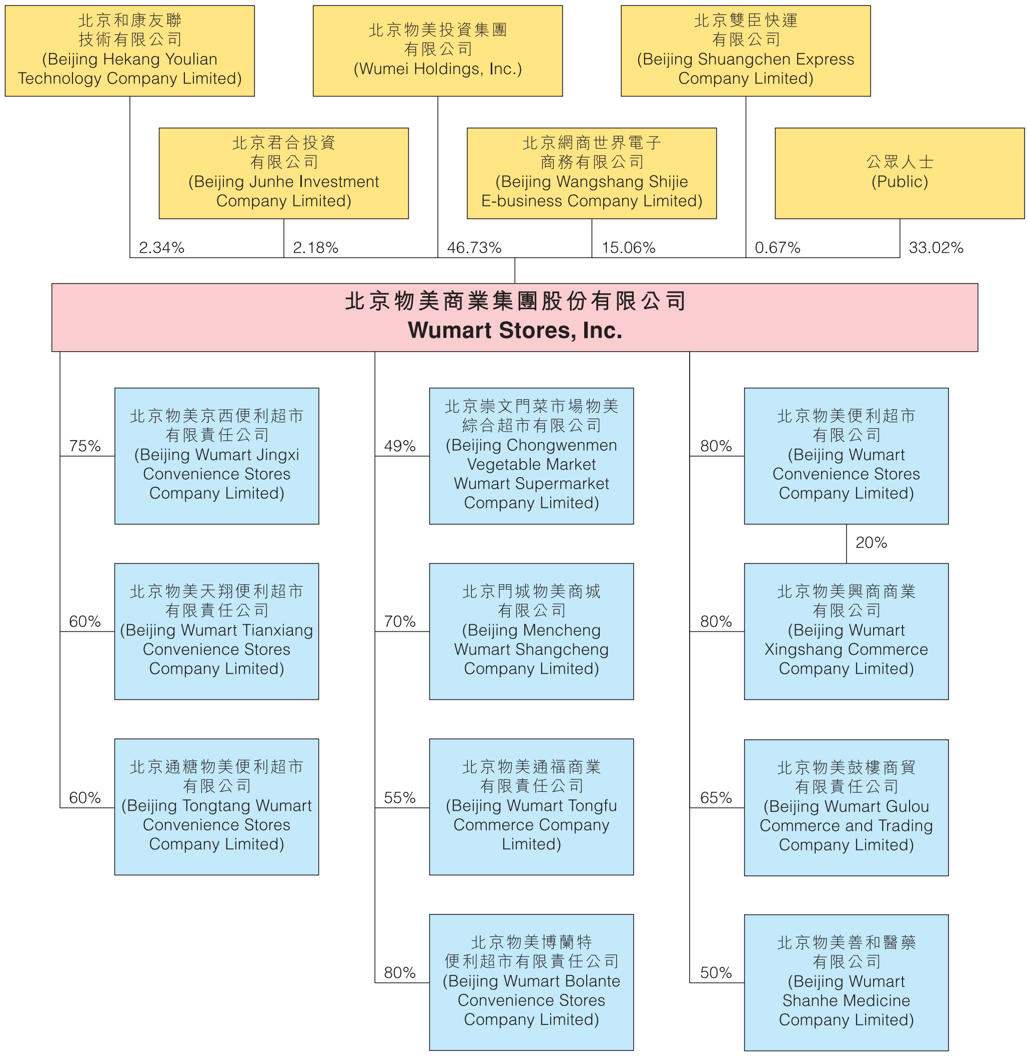
WEBSITE

www.wumart.com

STOCK CODE

8277

During the period under review, the shareholding and corporate structure of Wumart Stores, Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group" or "Wumart Group") and associated companies was as follows:



Dear Shareholders:

I am pleased to present the report on the audited results of Wumart Stores, Inc. for the year ended 31st December, 2003.

APPRECIATION

The Company was listed on the Stock Exchange on 21st November, 2003 with tremendous success. On behalf of the board of Directors, I would like to express our sincere appreciation to all investors who have shown strong interest in and firm support for the Group. The successful listing of the Company in Hong Kong has greatly enhanced the growth potentials as well as corporate profile of the Group. The Directors and the management have every confidence to secure sustainable returns for investors by achieving sound results on the back of rapid business expansion.

REVIEW OF RESULTS

- Our Retail Network comprised of 355 outlets, an increase of 270 stores, or 317.6% as compared with 2002;
- The comparable-store sales (the comparison of turnover recognised by same store for different period of time) increase 17.9% from 2002;
- Turnover amounted to RMB1,574.9 million, a 43.5% growth as compared with 2002;
- Gross profit amounted to RMB262.1 million, a 47.4% growth as compared with 2002;
- Net profit reached RMB71.6 million, a 161% growth as compared with 2002;
- Gross profit margin reached 16.6%, 0.4% higher than that of 2002; and
- Net profit margin reached 4.55%, 2.05% higher than that of 2002.

2003 demonstrated another year of rapid expansion and solid performance for the Group, which registered substantial growth in tandem in terms of the number of outlets, sales and net profit. The Group also pursued an expansion strategy focused on cost controls and regional development. Stringent cost controls, effective budget-based management, a professional management team and favourable market conditions are amongst some of the major reasons for sustained growth of the Group's results.

The Group strived persistently to enhance its core competitiveness and continued to sustain substantial year-on-year growth in comparable-store sales. Year-on-year growth for the Group's comparable-store sales of 17.9% for 2003 was an important factor contributing to the substantial growth in its net profit.

The regional advantage is first and foremost among any competitive advantages that a retail chain operation could claim. The benefits of brand name effect as well as systematic management, operation and distribution of a retail chain business could only be fully leveraged on to achieve cost reductions and efficiency enhancement by strong and extensive regional foothold. As such, the Group pursued a strategy of regional development underpinned by the building of regional dominance with priority for consolidating its business development in Beijing.

Meanwhile, the Group continued to follow a pattern of low-cost expansion by enhancing cooperation with state-owned enterprises on the back of past success while accelerating the establishment of wholly-owned outlets.

Cost leadership is one of the Group's operating principles. Stringent cost controls are implemented throughout its operations and made an integral part of its corporate culture. The Group continued to practise rigorous budget-based management in its operations, management, business development and use of human resources to ensure the realisation of the Company's objectives and development plans.

The Group is supported by a management team characterised by distinguished education background, international reach, professionalism and extensive experience in the industry, standing ready to discharge their duties with utmost dedication. It is on such management team and staff, who share the values of the Company, that the Company counts as it ventures for continual development and gratifying results.

FUTURE PROSPECTS

Rapid economic growth continued in China as the nation registered a 9.1% GDP growth in 2003. As one of the most prosperous and developed areas in China showing one of the nation's fastest growth rates in terms of per capita income, Beijing registered a GDP value of RMB361.19 billion in 2003, representing a year-on-year growth of 10.5%. Total retail sales of consumer goods grew by approximately 14.5% compared to 2002. Meanwhile, Beijing's retail chain operators are expected to benefit from favourable policies and opportunities for development ahead after the Beijing Municipal Government has identified the fast moving consumer goods industry as a forerunner in the national economy to be developed on a priority basis.

As a leading retail chain store operator in Beijing and its peripheral areas, the Group will continue to pursue the strategy of regional development in 2004. It will continue to strive for rapid expansion of its retail network through its unique business model that features both self-establishment development and cooperation with state-owned enterprises.

All in all, the management is very confident in the development prospects of the Group. In the meantime, I would like to express my appreciation to all shareholders for their continued support and to all employees for their diligent work during the year.

Dr. Zhang Wen-Zhong
Chairman

Beijing, the PRC, 23rd February, 2004

The board of Directors of the Company (the "Board") are pleased to report that the Group successfully achieved during the year under review the business objectives set out by the Directors.

During the period under review, the Group achieved outstanding results and generated approximately RMB1,574,862,000 in turnover and RMB71,596,000 in profit with a retail network comprising 355 outlets, thanks to the relentless efforts of the Board and all members of the staff. Shares of the Company were listed on the Growth Enterprise Market of the Stock Exchange on 21st November, 2003 after being oversubscribed 13 times by institutional investors and 153 times by retail investors. The successful listing of the Company heralded an important milestone in its history of development as it provided access to the international capital markets.

Such results have enhanced our corporate profile significantly, laying a solid foundation upon which the Group will build itself into a prestigious brand name in PRC's retail industry.

FINANCIAL REVIEW

Financial Highlights

(in RMB'000)

	Year ended 31st December, 2003	2002	Percentage of year-on-year increase (%)
Turnover	**1,574,862**	1,097,526	43
Gross Profit	**262,088**	177,752	47
Operating Profit	**101,976**	38,579	164
Net Profit	**71,596**	27,436	161
Basic earnings per share (RMB)	**0.38**	0.15	153

Note: The calculation of basic earnings per share of the Company is based on a net profit of RMB71,596,000 in 2003 (2002: RMB27,436,000) and on the weighted average number of 188,084,000 shares (2002: 178,445,000 shares) in issue in 2003.

Segment information by store formats

(in RMB'000)

	Year ended 31st December, 2003 Supermarkets	Convenience Stores	Hypermarkets	Total	2002 Supermarkets	Convenience Stores	Total
Sales of merchandise	1,046,171	362,505	32,387	1,441,063	801,551	226,718	1,028,269
Rental income from leasing of shop premises	34,904	17,749	2,846	55,499	33,207	13,329	46,536
Service income	70,033	17,898	—	87,931	24,693	4,178	28,871
	1,151,108	398,152	35,233	1,584,493	859,451	244,225	1,103,676
Business tax and other governmental charges	(6,692)	(2,688)	(251)	(9,631)	(4,881)	(1,269)	(6,150)
Turnover	1,144,416	395,464	34,982	1,574,862	854,570	242,956	1,097,526
Cost of sales	(960,645)	(320,920)	(31,209)	(1,312,774)	(719,717)	(200,057)	(919,774)
Gross profit	183,771	74,544	3,773	262,088	134,853	42,899	177,752
Gross profit margin	16.06%	18.85%	10.79%	16.64%	15.78%	17.66%	16.20%

Turnover

Turnover represents net value of goods sold, rental income from leasing of shop premises plus service income, net of business tax and other governmental charges. All intra-group transactions have been eliminated on consolidation. During the period under review, the Group recorded a turnover of approximately RMB1,574,862,000, up approximately 43.5% over 2002. The increase in the Group's turnover in 2003 was mainly attributable to the increase in the number of retail outlets, and the encouraging growth in comparable-store sales of approximately 16.8% for supermarkets and approximately 21.6% for convenience stores.

Turnover by store formats

(in RMB'000)

	Year ended 31st December, 2003		2002	
Supermarkets	1,144,416	72.7%	854,570	77.9%
Convenience stores	395,464	25.1%	242,956	22.1%
Hypermarkets	34,982	2.2%	—	—
Turnover	1,574,862	100%	1,097,526	100%

Supermarket operations have been the major revenue contributor to the Group. During the period under review and for the year ended 31st December, 2002, turnover attributable to supermarkets accounted for approximately 72.7% and 77.9% of the Group's total turnover respectively, while turnover attributable to convenience stores accounted for approximately 25.1% and 22.1% of the Group's total turnover respectively, which demonstrates a rising trend. Pursuant to the management agreement ("Management Agreement") dated 29th October, 2003 entered into between the Company, Beijing Wumart Hypermarket Commerce Company Limited ("Beijing Wumart Hypermarket") and Wumei Holdings, Inc. ("Wumei Holdings"), the Company supplied merchandise amounting to approximately RMB14.8 million to the Huixin hypermarket of Beijing Wumart Hypermarket during the period from November to December in 2003. Turnover attributable to hypermarkets only accounted for approximately 2.2% of the Group's total turnover, as operation of the Group's Miyun Gulou hypermarket only commenced business at the end of 2003.

During the period under review, the Group's turnover from supermarket and convenience store operation experienced substantial growth of approximately RMB289,846,000 and approximately RMB152,508,000 respectively over those of 2002. The increase in turnover was mainly attributable to the following factors:

(i) *Strategic expansion of the Group's business in Beijing*

The Group rapidly expands its number of retail outlets through self-establishment, collaboration with state-owned enterprises or other third parties and franchise arrangements. During the period under review, 1 hypermarket was opened, and the number of supermarkets increased from 18 as of 31st December 2002 to 23 as of 31st December, 2003, while the number of convenience stores increased from 58 to 281 in 2003. In addition, 1 hypermarket, 2 supermarkets and 30 convenience stores, were operated pursuant to the Management Agreement. The increase in the number of outlets drove up the transactions volume, thereby increasing the total turnover attributable to the Group's supermarket and convenience store operation.

(ii) *Committed to increasing the value as well as the volume of transactions, thereby boosting comparable-store sales*

The Group has always strived to improve the operational efficiency of its retail outlets. The comparable store sales of the Group's supermarket and convenience store operation increased by approximately 16.8% and approximately 21.6% respectively from 2002 to 2003. The increase was primarily attributable to the higher number of average daily transaction volume and the average transaction value, which was achieved through measures of stringent budget targets, effective marketing and promotional activities, timely adjustment of product strategies and product mix realignment. As compared to 2002, the average daily transaction volume increased by approximately 11.27%, and the average transaction value increased by approximately 2.48% respectively for supermarkets and the same increased by approximately 58.04% and 24.17% respectively for convenience stores.

Turnover by activities

(in RMB'000)

	Year ended 31st December,			
	2003		2002	
Sales of merchandise	**1,441,063**	**90.9%**	1,028,269	93.2%
Rental income from leasing of shop premises	**55,499**	**3.5%**	46,536	4.2%
Service income	**87,931**	**5.6%**	28,871	2.6%
	1,584,493	**100%**	1,103,676	100%
Business tax and other governmental charges	**(9,631)**		(6,150)	
Turnover	**1,574,862**		1,097,526	

Rental income was generated from leasing of shop premises to the Group's business partners, whereas service income was generated from fees for consignment sales arrangements offered to the Group's business partners, as well as promotional and other service fees charged to the Group's suppliers, such as festive promotion fees, printing fees for direct-mail marketing, store display fees and bargain sales items display fees.

Sales of merchandise accounted for the majority of the Group's total turnover in 2002 and 2003, representing approximately 93.2% and 90.9% respectively of total turnover (before business tax and other governmental charges). Merchandise sales will remain the Group's major revenue contributor in the foreseeable future. On the other hand, rental income and service income both demonstrated a rising trend over 2002. The increase in rental income was mainly attributable to an increase in rental space for new stores coupled with rental increments upon renewal. The growth in service income was mainly attributable to a higher rate of agreed service fee thanks to the Group's stronger bargaining power as a result of increased purchases from suppliers following the expansion of Retail Network during the period under review, resulting in substantial growth in service income in 2003 over that of 2002.

Cost of sales and gross profit margin

The Group's cost of sales for each of the two years ended 31st December, 2003, amounted to approximately RMB919,774,000 and RMB1,312,774,000 respectively, giving rise to a gross profit margin of approximately 16.2% and 16.6% respectively. The increase in gross profit margin was mainly attributable to the efforts made by the management to improve product mix at the Group's stores and the Group's increased bargaining power over its suppliers due to bulk purchases made by the centralised procurement division.

Operating costs and net profit

During the period under review, the Group's other operating income amounted to approximately RMB21,873,000, representing approximately 1.39% of the Group's total turnover, as compared to that of approximately 1.36% for 2002. Approximately RMB5,756,000 out of the sum represented government subsidies received in 2003.

During the period under review, the Group's administrative expenses amounted to approximately RMB64,184,000, representing approximately 4.1% of the Group's total turnover, as compared to that of approximately 4.6% for 2002. The administrative expenses mainly comprised personnel-related expenses, amounting to approximately RMB27,369,000, and rental expenses amounting to approximately RMB2,331,000.

During the period under review, the Group's selling and distribution costs amounted to approximately RMB117,801,000, accounting for approximately 7.5% of the Group's total turnover, as compared to approximately 9.4% for 2002. Selling and distribution costs included personnel-related expenses amounting to approximately RMB36,793,000 and rental expenses amounting to approximately RMB32,749,000.

Improvements in administrative expenses and selling and distribution costs over 2002 was mainly due to enhanced economies of scale as a result of the increase in the number of stores during the year.

During the period under review, the Group's finance costs amounted to approximately RMB1,384,000, as compared to approximately RMB3,256,000 for 2002. The decrease in finance costs was mainly a result of the Group's partial repayment of its bank loans.

During the period under review, the Group achieved net profit of approximately RMB71,596,000, an increase of approximately RMB44,160,000 or approximately 161% from approximately RMB27,436,000 in 2002. Net profit margin was approximately 4.55%, approximately 2.05% higher than that of approximately 2.50% in 2002. The growth in net profit and net profit margin was mainly attributable to: (i) ongoing enhancement of economies of scale resulting in the lowering of overall purchase costs; (ii) continuous growth in service income derived from various suppliers; and (iii) improvement in administrative expenses and selling and distribution costs as a percentage of the Group's total turnover over 2002.

Cash and foreign exchange risk

As of 31st December, 2003, the Group had bank balances amounting to approximately RMB571,559,000. There were no bank borrowings outstanding. All of the Group's operating income was denominated in RMB. Proceeds from the international offering in November 2003 ("International Offering"), which were received in Hong Kong Dollars, had been converted into RMB. As such, the Group did not encounter any significant difficulties arising from, and its operating cashflow or liquidity was not subject to, any exchange rate fluctuations. The Group does not have any significant foreign exchange risks.

Liquidity and financial resources

The Group mainly financed its capital requirement by cash income from operations. As of 31st December, 2003, the Group had non-current assets of approximately RMB172,742,000, which mainly comprised fixed assets and construction in progress of approximately RMB132,528,000 and interests in associated companies of approximately RMB39,321,000.

As of 31st December, 2003, the Group had net current assets of approximately RMB637,581,000. Current assets mainly comprised cash and bank balances of approximately RMB571,559,000, inventories of approximately RMB127,951,000, other receivables and prepayments of approximately RMB130,893,000, and amounts due from related companies of approximately RMB122,210,000. Current liabilities mainly comprised trade payables of approximately RMB258,984,000, other payables of approximately RMB67,294,000, and tax payable of approximately RMB9,411,000.

The Group's average account payable turnover was 48 days for the year ended 31st December, 2003, as compared with 59 days for 2002. Inventory turnover changed from 22 days to 23 days during the period under review.

As of 31st December, 2003, the Group had a sound financial position without any bank borrowings. The Group was in a net cash position with a gearing ratio (arrived at by dividing net debt by shareholders' equity) of zero.

BUSINESS REVIEW

Network expansion

The Group continued to pursue its regional expansion strategy by means of self establishment, collaboration arrangements with state-owned enterprises or other third party enterprises, franchise arrangements and management agreements, with a primary focus in Beijing, Tianjin and Hebei. The retail network of the Group and its associated company consisted of a total of 355 stores, either directly owned or operated and managed through franchise arrangements or the Management Agreement (collectively referred to as the "Retail Network"). These comprised 2 hypermarkets, 26 supermarkets, 319 convenience stores and 8 drug stores.

Stores directly owned or franchised by the Group and its associated company:

	As of 31st December, 2003	As of 31st December, 2002	Region
Hypermarkets	**1**	Nil	Beijing
Supermarkets *(Note 1)*	**24**	19	Beijing
Convenience Stores			
Direct ownership *(Note 2)*	**124**	66	Beijing
Franchise *(Note 3)*	**165**	Nil	Beijing
Drug stores	**8**	Nil	Beijing
Total	**322**	85	

Notes:

1. Comprised 23 self-owned stores and 1 store owned through an associated company as of 31st December, 2003.

2. Comprised 116 self-owned stores and 8 stores owned through an associated company as of 31st December, 2003.

3. Franchise stores refers to outlets operated by the Group through various franchise arrangements.

Stores operated and managed by the Group under the Management Agreement ("Managed Stores"):

	As of 31st December, 2003	As of 31st December, 2002	Region
Hypermarkets	1	Nil	Beijing
Supermarkets	2	Nil	Hebei
Convenience Stores	30	Nil	Beijing, Tianjin
Total	33	Nil	

Store operations

Supermarkets

Supermarket operation represents the Group's core business and the most developed mode of retail shop under the Group's operation, management and development. During the period under review, 25 supermarkets (including 2 Managed Stores) were owned and/or operated by the Group, contributing a total of approximately RMB1,144,416,000 or approximately 72.7% of the Group's total turnover. Total net saleable area increased from 37,793 sq.m. as at the end of 2002 to 47,373 sq.m. as at the end of 2003.

Convenience stores

The Group's convenience store operation expanded rapidly during the period under review with the number of outlets increasing from 58 to 311 (including 30 Managed Stores) after the addition of 58 directly-owned stores and 165 franchised stores. Total net saleable area of directly-owned stores increased from 12,224 sq.m. as at the end of 2002 to 18,957 sq.m. as at the end of 2003. During the period under review, convenience store operations contributed RMB395,464,000 or 25.1% of the Group's total turnover.

The Group opened the first convenience stores in Beijing subway stations offering instant food, merchandises and other handy services to the enormous passenger flow in a move to capitalise on the business opportunity presented by a daily average of 1.5 million passengers travelling on the Beijing subway. During the period under review, 21 Wumart convenience stores were opened within a network of 39 subway stations. The enormous passenger flow meant that brand name recognition for the Group was greatly enhanced.

Hypermarket

In December 2003, the Group's first hypermarket, Miyun Gulou hypermarket, was established at Gulou Street, Miyun County in Beijing with a saleable area of 8,769 square meters offering approximately 15,000 items of merchandises. On its first day of opening, the hypermarket recorded sales of approximately RMB1.5 million. Situated at the prime commercial district of Miyun County with enormous potential from the local business community, the opening of Miyun Gulou store is set to contribute to increased turnover as well an enlarged market share in Beijing's retail market for the Group.

Other operations — drug stores

During the period under review, (北京物美善和醫藥有限公司) Beijing Wumart Shanhe Medicine Company Limited ("Wumart Shanhe") was established as a joint venture between the Group and (北京醫藥善和藥品有限公司) Beijing Medicine Shanhe Medical Products Company Limited, in line with the Group's strategy of actively pursuing new business opportunity. During the period under review, a total of 8 stores, all of which were situated in Beijing, were operating under Wumart Shanhe, in which the Group held a 50% interest. By setting up chain drug stores, the Group aimed to introduce pharmacy services to its retail stores to offer more comprehensive merchandise and more convenient services to its customers.

Brand management

The Group places strong emphasis on brand management. Through (i) the establishment of model stores for various store formats; (ii) the improvement of service quality; and (iii) the continual launching of different marketing activities, the Wumart brand has gained wide recognition and the brand image has been enhanced.

Establishment of model stores. The Group established model stores for its supermarkets and convenience stores during the period under review. The image, operations, management and services were standardised and the successful experience of model stores were promoted in other outlets. The revamping campaign resulted not only in an enhanced image for the Group's outlets, but also in a significant increase in sales for individual stores.

The Group issued the Visual Identity Handbook and established the Application and Approval System (VI), on which the management of all outlets was to be based. To ensure due implementation, the Group conducted two brand image reviews during the period under review to ensure unity in brand image and operating standards.

Improvement in service quality. The Group constantly upgrades its customer service standards and provides quality assurance through its internal audit system. During the period under review, over 40 training programmes were offered at its Wumart Staff Development and Training School on topics such as service quality, service techniques and customer relationship, to upgrade the professional service skills of frontline employees and to build up an image of reliability and service quality for the Group. Improvement in service quality resulted in customer recognition of the quality of the Group's merchandise and services that contributed to enhanced customer loyalty.

To ensure the quality of the Group's products and services, store inspections are conducted on both regular and random bases. During the period under review, two comprehensive inspections were conducted for a thorough examination of store merchandises as well as operation and management. Meanwhile, weekly inspections were conducted to examine service quality. In addition, random inspections were conducted in the form of "mysterious customers". Remedial measures were taken in light of the audit results to ensure ongoing improvement of service quality.

The Group also added new services on a continual basis, offering value-added services such as power charging for mobile phones, food reheating and door-to-door deliveries, in order to enhance customer satisfaction with more variety in services. The Group's customer service hotline was established through the complaint centre hotline of Beijing Administrative of Industry and Commerce Bureau and dedicated staff was assigned to answer enquiries and provide instant solutions to customers' problems.

The Group was fully committed to the cause of fighting Severe Acute Respiratory Syndrome ("SARS") after the outbreak of the epidemic in Beijing in April 2003, while assuring sales were not affected. It collaborated with the municipal government to help stabilise prices by assuring sufficient supply of merchandise. The Group's outstanding performance during the SARS outbreak not only won it the trust of consumers, but also aroused government attention as Premier Wen Jiabao paid a visit to one of its stores in recognition of its contributions. Meanwhile, the Company was named a "Pioneer in the Nationwide Business Front for SARS Fighting". This series of news events revamped the Group's image and enhanced customer's awareness of and trust in the Wumart brand.

Launching of marketing activities. Various marketing activities and promotional events are launched with a view to boosting turnover by increasing the pedestrian flow and the transaction volume per customer. The Group rolled out a series of promotional activities during the period under review, offering major price discount campaigns during anniversary celebrations, major festivals and opening of new outlets, regular price discounts announced by post, privileges of membership cards, variety shows at outlet entrances, lucky draws, "Miss Fruit" pageant and quizzes, all aiming at attracting customers and boosting sales. Large-scale promotional activities were launched on the occasion of the Company's successful listing in Hong Kong and brand recognition for the Group was significantly enhanced as a result.

The Group also promoted its image by placing advertisements in relevant magazines, newspapers and television channels, organising seminars and publishing corporate news in the Wumart Magazine and on its corporate website.

Cost control management

Since its inception, the Group has adopted its "cost control management", by which operation at low costs has become possible by keeping down controllable expenses with stringent budget controls. In various training programmes offered at the Wumart Staff Development and Training School and various seminars, employees were educated on cost controls as such that all staff have a high cost consciousness. Cost leadership has become an integral part of the Group's corporate culture.

Meanwhile, specific expenditure budget are formulated and strict approval and authorisation procedures are followed. These warrant that expenses are within budget. Monthly meetings are convened to monitor budget implementation. Stringent cost controls resulted in the decrease of the Group's administrative expenses and selling & distribution costs by 2.48% as compared with 2002. The stringent cost control system represents an important measure of the Group to achieve low cost operations.

Human resources management

As at 31st December, 2003, the Group employed a total of 4,497 full-time staff.

It is the Group's strong belief that human resources offer assurance for the sustainable development and enhancement of core competitiveness of a company. The Group enhances its human resources by constantly improving policies relating to recruitment, training, performance appraisal and incentive schemes.

During the period under review, 70 different types of training programmes were held at its Wumart Staff Development and Training School aimed at continuous enhancement of the overall quality and occupational techniques of our staff. In particular, the Group organised the

"EMBA training programme of Wumart Group" in two sessions in association with the postgraduate school of the Chinese Academy of Sciences during the period under review, with enrollment of more than 100 management staff at intermediate or senior level. Such training is expected to further improve the overall management standards of the Group's management team at intermediate and senior levels.

The Group is constantly fine-tuning its performance appraisal system to conduct comprehensive assessment of employees in terms of operating results, management capabilities and performance. The system acts as an important benchmark in determining staff promotion and salary adjustment. An effective incentive system is also being put in place to attract talents and retain employees with outstanding performance. Through the ongoing improvement of its human resource policies, the Group has established a highly competitive workforce.

Strategy and prospects

Notwithstanding the sluggishness of the global economic recovery and the SARS outbreak in 2003, China's GDP was still growing at a rate of 9.1%. Meanwhile, total retail sales of consumer goods also grew by 9.1% and such high growth is expected to sustain.

While competition in the retail market has intensified since China's accession to the World Trade Organisation, the potential of the Beijing market is still largely untapped. There are over 200 foreign consulates or embassies in Beijing, while more than 300 of the Fortune 500 companies having established their presence in the city. Beijing is growing into one of the world's important economic and political centres. Its economic growth continues to outpace the nation as a whole, outperforming the national average in terms of per capita GDP and total retail sales of consumer goods. The 2008 Olympic Games in Beijing are generating enormous business opportunities and the potential of Beijing's retail market is enormous.

The Group will continue to pursue its strategy of regional development to accelerate its expansion in Beijing and its peripheral area to consolidate its position in the regional market before expanding into northern and eastern China to rally into a sizeable operation. Meanwhile, the Group will continue to strive for rapid, low cost expansion of its network through self-establishment, collaboration with state-owned enterprises and third parties franchise arrangements and management agreements.

Leveraging on its established management team comprising high-calibre and professional members, the Group will continue its efforts in brand name enhancement, product mix adjustment and merchandise promotion with a view to securing year-on-year growth for comparable-store sales. Stringent cost controls will also be continued to maximise profitability.

With the expansion of its retail network, the Group will be able to maximise returns for shareholders by extending its reach to more customers and providing them with quality merchandise and services that warrant value for money.

Future plans for material investments or capital assets and their expected sources of funding

Save as disclosed in the prospectus of the Company dated 11th November, 2003 (the "Prospectus"), the Company had no material acquisition or capital expenditure plan as of 31st December, 2003.

STORE NETWORK EXPANSION

	Implementation schedule for the period from 4th November, 2003 to 31st December, 2003 as set out in the Prospectus	Current progress
Hypermarkets	Open not less than 1 hypermarket in Beijing and surrounding areas	Opened a hypermarket in Miyun County, Beijing, with a saleable area of 8,769 square meters, offering over 15,000 types of merchandise.
Supermarkets	Open not less than 2 supermarkets in Beijing and surrounding areas	Opened Fa Huasi Store and Yu Fa Store in Beijing. Fa Huasi Store is located in Chongwen District with a saleable area of 1,690 square meters, offering over 7,000 items of merchandise. Yu Fa Store is located in Daxing District with a saleable area of 1,510 square meters, offering over 6,000 items of merchandise.
Convenience Stores	Open not less than 8 convenience stores in Beijing and surrounding areas	Opened 13 convenience stores in Beijing, of which 7 were located in subway stations.
	Open not less than 14 convenience stores in Beijing and surrounding areas under franchise arrangements	Opened 113 convenience stores in Beijing under franchise arrangements.

BRAND MANAGEMENT

	Implementation schedule set out in the Prospectus	Current progress
Enhancing the quality of customer services	Formulate and trial run the "Wumart Group Integrated Customer Services Campaign"	Enhanced procedures in handling customer complaints. The Group's customer service hotline was established through the complaint centre hotline of Beijing Administrative of Industry and Commence Bureau and dedicated staff was assigned to answer enquiries and provide instant solutions to customers' problems.
	Offer "Door-to-door" express delivery services for customers	Neighbourhood stores provided customers with telephone ordering services where merchandise were delivered to their doors according to their requirements free of charge.
Enhancing the quality of merchandise offered	Launch the sampling checks campaign on all categories of merchandise offered	The store quality control department enforced the ISO9000 procedures in accepting merchandise and the operation department and the customer service management head conducted specific random sampling checks on different types of merchandises in order to ensure product quality.
Introducing new "Wumart logo" branded merchandise	Introducing new "Wumart logo" branded merchandise	Introduced 13 items of "Wumart" branded merchandise, including value packs and fresh food. As at 31st December, 2003, the Group's self-developed "Wumart" branded merchandise amounted to 123.

OPERATING, INFORMATION AND LOGISTICS SYSTEMS ENHANCEMENT

	Implementation schedule set out in the Prospectus	Current progress
Supermarkets/ hypermarkets	Modify and increase operating facilities of certain supermarkets	Hypermarkets: Realigned overall layout of fresh food area by enlarging the area for fresh food merchandise, adding and replacing heat preservation, freezing and refrigerating equipment, as well as vegetable and fruit display facilities so as to enhance the competitiveness of fresh food business. Realigned general merchandise area by rationalising layout for more efficient and effective utilisation of area, and increasing display facilities of general merchandise for offering a more comprehensive range of general merchandise in the stores. Supermarkets: Standardised specifications and display formats of all point of purchase ("POP") hanging poles as well as patterns, display formats and contents of advertisement board displays of all store entrances so as to unify the image of the stores.
	Amend and formulate new operation standards for Wumart Group's supermarkets	Hypermarkets: Amended "Inventory Management Standards", "Merchandise Display Regulations", "Store Hygienic Standards" and "Staff Customer Service Regulations" and stores were managed according to new standards and regulations.

	Implementation schedule set out in the Prospectus	Current progress
		Supermarkets: Formulated "50 Operational Standards", including requirements in areas of merchandise quality, store hygiene and customer service by the Group's headquarters. Weekly inspections of all stores were conducted strictly according to such standards with all non-compliances being rectified timely, thus greatly enhanced operational standards of stores. Amended "Merchandise Display Standards" to standardise merchandise display format in all stores which not only enhanced the uniformity of Wumart stores, but also rationalised displays of merchandise by boosting sales as well as adding shopping conveniences for customers.
	Enhance automation of Wumart Group's financial reporting system	Introduced new software for financial management in December 2003. Compatibility solutions were formulated according to the financial procedures applicable to different store formats. System installation and testing were completed.
	Complete installation of the integrated "purchase-sell-inventory" system	Upgrade of the "purchase-sell-inventory" system of all stores and IT Department of the Group were completed prior to 31st December, 2003.
Convenience Stores	Develop "Standard Shop" concept to standardise shop layout and shop floor area	Standardization in terms of layout, floor area and store image was completed on all directly-owned stores according to the standard store model. Distribution, settlement and procurement of merchandises were also standardized.
	Complete installation of integrated computer system linking up headquarters and individual convenience store outlets	Installed point of sale ("POS") system in all directly owned conveniences stores, except Tongtang Wumart, by facilitating system links between individual stores and the IT Department of the Group.

STAFF TRAINING

Implementation schedule set out in the Prospectus	Current progress
Continue the first batch of Executive Master of Business Administration ("EMBA") training programme and commence the second batch of EMBA training programme	First batch of EMBA training continued to be in progress with 9 out of 17 subjects completed. Second batch of EMBA training commenced on 18th October, 2003 with 4 out of 17 subjects completed during the reporting period.
Offer additional professional training to store managers	Wumart Staff Development and Training School organized 2 training courses for store managers with over 50 members enrolled.
Offer training courses to the staff from new shop outlets	Wumart Staff Development and Training School offered 1 new recruit training course to about 70 staff from the new shop outlets.

During the period from 21st November, 2003 (date of listing of the Company's H Shares) to 31st December, 2003, the Company applied the proceeds for the purposes listed in the Prospectus, a comparison of which is set out as follows:

	Intended application from 21st November, 2003 (date of listing) to 31st December, 2003 HK$'000	**Actual application from 21st November, 2003 (date of listing) to 31st December, 2003** HK$'000	**Unutilised balance as at 31st December, 2003** HK$'000
Store network expansion			
Hypermarkets — open not less than 1 hypermarket in Beijing and surrounding areas	40,000	36,400	3,600
Supermarkets — open not less than 2 supermarkets in Beijing and surrounding areas	10,000	9,910	90
Convenience Stores — open not less than 8 convenience stores in Beijing and surrounding areas	4,800	3,890	910
	54,800	50,200	4,600
Brand management			
Enhancing quality of merchandise offered/introducing new "Wumart logo" branded merchandise	2,000	1,500	500
Operating, information and logistics systems enhancement			
Supermarkets/Hypermarkets	5,800	4,900	900
Convenience stores	2,400	2,200	200
	8,200	7,100	1,100
Staff training			
Continue first batch of EMBA training programme and commence second batch of EMBA training programme	200	200	—
Working capital	7,000	7,000	—
Total	72,200	66,000	6,200

During the period from 21st November, 2003 (date of listing of the Company's H Shares) to 31st December, 2003, proceeds actually applied by the Company were approximately HK$66,000,000, which were slightly less than the proposed applications of HK$72,200,000 for same period stated in the Prospectus as certain related expenses were met by current funds generated from the Company's operation.

The balance of the proceeds was placed with licensed banks in the PRC.

The remaining balance will be applied in the coming years in order to achieve the business objectives listed in the Prospectus.

DIRECTORS

Executive Directors

Dr. Zhang Wen-zhong (張文中博士), aged 41, is chairman and president of the Company and chairman of Wumei Holdings. Dr. Zhang received his doctoral degree in system science from Research Institute of System Engineering of the Chinese Academy of Sciences (中國科學院系統研究所). From 1992 to 1993, Dr. Zhang conducted post-doctorate research at Stanford University in the United States. From 1983 to 1985, Dr. Zhang worked as an official in Daqing Petroleum Administration. From 1988 to 1990, Dr. Zhang was the head of the Expert System Support Team of the Development Research Centre of the State Council. From 1994 to 2001, Dr. Zhang held positions as chairman of Wumei Holdings and chairman of Beijing CAST Technology Investment Company Limited ("CAST Technology Investment"). Since 1997, Dr. Zhang has also held positions in a number of non-governmental and governmental organisations. From 1997 to 2002, Dr. Zhang served as a general council member for the China Chain Store and Franchise Association. Since 1999, Dr. Zhang has been the vice president of Beijing Chain Store and Franchise Association and a member of the standing committee of the Shijingshan District Peoples' Congress. Since 2002, Dr. Zhang has served on a number of prominent organisations, including as a member of the Standing Committee of All-China Federation of Industry and Commerce, a member of the National Committee of Chinese People's Political Consultative Conference, the vice president of China Logistics and Procurement Federation, a member of the Standing Committee of China Chain Store and Franchise Association, a member of Beijing People's Congress and chairman of Wumei Holdings. Dr. Zhang has acted as chairman and president of the Company since November 2002. Dr. Zhang has received numerous awards and titles, including the seventh "Outstanding Achievements Award for Young Entrepreneur" of the United Nations (2000), the seventeenth "First Class Award for Business Management Modernization Achievements" of Beijing Municipality (2002), "Outstanding Achievements Award of Chinese Chain Store Business" of the Fourth China Chain Store and Franchise Business Meeting (2002), and the ninth "First Class Award for Business Management Modernization Achievements" of China (2002).

Dr. Wu Jian-zhong (吳堅忠博士), aged 46, is vice chairman and a vice president of Wumart Stores and chairman of Beijing Wangshang Shijie E-business Company Limited ("Wangshang Shijie E-business"). Dr. Wu has earned his doctorate at the Institute of Automation of the Chinese Academy of Sciences (中國科學院自動化研究所). Before joining Wumei Holdings and the Company, Dr. Wu worked as a teacher at Fuzhou University (福州大學) in the PRC from 1982 to 1984. From 1984 to 1989, Dr. Wu was a doctoral candidate at the Institute of Automation of the Chinese Academy of Sciences. From 1989 to 1993, Dr. Wu worked as an associate researcher at the Institute of Automation of the Chinese Academy of Sciences. From 1993 to 1994, Dr. Wu conducted his post-doctorate research at the University of Michigan in the United States. From 1994 to 2000, Dr. Wu held the positions as an executive director of Beijing CAST Economic Research Centre and the vice president of Wumei Holdings. In 2000, Dr. Wu was president of Wumei Holdings, and stayed in this position until 2002. Dr. Wu was appointed as one of the Directors, upon the formation of the Company in August, 2000, and was appointed as vice chairman of the Company in November 2002. Since July 2003, Dr. Wu has served as a vice president of the Company.

Dr. Meng Jin-xian (蒙進暹博士), aged 47, is an executive Director and a vice president of the Company. Dr. Meng earned his doctorate at the University of Science & Technology, Beijing (北京科技大學). Before joining Wumei Holdings and the Company, Dr. Meng worked as a technician in the Ministry of Mining, Shuicheng, Guizhou Province from 1982 to 1984. From

1987 to 1991, Dr. Meng served as a supervisor and a teacher at the Computer Centre of Hebei Coal Engineering Institute (河北煤炭建築工程學院計算中心). From 1994 to 1999, Dr. Meng was an associate professor at Beihang University (北京航空航天大學). From 1994 to 1997, Dr. Meng served as a manager of Enterprise Development Co. Ltd. of Beijing International Business Federation Co. (北京國際商聯企業發展有限公司). Dr. Meng joined Wumei Holdings in 1997, and served as a vice president until 2000, where he was mainly responsible for business development and operations. Since 9th August, 2000, Dr. Meng has served as a vice president of the Company and he was appointed as chief operating officer of the Company in February 2001. He is mainly responsible for operational management and for procurement and logistics management. Since November 2002, Dr. Meng has also held the positions of director and a vice president of the Company.

Non-Executive Director

Mr. Wang Jian-ping (王堅平先生), aged 40, is a non-executive Director of the Company and an executive director of Wumei Holdings. Mr. Wang received his master's degree in law from China University of Political Science and Law (中國政法大學) and worked as a legal consultant for the Economic and Trade Department of Capital Iron & Steel Mechanic and Electronic Corporation (首鋼機電總公司) from 1988 to 1991. From 1991 to 1994, Mr. Wang served as a teacher in the Politics & Law Department of Capital Normal University (首都師範大學). From 1994 to 1997, Mr. Wang was the assistant to the president of CAST Technology Investment. From August 2000 to May 2002, Mr. Wang served as a vice president of the Company. Mr. Wang was elected as a non-executive director of the Company in November 2002.

Independent non-executive Directors

Mr. Han Ying (韓英先生), aged 68, is an independent non-executive Director. Mr. Han holds a bachelor's degree from the Beijing Institute of Mines (北京礦業院). From 1961 to 1969, Mr. Han worked as the vice-chancellor and chief engineer of Shanxi Datong Bureau of Mining (山西大同礦務局). From 1969 to 1978, Mr. Han served as the deputy governor of the Shanxi Province of the PRC. From 1978 to 1983, Mr. Han served as the general secretary of the Central Committee of the Youth's League of the Communist Party of China (中國共產主義青年團中央委員會). From 1983 to 1991, Mr. Han was the vice managing director of Northeast and Inner Mongolia Coal Industry United Corporation (東北內蒙古煤炭工業聯合公司). From 1991 to 1995, Mr. Han served as the executive vice-minister of the Ministry of Coal Mining of the PRC (中國煤炭工業部) and as the vice general manager in the China Tongpei Coal Mine Headquarter Company (中國統配煤礦總公司). From 1996 to 2000, Mr. Han was vice chairman and vice general manager of Shenhua Group Company (神華集團公司). In addition to Mr. Han's extensive business experience in the PRC, he has also been appointed to a number of prominent organisations, including as a member of the 5th Standing Committee of the Chinese People's Political Consultative Conference (全國第五屆政協常委), a member of the 8th and 9th Chinese People's Political Consultative Conference (全國第八屆、九屆政協委員) and a representative of the 10th, 11th and 12th Conference of the Communist Party of China (中國共產黨十大、十一大、十二大代表). Mr. Han was appointed as an independent non-executive Director by the Company in July 2003.

Dr. Robert E. Larson, aged 64, a U.S. citizen, is an independent non-executive Director. Dr. Larson graduated from Stanford University, with a doctoral degree in electrical engineering. From 1956 to 1960, Dr. Larson worked as an engineer in International Business Machines Corporation. From 1960 to 1964, Dr. Larson served as a technical consultant to Hughes Aircraft Company. From 1964 to 1968, Dr. Larson served as a senior research engineer at SRI International. From 1968 to 1983, Dr. Larson co-founded Systems Control Incorporated and held positions as technical director, vice president and president during this period. From 1973 to 1991, Dr. Larson was also a professor of the Faculty of Engineering and Economic Systems of Stanford University. Dr. Larson has conducted computer science research for over 40 years. From 1956 to the present, Dr. Larson has been a member of the Institute of Electrical and Electronic Engineers and he held the position of president of the Institute in 1982. From 1977 to the present, Dr. Larson has also served on the American Automatic Control Council and was president of the Council from 1986 to 1987. Before joining Wumart Group, Dr. Larson co-founded the Woodside Fund, a high-technology venture capital fund formed in the United States, where he was a general partner and a managing director. Dr. Larson joined the Company as an independent non-executive Director in July 2003.

SUPERVISORS

Supervisor nominated by shareholders or employees

Mr. Wang Jin-yue (王勁躍先生), aged 45, is a Supervisor of the Company. Mr. Wang graduated from the Night Division, Beijing University of Technology (北京工業大學夜大學), majoring in foreign trade and economy. From 1981 to 1991, Mr. Wang worked in the Beijing Friendship Business Group (北京友誼商業集團) and held various positions as an assistant in the department of merchandises, clerk of the human resources officer, and the vice supervisor of the management office. From 1993 to 1994, Mr. Wang served as an administrative assistant at Beijing Xinrong Group Hi-tech Electronics Company Limited (北京新榮(集團)高科技電子有限公司). From 1994 to 2000, Mr. Wang served as an assistant general manager of the human resources and administration department of Wumei Holdings. From 2000 to 2002, Mr. Wang served as an assistant manager of the human resources and administration department of the Company. In November 2002, Mr. Wang was appointed as a Supervisor.

Members of the independent Supervisors

Mr. Fan Kui-jie (范奎杰先生), aged 40, is the chairman of the independent Supervisors of the Company. Mr. Fan received his master's degree in engineering from the Business Management School of Xian Jiaotong University (西安交通大學). Before joining Wumart Group, Mr. Fan held management roles in Yanzhou Mineral Business Group (袞州礦業集團) from 1982 to 1988, and from 1991 to 1999. Since 1999, Mr. Fan has served as a chief supervisor of China International Futures Brokerage (中國國際期貨經紀公司). In November 2002, Mr. Fan joined the Company as an independent Supervisor.

Ms. Xu Ning-chun (許寧春女士), aged 40, is an independent Supervisor. Ms. Xu holds a bachelor's degree in economics from the College of Commerce, Beijing (北京商學院) and is a registered accountant and a registered assets valuer in the PRC. From 1986 to 1988, Ms. Xu was an accountant in the finance department of the New Construction Materials Housing Company of the State Construction Materials Bureau (國家建材局新型建築材料房屋公司). From 1988 to 1990, Ms. Xu served as the chief accountant at Zhungyuen Car Rental Company (中苑出租汽車公司). From 1990 to 1993, Ms. Xu served as accounts supervisor at Zhungyuen Hotel Company Limited (中苑賓館有限公司). In 1993, Ms. Xu served as the finance manager at Beijing Jinrui Group Company (北京金瑞集團). From 1993 to 1994, Ms. Xu worked as a account manager in Cast Technology Real Estate Group. From 1995 to 1997, Ms. Xu was a project supervisor at New Generation Assets Valuation Company (新生代資評估事務所). Since 1998, Ms. Xu has served as the general manager and the chairman of the board of Beijing Dingge Capital Assessment Company Limited (北京鼎革資產評估有限責任公司). Ms. Xu was appointed an independent Supervisor in July 2003.

SENIOR MANAGEMENT

Mr. Mak Tak Cheong, Edmund (麥德昌先生), aged 39, is the Company's chief financial officer and one of the joint company secretaries of the Company. He is also a qualified accountant. Mr. Mak has been serving on the board of GEM-listed Lai Fai International Holdings Limited as an independent non-executive director and audit committee chairman since February 2003. Before joining Wumart Group, Mr. Mak held a senior position as a finance consultant to Linklaters, served as the financial controller of Chinadotcom Corporation, a company whose securities are quoted on NASDAQ, and served as the financial controller and the company secretary of Hongkong.com Corporation, a GEM listed company. Mr. Mak holds a Bachelor of Computer Science degree and a Bachelor of Commerce degree from University of Windsor. Mr. Mak is a Certified Public Accountant and a member of the Illinois Certified Public Accountants Society, a member of the American Institute of Certified Public Accountants and an associate member of the Hong Kong Society of Accountants. Mr. Mak was appointed by the Company as the chief financial officer and one of the joint company secretaries of the Company in April 2003.

Ms. Li Dong-nu (李冬女女士), aged 50, is the general manager of the supermarket department of the Company. Ms. Li received a diploma from the Graduate School of Chinese Academy of Social Sciences (中國社科院研究生院). From 1970 to 1977, Ms. Li worked as a saleswoman at Beijing Beitaipingzhuang Ancillary Food Market (北京北太平莊副食商場). From 1977 to 1988, Ms. Li worked as a clerk in the business department of Haidian District Ancillary Food Company (北京海澱區副食品公司). From 1988 to 1993, Ms. Li worked as the general manager and the secretary of the Communist Party branch at Beijing Wudaokou Ancillary Food Market (北京五道口副食商場). From 1993 to 1995, Ms. Li worked as the general manager and the secretary of the Communist Party Branch at the Xueyuanlu Ancillary Food Branch of Beijing Wudaokou Ancillary Food Market (北京五道口副食商場學院路副食分公司(連鎖試點)). From 1995 to 1997, Ms. Li worked as the standing vice general manager and the general manager of Beijing Chaoshifa Chain Company (北京超市發連鎖經營公司). From 1997 to 1998, Ms. Li worked as the vice general manager of Beijing Chaoshifa Commerce and Trade Group (北京超市發商貿集團). In 1998, Ms. Li served as the general manager of the commodity department of Wumei Holdings. From 1999 to 2001, Ms. Li was the executive general manager of Beijing Wumart Tianxiang Convenience Stores Company Limited ("Wumart Tianxiang") and Wumart Bolante Convenience Stores Company Limited ("Wumart Bolante"). From 2001 to 2002, Ms. Li worked as the general manager of the procurement division of the Company and a vice president of the Company. Since November 2002, Ms. Li has served as the general manager of the supermarket department of the Company.

Ms. Jin Xiaoqin (金曉琴女士), aged 46, is the general manager of the convenience stores department of the Company. Ms. Jin graduated from Da County College of Agriculture (達縣農學學院). From 1996 to 1998, she worked as the executive general manager of Wumei Holdings. From 1998 to 1999, she worked as the general manager of the operations department of Wumei Holdings. From 1999 to 2001, she worked as the general manager of Xiaoqin Consultancy Company (曉琴顧問公司). From 2001 to November 2002, Ms. Jin served as the executive general manager of Beijing Wumart Convenience Stores Company Limited, Wumart Tianxiang, Wumart Bolante, and Beijing Wumart Pujinda Convenience Stores Company Limited. Since November 2002, Ms. Jin has served as the general manager of Beijing Tongtang Wumart Convenience Stores Company Limited and the convenience supermarket department of the Company. Ms. Jin is the wife of Dr. Meng Jin-xian (蒙進暹博士).

Ms. Zhang Feng-ru (張鳳茹女士), aged 55, is the general manager of the human resources and administration department of the Company. Ms. Zhang graduated from Beijing Administration for Industry and Commerce Employee University (北京市工商局職工大學), majoring in enterprise management (企業管理). Before joining the Wumart Group, Ms. Zhang worked as a business cadre at Jiulongshan branch of Beijing Chaoyang District Ancillary Food General Company (北京市朝陽區食品總公司九龍山基層店) from 1972 to 1978. From 1978 to 1984, Ms. Zhang worked in the labor department, general office and marketing department of Beijing Chaoyang District Ancillary Food General Company. From 1984 to 1987, Ms. Zhang studied in the Enterprise Management Department of the Beijing Administration for Industry and Commerce Employee University. From 1987 to 1994, Ms. Zhang was a supervisor in the management office of Beijing Chaoyang District Ancillary Food General Company. From 1994 to 1999, Ms. Zhang was the manager of the supermarket department of the aforesaid company. From 1999 to 2000, Ms. Zhang was the general manager of the human resources department of Wumei Holdings. Since August 2000, Ms. Zhang has acted as the general manager of the human resources and administration department of the Company.

Mr. Xu Shao-chuan (許少川先生), aged 32, is the general manager of the finance department of the Company. Mr. Xu received his bachelor's degree, majoring in statistics, from Shenyang Finance & Economy College (瀋陽財經學院). Before joining the Company, Mr. Xu worked as a cashier at Industrial Products Import & Export Company of Liaoning Province (遼寧省工業品進出口公司) from 1994 to 1995. From 1995 to 1999, Mr. Xu worked as a financial manager of Shenyang North American Products Commerce Co. Ltd. (瀋陽北美物產貿易有限公司). From 1999 to 2000, Mr. Xu was a manager and the vice general manager of the finance department of Wumei Holdings. Since August 2000, Mr. Xu has acted as the general manager of the finance department of the Company.

Mr. Guo Tu-wei (郭涂偉先生), aged 36, is the general manager of the information department of the Company. Mr. Guo received his bachelor's degree, majoring in economics, from Nanjing Foodstuff Economy College (南京糧食經濟學院). Before joining Wumart Group, Mr. Guo worked as an accountant at Beijing Changping Feedstuff Factory (北京昌平養殖飼料廠) from 1992 to 1993. From 1994 to 1995, Mr. Guo worked as an accountant at Beijing New Coast Advertising Company (北京新海岸廣告公司). From 1996 to 2000, Mr. Guo worked as an accountant, vice manager, manager and assistant financial controller in the finance department of Wumei Holdings. Since August 2000, Mr. Guo has acted as the general manager of the information department of the Company.

Ms. Xie Dong (謝東女士), aged 35, is the secretary to the Board, one of the joint company secretaries and an authorised representative of the Company. Ms. Xie graduated from the Capital University of Economics and Trade (首都經貿大學) with a bachelor's degree in law in 1991. Before joining Wumei Holdings in 1999, Ms. Xie worked as a public servant at the State Audit Administration (國家審計署) during 1991 to 1996, and worked as a legal assistant at Beijing Guozheng Law Office (北京國政律師事務所) from 1996 to 1998. From December 1999 to November 2002, Ms. Xie worked as the secretary to the chairman and legal counsel of Wumei Holdings. Since November 2002, Ms. Xie has worked as the secretary to the Board and legal counsel of the Company.

The Board is pleased to present the work report of the Group for the year ended 31st December, 2003 to the shareholders.

With a view to "developing China's own retail industry and improving the public's living quality", the Company adheres to its regional development strategies by focusing its development of retail chain stores primarily in the regions of Beijing, Tianjin and Hebei. The Company is currently engaged in the activities of the operation and management of hypermarkets, supermarkets and convenience stores.

PRINCIPAL ACTIVITIES

The principal activity of the Group is in retail chain stores with three prevailing formats, namely hypermarkets, supermarkets and convenience stores. Principal activities of the Company's subsidiaries are set out in note 14 to the financial statements.

Operating income of the Group by store format:

	2003	2002
	RMB'000	RMB'000
Supermarkets	**1,144,416**	854,570
Convenience stores	**395,464**	242,956
Hypermarkets	**34,982**	—
Other income	**21,873**	14,895

The results and financial information of the Group for the period under review, prepared in accordance with generally accepted accounting principles in Hong Kong, are set out in the financial statements.

MAJOR SUPPLIERS

During the period under review, purchases from the five largest suppliers of the Group accounted for less than 30% of the total purchases of the Group.

	2003	2002
	RMB'000	RMB'000
The largest supplier	**58,545**	43,934
The five largest suppliers	**191,959**	115,588

During the period under review, sales to the five largest customers of the Group in aggregate accounted for less than 30% of the consolidated turnover of the Group.

During the period under review, no Directors or their associates who, to the knowledge of the Directors, owned more than 5% of the issued share capital of the Company had any beneficial interests in any of the five largest suppliers of the Group.

SHARE CAPITAL

Name of shareholder	Nature of shares	Number of shares (shares)	As a percentage of total share capital (%)
Wumei Holdings, Inc.	Domestic Shares	124,483,232	46.73
Beijing Hekang Youlian Technology Company Limited ("Hekang Youlian")	Domestic Shares	6,245,575	2.34
Beijing Junhe Investment Company Limited ("Junhe Investment")	Domestic Shares	5,817,307	2.18
Beijing Wangshang Shijie E-business Company Limited	Domestic Shares	40,114,436	15.06
Beijing Shuangchen Express Company Limited	Domestic Shares	1,784,450	0.67
The public	H Shares	87,952,000	33.02
Total share capital		266,397,000	100.00

Details of the movement in the Company's share capital during the period are set out in note 24 to the financial statements.

RESERVES

Movements in reserves of the Group and the Company for the period under review are set out in note 25 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately RMB1,641,000 in aggregate, comprising the donation of materials used in the fight against SARS to front-line medical professionals of the Beijing health system and the health bureaux in ten districts and counties of Beijing Municipality.

FIXED ASSETS

Details of movements in fixed assets of the Group are set out in note 13 to the financial statements.

DISTRIBUTABLE RESERVES

According to the Company Law of the People's Republic of China, the distributable reserves of the Company as at 31st December, 2003 were approximately RMB59,485,000 (2002: approximately RMB3,918,000).

DIVIDEND

The Directors resolved that no dividend will be paid in respect of the annual profit for the year ended 31st December, 2003.

PRE-EMPTIVE RIGHTS

There were no provisions for pre-emptive rights under the Articles of Association of the Company and the PRC laws and regulations requiring the Company to offer new shares to existing shareholders on a pro-rata basis.

SUBSIDIARIES

Details of the Group's subsidiaries during the period under review are set out in note 14 to the financial statements.

PLEDGE OF THE GROUP'S ASSETS

During the period under review, the Group did not pledge any assets.

EXCHANGE RATE RISK

The majority of the income and expenses of the Group are denominated in RMB. During the reporting period, the Group did not encounter any significant difficulties caused by fluctuations in exchange rates and neither its working capital nor liquidity was affected as a result.

CONTINGENT LIABILITIES

The Group did not have any material contingent liability as of 31st December, 2003.

DIRECTORS AND SUPERVISORS

Details of the Directors and Supervisors of the Company during the period under review are set out under "Directors, Supervisors and Senior Management Profile" on pages 23 to 27 of this annual report.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors and Supervisors has entered into a service contract with the Company for a term of three years.

Save as disclosed above, none of the Directors or the Supervisors had entered into service contracts with the Group which were not terminable by the Group within one year without compensation (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save as the service contracts mentioned above and those set out in note 31 to the financial statements, the Directors and Supervisors did not have contracts of significance in relation to the Group's business to which the Company, its holding companies or its subsidiaries was a party and in which a Director or Supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' , SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December, 2003, the interests or short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules were as follows:

Long positions

Director's name	Corporate interests	Total	Approximate percentage of total issued domestic share capital interest (%)
Dr. Zhang Wen-zhong (張文中博士) (note 1)	124,483,232 Domestic Shares	124,483,232 Domestic Shares	69.76
Dr. Zhang Wen-zhong (張文中博士) (note 2)	6,245,575 Domestic Shares	6,245,575 Domestic Shares	3.50
Dr. Wu Jian-zhong (吳堅忠博士) (note 3)	124,483,232 Domestic Shares	124,483,232 Domestic Shares	69.76
Dr. Wu Jian-zhong (吳堅忠博士) (note 4)	6,245,575 Domestic Shares	6,245,575 Domestic Shares	3.50
Dr. Wu Jian-zhong (吳堅忠博士) (note 5)	40,114,436 Domestic Shares	40,114,436 Domestic Shares	22.48
Dr. Meng Jin-xian (蒙進暹博士) (note 6)	5,817,307 Domestic Shares	5,817,307 Domestic Shares	3.26
Dr. Meng Jin-xian (蒙進暹博士) (note 6)	6,245,575 Domestic Shares	6,245,575 Domestic Shares	3.50
Mr. Wang Jian-ping (王堅平先生) (note 7)	124,483,232 Domestic Shares	124,483,232 Domestic Shares	69.76
Mr. Wang Jian-ping (王堅平先生) (note 8)	6,245,575 Domestic Shares	6,245,575 Domestic Shares	3.50
Mr. Wang Jian-ping (王堅平先生) (note 8)	5,817,307 Domestic Shares	5,817,307 Domestic Shares	3.26

Notes:

1. The 124,483,232 Domestic Shares are held by Wumei Holdings, one of the promoters of the Company, which is directly and indirectly owned by CAST Technology Investment as to 70% and as to 7.22% of its share capital respectively. CAST Technology Investment is directly and indirectly owned by Beijing Zhongsheng Huate Technology Company Limited ("Zhongsheng Huate") and Beijing Jingxi Guigu Technology Company Limited ("Jingxi Guigu") as to 20% and as to 80% of its share capital respectively. Dr. Zhang Wen-zhong holds 60% and 85% of the share capital of Zhongsheng Huate and Jinxi Guigu respectively.

2. The 6,245,575 Domestic Shares are held by Hekang Youlian, one of the promoters of the Company, which is directly owned by CAST Technology Investment as to 50% of its share capital. For details of Dr. Zhang Wen-zhong's interest in CAST Technology Investment, please refer to note 1 above.

3. Dr. Wu Jian-zhong holds 25% of the share capital of Zhongsheng Huate, which has an indirect interest in the 124,483,232 Domestic Shares directly held by Wumei Holdings. For details, please refer to note 1 above.

4. Dr. Wu Jian-zhong holds 25% of the share capital of Zhongsheng Huate, which has an indirect interest in the 6,245,575 Domestic Shares directly held by Hekang Youlian. For details, please refer to note 2 above.

5. Dr. Wu Jian-zhong holds 70% of the share capital of Wangshang Shijie E-business, one of the promoters of the Company, which has a direct interest in the 40,114,436 Domestic Shares of the Company.

6. Dr. Meng Jin-xian holds 40% of the share capital of Junhe Investment, one of the promoters of the Company, which has a direct interest in the 5,817,307 Domestic Shares of the Company. Junhe Investment also holds 50% of the share capital of Hekang Youlian, which has a direct interest in the 6,245,575 Domestic Shares of the Company.

7. Mr. Wang Jian-ping holds 5% of the share capital of Jingxi Guigu, which has an indirect interest in the 124,483,232 Domestic Shares directly held by Wumei Holdings. For details, please refer to note 1 above.

8. Mr. Wang Jian-ping holds 30% of the share capital of Junhe Investment, one of the promoters of the Company, which has a direct interest in the 5,817,307 Domestic Shares of the Company. Junhe Investment also holds 50% of the share capital of Hekang Youlian, which has a direct interest in the 6,245,575 Domestic Shares of the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 31st December, 2003, none of the Directors, Supervisors, chief executive of the Company or their respective associates had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules.

During the year ended 31st December, 2003, none of the Company, any of its subsidiaries, holding companies or fellow subsidiaries was a party to any arrangement which enables the Directors or Supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to the Directors, as at 31st December, 2003, persons who have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at any shareholders' general meeting of any member of the Group were as follows:

Long positions

Name	Type of interest	Number of Domestic Shares held	Approximate percentage of total issued domestic share capital interest (%)
Jingxi Guigu (Note 1)	Corporate	124,483,232	69.76
CAST Technology Investment (Note 1)	Corporate	124,483,232	69.76
Wumei Holdings (Note 1)	Corporate	124,483,232	69.76
Wangshang Shijie E-business (Note 2)	Corporate	40,114,436	24.48

Name	Type of interest	Number of H Shares held	Approximate percentage of total issued H share capital interest (%)
J.P. Morgan Chase & Co.	Corporate	15,946,000	18.13
Invesco Asia Limited in its capacity as manager/adviser of various accounts	Corporate	8,630,000	9.81
International Finance Corporation	Corporate	8,000,000	9.10
GLG Partners Limited	Corporate	5,794,000	6.59

Notes:

(1) CAST Technology Investment is owned as to 80% by Jingxi Guigu, and therefore Jingxi Guigu is entitled to control the exercise of one-third or more of the voting power at general meetings of CAST Technology Investment. Wumei Holdings is owned as to 70% by CAST Technology Investment, and therefore CAST Technology Investment is entitled to control the exercise of one-third or more of the voting power at general meetings of Wumei Holdings.

(2) Wangshang Shijie E-business, one of the promoters of the Company, holds 40,114,436 Domestic Shares.

Save as disclosed above, to the best knowledge of the Directors, as at 31st December, 2003, there was no person, other than the Directors, Supervisors and chief executive of the Company whose interests are set out in the paragraph "Directors', Supervisors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had an interest or short position in the shares, underlying shares and debentures of the Company as recorded in the register to be kept pursuant to section 336 of the SFO.

AUDIT COMMITTEE

Pursuant to a resolution passed by the Board in October 2003, the Company established an audit committee in full compliance with the Code of Best Practice set out in Appendix 14 of the GEM Listing Rules. The primary functions of the audit committee are to review the financial reporting process of the Company. The audit committee of the Company comprises two independent non-executive Directors, namely Mr. Han Ying and Dr. Robert E. Larson, with Mr. Han Ying as the chairman of the audit committee. In its first meeting held on 21st February, 2004, the audit committee of the Company, together with the senior management of the Company reviewed the accounting principles and methods adopted by the Group and discussed, inter alia, matters relating to internal controls and financial reporting, including a review of the financial statements of the Company which were prepared in accordance with the accounting principles generally accepted in Hong Kong.

SPONSOR'S INTERESTS

The Company was informed by Cazenove Asia Limited that, except for an employee who was interested in 1,000 H Shares, neither Cazenove Asia Limited nor any of its respective directors or employees or associates (as stated in Note 3 of Rule 6.35 of the GEM Listing Rules) had any interests in the share capital of the Company as at 31st December, 2003.

Pursuant to the Sponsor Agreement entered into between the Company and Cazenove Asia Limited dated 10th November, 2003, Cazenove Asia Limited has been appointed as the Sponsor of the Company for the remaining period for the year ended 31st December, 2003 and for the two years from 1st January, 2004. The Company shall pay to Cazenove Asia Limited an agreed amount of fees for the services to be rendered.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

BOARD PRACTICES AND PROCEDURES

The Company had complied with the board practices and procedures set out in GEM Listing Rules 5.28 to 5.39 during the period from the listing of its H Shares on GEM of the Stock Exchange on 21st November, 2003 to 31st December 2003.

CONNECTED TRANSACTIONS

Connected transactions entered into by the Group during 2003 are set out in note 31 to the financial statements.

In respect of the connected transactions of the Group, the Company has applied to the Stock Exchange for and been granted a waiver from strict compliance with provisions of the GEM Listing Rules relating to connected transactions.

The independent non-executive Directors consider that the transactions carried out by the Group were:

(I) entered into during the ordinary and usual course of business of the Group;

(II) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriates) independent third parties;

(III) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole; and

(IV) within the relevant monetary caps as agreed with the Stock Exchange or approved by the shareholders of the Company.

Save as disclosed in the financial report, there are no other transactions required to be disclosed as connected transactions under the GEM Listing Rules.

COMPETING INTERESTS

Wumei Holdings is the controlling shareholder and one of the management shareholders of the Group.

In line with its business objectives, the Group will implement its expansion plan first in Beijing and peripheral areas, then the northern region and followed by the eastern region of the PRC and ultimately across the other regions of the PRC. On 29th October, 2003, the Group entered into the Non-competition Agreement, the Management Agreement, the Trademark Licensing Agreement and the Letter of Undertaking (please see the Prospectus for details) with Wumei Holdings with a view to avoiding business competition with Wumei Holdings. Since then, Wumei Holdings has operated in strict compliance with the agreements in order to avoid business competition with the Company to the fullest extent. Save and except for the competing businesses disclosed in the Prospectus, Wumei Holdings did not engage in any direct or indirect competition against the Company, nor did it have any interests in any of such businesses during the reporting period.

The Directors confirm that Wumei Holdings has been actively taking steps in rectifying the legal title defects relating to Beijing Wumart Pujinda Convenience Stores Company Limited, Hebei Wumart Commerce Company Limited and Beijing Wumart Hypermarket Commerce Company Limited. During the period under review, the Group did not exercise any of its right to purchase the retail businesses under Wumei Holdings.

AUDITORS

The accompanying financial statements were audited by Deloitte Touche Tohmatsu. A resolution relating to the re-appointment of Deloitte Touche Tohmatsu as the auditors of the Company will be proposed by the Company at the forthcoming annual general meeting of the Company.

By order of the Board
Dr. Zhang Wen-Zhong
Chairman

To shareholders of Wumart Stores, Inc.:

The supervisory committee ("the Supervisory Committee") of Wumart Stores, Inc. (the "Company") has performed its duties conscientiously in compliance with the Company Law of the People's Republic of China, relevant laws and regulations of Hong Kong and the articles of association of the Company. By adhering to the principle of good faith, it has discharged its duties diligently and carried out its work in an honest, reasonable, prudent and proactive manner to safeguard the interests of the Company and the shareholders.

During the year under review, the Supervisory Committee has carefully reviewed the use of proceeds from the share offering in accordance with the plan disclosed in the Prospectus of the Company and put forward reasonable recommendations and opinions to the Board in respect of the operation and development plans of the Company. It has monitored strictly and effectively various important decisions made by the Board of directors to ensure that such decisions are in compliance with the laws and regulations of the State and the articles of association of the company, and in the best interest of the shareholders.

The Supervisory Committee has reviewed diligently and was satisfied with the report of the Directors, the audited financial statements to be tabled at the forthcoming Annual General Meeting of the Company. In the opinion of the Supervisory Committee, the members of the Board, the Chairman and other senior management of the Company have strictly followed the principle of good faith, discharged their duties diligently, honestly worked for the best interests of the Company, performed their duties in accordance with the Articles of Association, standardised the operation and enhanced the internal control system. The transactions between the Company and related companies were strictly executed under terms conformed to the interests of the shareholders of the Company as a whole, and the considerations of which were fair and reasonable. No abuse of rights, acts detrimental to the interests of the Company, shareholders and staff, infringement of laws, regulations or the Articles of Association of the Company by the directors, president and senior management was found.

The Supervisory Committee considered that the performance and economic results of the Company for 2003 were satisfactory and was confident of the development prospect of the Company.

By order of the Supervisory Committee
Fan Kui Jie
Chairman of the Supervisory Committee

Beijing, PRC, 23rd February, 2004

TO THE SHAREHOLDERS OF WUMART STORES, INC.
(a joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 38 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 23rd February, 2004

Consolidated Income Statement

	NOTES	2003 RMB'000	2002 RMB'000
Turnover	3	1,574,862	1,097,526
Cost of sales		(1,312,774)	(919,774)
Gross profit		262,088	177,752
Other operating income	5	21,873	14,895
Administrative expenses		(64,184)	(50,531)
Selling and distribution costs		(117,801)	(103,537)
Profit from operations	6	101,976	38,579
Finance costs	7	(1,384)	(3,256)
Loss on disposal of subsidiaries		(74)	—
Share of results of associates		7,931	6,963
Profit before taxation		108,449	42,286
Taxation	10	(35,097)	(14,438)
Profit before minority interests		73,352	27,848
Minority interests		(1,756)	(412)
Net profit for the year		71,596	27,436
Dividend	11	—	3
Earnings per share	12	RMB0.381	RMB0.154

	NOTES	2003 RMB'000	2002 RMB'000
Non-current assets			
Property, plant and equipment	13	**132,528**	108,534
Interests in associates	15	**39,321**	33,259
Goodwill	16	**1,004**	932
Negative goodwill	17	**(111)**	(125)
		172,742	142,600
Current assets			
Inventories	18	**127,951**	72,195
Investments in securities	19	**15,001**	17,136
Trade receivables	20	**6,608**	464
Prepayments, deposits and other receivables		**130,893**	52,062
Amounts due from related parties	21	**122,210**	24,724
Bank balances and cash		**571,559**	118,274
		974,222	284,855
Current liabilities			
Trade payables	22	**258,984**	153,503
Other payables, deposits received and accruals		**67,294**	56,735
Bank borrowings	23	**—**	4,000
Amounts due to related parties	21	**949**	14,453
Dividend payable		**3**	3
Taxation payable		**9,411**	535
		336,641	229,229
Net current assets		**637,581**	55,626
		810,323	198,226
Capital and reserves			
Share capital	24	**266,397**	178,445
Reserves	25	**529,113**	7,951
		795,510	186,396
Minority interests		**14,813**	11,830
		810,323	198,226

The financial statements on pages 38 to 65 were approved by the Board of Directors on 23rd February, 2004 and are signed on its behalf by:

Dr. Wu Jian-zhong	**Dr. Meng Jin-xian**
DIRECTOR	*DIRECTOR*

	NOTES	2003 RMB'000	2002 RMB'000
Non-current assets			
Property, plant and equipment	13	59,093	44,533
Investments in subsidiaries	14	49,720	24,950
Interests in associates	15	33,736	29,400
		142,549	98,883
Current assets			
Inventories	18	57,140	39,566
Investments in securities	19	15,001	17,136
Trade receivables	20	4,411	201
Prepayments, deposits and other receivables		120,727	51,066
Amounts due from related parties	21	267,889	73,181
Bank balances and cash		541,582	91,439
		1,006,750	272,589
Current liabilities			
Trade payables	22	254,634	140,840
Other payables, deposits received and accruals		37,050	29,569
Amounts due to related parties	21	61,136	17,339
Dividend payable		3	3
Taxation payable		9,292	360
		362,115	188,111
Net current assets		644,635	84,478
		787,184	183,361
Capital and reserves			
Share capital	24	266,397	178,445
Reserves	25	520,787	4,916
		787,184	183,361

	Total equity RMB'000
At 1st January, 2002	119,233
Capital contribution	39,730
Net profit for the year	27,436
Dividend	(3)
At 31st December, 2002	186,396
Issue of shares	582,675
Share issue expenses	(45,157)
Net profit for the year	71,596
At 31st December, 2003	795,510

Consolidated Cash Flow Statement

	NOTES	2003 RMB'000	2002 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		108,449	42,286
Adjustments for:			
Interest expenses		1,384	3,256
Share of results of associates		(7,931)	(6,963)
Loss on disposal of subsidiaries		74	—
Depreciation and amortisation		16,573	14,662
Loss on disposal of property, plant and equipment		515	324
Unrealised (gain) loss on investments in securities		(530)	4,486
Realised (gain) loss on investments in securities		(205)	—
Allowances for (write-back of) bad and doubtful debts		18	(658)
Amortisation of goodwill		117	104
Release of negative goodwill to income		(14)	(14)
Interest income		(801)	(174)
Operating cash flows before movements in working capital		117,649	57,309
Increase in inventories		(56,865)	(10,325)
Increase in trade receivables		(4,726)	(378)
Increase in prepayments, deposits and other receivables		(24,464)	(24,777)
Increase in amounts due from related parties		(76,631)	(82,337)
Increase in trade payables		101,786	216,664
Increase in other payables, deposits received and accruals		17,168	11,106
Decrease in amounts due to related parties		(3,984)	(19,431)
Cash generated from operations		69,933	147,831
Interest received		801	174
Income tax paid		(23,321)	(12,891)
NET CASH FROM OPERATING ACTIVITIES		47,413	135,114
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(63,725)	(33,940)
Proceeds from disposal of property, plant and equipment		267	493
Acquisition of a subsidiary	26	(34,875)	—
Disposal of a subsidiaries	27	10,712	—
Investments in associates		(4,461)	(29,400)
Purchases of investments in securities		(28,800)	(21,622)
Proceeds from disposal of investments in securities		31,670	—
Dividend received from an associate		3,430	—
Increase in amounts due from related parties		(20,480)	—
NET CASH USED IN INVESTING ACTIVITIES		(106,262)	(84,469)

	2003 RMB'000	2002 RMB'000
FINANCING ACTIVITIES		
Net proceeds from issue of shares on initial public offering	**537,518**	—
New bank borrowings	**40,000**	179,000
Repayments of bank borrowings	**(64,000)**	(280,500)
Interest paid	**(1,384)**	(3,256)
Capital contribution	**—**	39,730
Capital contribution from minority shareholders upon formation of subsidiaries	**—**	1,000
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**512,134**	(64,026)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**453,285**	(13,381)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**118,274**	131,655
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash	**571,559**	118,274

1. GENERAL

The Company was registered in the People's Republic of China (the "PRC") as a joint stock company with limited liability. Its ultimate holding company is Beijing Jingxi Guigu Technology Company Limited, a company incorporated in the PRC with limited liability.

The Company's shares have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited since 21st November, 2003.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the operation of supermarkets, convenience stores and hypermarkets.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the balance sheet date.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition, or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Revenue recognition

Revenue from the sales of merchandise is recognised when the merchandise is delivered and title has passed. Coupons surrendered in exchange for merchandise are recognised as revenue upon presentation of the coupons.

Rental income from leasing of shop premises is recognised on a straight line basis over the relevant lease term.

Service income is recognised when services are rendered.

Government subsidies are recognised as income when received and the conditions relating to the subsidies have been fulfilled.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as a deduction from assets and is released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the goodwill paid less any negative goodwill on acquisition in so far as it has not already been amortised to the income statement, less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less depreciation and amortisation, less any identified impairment loss.

Property, plant and equipment in the course of construction are carried at cost less any identified impairment loss. The cost of completed construction work is transferred to the appropriate category of property, plant and equipment. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Depreciation and amortisation is provided to write off the cost of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	4%
Leasehold improvements	10%–20%
Furniture, fixtures and equipment	6.47%–19.4%
Electronic equipment	19.4%
Motor vehicles	9.7%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities (Continued)

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, unrealised gains and losses are dealt with in equity, until the securities are disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the year.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method for supermarkets and hypermarkets, and using retail average cost method for convenience stores. Net realisable value represents the estimated selling price less all estimated costs to be increased in marketing, selling and distribution.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

Retirement benefit costs

Payments to state-managed retirement benefits schemes are charged as an expense as they fall due.

3. TURNOVER

	2003 RMB'000	2002 RMB'000
Sales of merchandise	1,441,063	1,028,269
Rental income from leasing of shop premises	55,499	46,536
Service income, including store display income and promotion income	87,931	28,871
	1,584,493	1,103,676
Business tax and other governmental charges	(9,631)	(6,150)
	1,574,862	1,097,526

4. SEGMENT INFORMATION

The Group is primarily engaged in the operations of supermarkets, convenience stores and hypermarkets and operates in the PRC. All identifiable assets of the Group are located in the PRC. Accordingly, no segmental analysis is presented.

5. OTHER OPERATING INCOME

	2003 RMB'000	2002 RMB'000
Government subsidies	5,756	5,716
Interest income	801	174
Excess cash at check-outs	1,446	1,181
Delivery service income	7,059	1,690
Others	6,811	6,134
	21,873	14,895

6. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging (crediting):

	2003 RMB'000	2002 RMB'000
Auditors' remuneration	760	—
Amortisation of goodwill (included in administrative expenses)	117	104
Depreciation and amortisation	16,573	14,662
Realised (gain) loss on investments in securities	(205)	—
Unrealised (gain) loss on investments in securities	(530)	4,486
Operating lease rentals in respect of rented premises	35,080	29,465
Loss on disposal of property, plant and equipment	515	324
Allowances for (write-back of) bad and doubtful debts	18	(658)
Release of negative goodwill to income (included in other operating income)	(14)	(14)
Staff costs:		
Directors' and supervisors' remuneration	1,047	691
Other staff costs		
— Salaries and other benefits	57,863	47,092
— Retirement benefits scheme contributions	5,252	4,768
	64,162	52,551

7. FINANCE COSTS

	2003 RMB'000	2002 RMB'000
Interests on bank borrowings wholly repayable within five years	1,384	3,256

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

	2003 RMB'000	2002 RMB'000
Directors and supervisors:		
Fee	30	—
Salaries and other benefits	954	641
Retirement benefits scheme contributions	63	50
	1,047	691

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

The emoluments of Directors and Supervisors during the year are analysed as follows:

	2003 RMB'000	2002 RMB'000
Director A	—	33
Director B	230	140
Director C	59	56
Director D	333	212
Director E	313	175
Director F	15	—
Director G	15	—
Supervisor A	—	70
Supervisor B	66	5
Supervisor C	8	N/A
Supervisor D	8	N/A
	1,047	691

The amounts disclosed above included Directors' fees of RMB30,000 (2002: nil) payable to independent non-executive Directors. No other emoluments were paid to the independent non-executive Directors during the year.

No emoluments were paid by the Group to the Directors and Supervisors as a discretionary bonus or an inducement to join or upon joining the Group or as a compensation for loss of office for the year.

No Directors and Supervisors waived any emoluments during the year.

9. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals included three (2002: three) directors of the Company for the year (details of whose remuneration are set out in note 8 above), the emoluments of the remaining two (2002: two) highest paid individuals for the year were as follows:

	2003 RMB'000	2002 RMB'000
Salaries and other benefits	560	283
Retirement benefits scheme contributions	17	5
	577	288

No emoluments were paid by the Group to any of the five highest paid individuals as a discretionary bonus or an inducement to join or upon joining the Group or as a compensation for loss of office for the year.

10. TAXATION

	2003 RMB'000	2002 RMB'000
The charge comprises:		
PRC income tax attributable to the Company and its subsidiaries	32,197	11,334
Share of taxation of associates	2,900	3,104
	35,097	14,438

PRC income tax is calculated at 33% of the estimated assessable profit for the year.

The charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2003 RMB'000	2003 %	2002 RMB'000	2002 %
Profit before taxation	108,449		42,286	
Taxation at the income tax rate of 33%	35,788	33.00	13,954	33.00
Tax effect of share of results of associates	283	0.26	806	1.91
Effect of government subsidies that is not assessable in determining taxable profit	(1,899)	(1.75)	(1,886)	(4.46)
Tax effect of expenses that are not deductible in determining taxable profit	925	0.85	1,564	3.69
Taxation for the year	35,097	32.36	14,438	34.14

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

11. DIVIDEND

The dividend declared to the shareholders of the Company are as follows:

	2003 RMB'000	2002 RMB'000
Interim dividend declared	—	3

No dividend was paid or proposed during the year ended 31st December, 2003, nor has any dividend been proposed since the balance sheet date.

The rate of dividend for the year ended 31st December, 2002 is not presented as the directors do not consider such information to be meaningful in the context of financial statements.

12. EARNINGS PER SHARE

The calculation of earnings per share for the year is based on the net profit for the year of RMB71,596,000 (2002: RMB27,436,000) and on the weighted average number of 188,084,000 (2002: 178,445,000) shares.

13. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Leasehold land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Electronic equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
THE GROUP							
COST							
At 1st January, 2003	7,500	21,011	53,178	44,535	6,967	317	133,508
Acquisition of a subsidiary	—	—	350	911	353		1,614
Disposal of a subsidiary	—	(21,199)	(3,331)	(1,403)	(320)	(157)	(26,410)
Additions	29,954	—	17,529	13,483	5,146	555	66,667
Transfer	(33,660)	27,903	—	5,757	—	—	—
Disposals	—	—	(3,930)	(1,326)	(181)	(4)	(5,441)
At 31st December, 2003	3,794	27,715	63,796	61,957	11,965	711	169,938
DEPRECIATION AND AMORTISATION							
At 1st January, 2003	—	315	12,118	9,314	3,119	108	24,974
Provided for the year	—	337	8,391	6,047	1,668	130	16,573
Eliminated on disposal of a subsidiary	—	(652)	(1,101)	(496)	(171)	—	(2,420)
Eliminated on disposals	—	—	(847)	(734)	(136)	—	(1,717)
At 31st December, 2003	—	—	18,561	14,131	4,480	238	37,410
NET BOOK VALUES							
At 31st December, 2003	3,794	27,715	45,235	47,826	7,485	473	132,528
At 31st December, 2002	7,500	20,696	41,060	35,221	3,848	209	108,534

The leasehold land and buildings are held under medium-term lease in the PRC.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Electronic equipment RMB'000	Total RMB'000
THE COMPANY				
COST				
At 1st January, 2003	25,525	24,616	3,845	53,986
Additions	11,890	10,551	2,792	25,233
Disposals	—	(2,614)	(146)	(2,760)
At 31st December, 2003	37,415	32,553	6,491	76,459
DEPRECIATION AND AMORTISATION				
At 1st January, 2003	3,820	3,754	1,879	9,453
Provided for the year	3,785	3,529	971	8,285
Eliminated on disposals	—	(350)	(22)	(372)
At 31st December, 2003	7,605	6,933	2,828	17,366
NET BOOK VALUES				
At 31st December, 2003	29,810	25,620	3,663	59,093
At 31st December, 2002	21,705	20,862	1,966	44,533

14. INVESTMENTS IN SUBSIDIARIES

	2003 RMB'000	2002 RMB'000
Unlisted equity investments, at cost	**49,720**	24,950

14. INVESTMENTS IN SUBSIDIARIES (Continued)

Details of the Company's subsidiaries as at 31st December, 2003, all of which are private limited liability companies registered and operated in the PRC are as follows:

Name	Registered and fully paid capital RMB	Proportion of nominal value of registered capital held by the Company Directly	Indirectly	Principal activities
Beijing Wumart Bolante Convenience Stores Company Limited 北京物美博蘭特便利超市有限責任公司	10,000,000	80%	—	Convenience stores
Beijing Wumart Xingshang Commerce Company Limited 北京物美興商商業有限公司	1,000,000	80%	16%	Supermarkets
Beijing Mencheng Wumart Shangcheng Company Limited 北京門城物美商城有限公司	1,000,000	70%	—	Supermarkets
Beijing Wumart Tongfu Commerce Company Limited 北京物美通福商業有限責任公司	1,000,000	55%	—	Supermarket
Beijing Wumart Tianxiang Convenience Stores Company Limited 北京物美天翔便利超市有限責任公司	1,000,000	60%	—	Convenience stores
Beijing Tongtang Wumart Convenience Stores Company Limited 北京通糖物美便利超市有限公司	1,000,000	60%	—	Convenience stores
Beijing Wumart Jingxi Convenience Stores Company Limited 北京物美京西便利超市有限責任公司	1,000,000	75%	—	Convenience stores
Beijing Wumart Gulou Commerce and Trading Company Limited 北京物美鼓樓商貿有限責任公司	1,000,000	65%	—	Hypermarkets
Beijing Wumart Convenience Stores Company Limited ("Wumart Convenience") 北京物美便利超市有限公司	50,000,000	80%	—	Convenience stores

None of the subsidiaries had any debt securities outstanding as at the end of the year or at any time during the year.

15. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted equity investments, at cost	**—**	—	**33,736**	29,400
Share of net assets	**39,321**	33,259	**—**	—
	39,321	33,259	**33,736**	29,400

Details of the Group's associates as at 31st December, 2003, all of which are private limited companies registered and operated in the PRC, are as follows:

Name	Registered and fully paid capital RMB	Proportion of nominal value of registered capital directly held by the Company	Principal activities
Beijing Chongwenmen Vegetable Market Wumart Supermarket Company Limited ("Beijing Chongwenmen") 北京崇文門菜市場物美綜合超市有限公司	60,000,000	49%	Supermarket and convenience stores
Beijing Wumart Shanhe Medicine Company Limited 北京物美善和醫藥有限公司	86,272,000	50%	Drug stores
Beijing Meiyijia Marketing Limited ("Beijing Meiyijia") 北京美意家廣告有限公司	500,000	25%	Design, production, agency and distribution of advertisements in China

15. INTERESTS IN ASSOCIATES (Continued)

The following details have been extracted from the management accounts of the Group's significant associate for the year prepared under accounting principles generally accepted in Hong Kong:

	Beijing Chongwenmen	
	2003	2002
	RMB'000	RMB'000
Result for the year		
Turnover	**227,817**	235,334
Net profit for the year	**10,018**	7,876
Attributable profit to the Group	**4,909**	3,859
Financial position		
Non-current assets	**68,208**	73,896
Current assets	**50,907**	63,764
Current liabilities	**(48,196)**	(69,155)
Non-current liabilities	**(26)**	(629)
Net assets	**70,893**	67,876
Net assets attributable to the Group	**34,738**	33,259

16. GOODWILL

	THE GROUP
	RMB'000
COST	
At 1st January, 2003	1,041
Acquisition of a subsidiary	276
Disposal of subsidiaries	(102)
At 31st December, 2003	1,215
AMORTISATION	
At 1st January, 2003	109
Charged for the year	117
Eliminated on disposal of subsidiaries	(15)
At 31st December, 2003	211
NET BOOK VALUES	
At 31st December, 2003	1,004
At 31st December, 2002	932

Goodwill is amortised on a straight-line basis of 10 years.

17. NEGATIVE GOODWILL

	THE GROUP RMB'000
GROSS AMOUNT	
At 1st January, 2003 and 31st December, 2003	139
RELEASE TO INCOME	
At 1st January, 2003	14
Released for the year	14
At 31st December, 2003	28
CARRYING AMOUNT	
At 31st December, 2003	111
At 31st December, 2002	125

Negative goodwill is released to income on a straight-line basis of 10 years.

18. INVENTORIES

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	**2003 RMB'000**	2002 RMB'000
At cost:				
Merchandise for resale	**126,562**	71,158	**56,472**	38,660
Consumables	**1,389**	1,037	**668**	906
	127,951	72,195	**57,140**	39,566

19. INVESTMENTS IN SECURITIES

	THE GROUP AND THE COMPANY	
	2003 RMB'000	2002 RMB'000
Trading securities		
Investment fund listed in the PRC	**15,001**	14,471
Investment fund quoted over-the-counter in the PRC	**—**	2,665
	15,001	17,136
Market value of listed investment fund	**15,001**	14,471

20. TRADE RECEIVABLES

Trade receivables represent receivables from credit card sales which allows an average credit period of 30 days.

The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
0–30 days	**6,608**	437	**4,411**	174
31–60 days	**—**	27	**—**	27
	6,608	464	**4,411**	201

21. AMOUNTS DUE FROM/TO RELATED PARTIES

	2003	2002
	RMB'000	RMB'000
THE GROUP		
Amount due from an associate	**45,916**	6,707
Amounts due from fellow subsidiaries	**54,191**	16,394
Amounts due from minority shareholders of subsidiaries	**22,103**	1,623
	122,210	24,724
Amount due to immediate holding company	**133**	14,453
Amounts due to minority shareholders of subsidiaries	**816**	—
	949	14,453

	2003	2002
	RMB'000	RMB'000
THE COMPANY		
Amounts due from subsidiaries	**167,782**	49,069
Amount due from an associate	**45,916**	6,707
Amounts due from fellow subsidiaries	**54,191**	16,394
Amounts due from minority shareholders of subsidiaries	**—**	1,011
	267,889	73,181
Amount due to immediate holding company	**133**	14,453
Amounts due to subsidiaries	**61,003**	2,886
	61,136	17,339

The amounts were unsecured, non-interest bearing and have no fixed terms of repayment.

22. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
0–30 days	**94,093**	19,919	**89,743**	7,808
31–60 days	**159,142**	132,772	**159,142**	132,772
61–90 days	**3,691**	129	**3,691**	129
Over 90 days	**2,058**	683	**2,058**	131
	258,984	153,503	**254,634**	140,840

23. BANK BORROWINGS

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Bank borrowings due within one year	**—**	4,000

As at 31st December, 2002, the repayment of the bank borrowings was guaranteed by a minority shareholder of a subsidiary.

24. SHARE CAPITAL

	Number of Domestic Shares of RMB1 each	**Number of H Shares of RMB1 each**	**Value**
			RMB'000
At 1st January, 2002	—	—	100,000
Capital contribution from a new shareholder (Note a)	—	—	29,000
Capitalisation of reserves (Note 25)			49,445
Transformation into a joint stock company (Note b)	178,445,000	—	—
At 31st December, 2002	178,445,000	—	178,445
Issue of H Shares through initial public offer (Note c)	—	87,952,000	87,952
At 31st December, 2003	178,445,000	87,952,000	266,397

Notes:

(a) On 16th September, 2002, a new shareholder contributed RMB39,730,000 to the Company of which RMB29,000,000 and RMB10,730,000 was credited to the paid-in capital and capital reserve, respectively.

(b) On 5th December, 2002, the Company was transformed from a limited company into a joint stock company with limited liability by converting its net assets as at 30th September, 2002 into 178,445,000 ordinary shares of RMB1 each (the "Transformation").

24. SHARE CAPITAL (Continued)

(c) On 21st November, 2003, 87,952,000 H shares of RMB1 each were issued at HK$6.22 per share for cash through an initial public offering by way of placing and public offer. The Group intended to use the net proceeds from shares issued mainly for expansion and as general working capital of the Group.

(d) Domestic Shares and H Shares are all ordinary shares in the share capital of the Company. However, H Shares may only be subscribed for by, and traded in currencies other than RMB between, legal or natural persons of Hong Kong, the Macau Special Administration Region, Taiwan or any country other than the PRC. Domestic Shares must be subscribed for and traded in RMB. All dividends in respect of H Shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of Domestic Shares are to be paid by the Company in RMB. Pursuant to the applicable laws and regulations, the Domestic Shares may not be sold within a period of three years from 5th December, 2002. This period will expire on 4th December, 2005. The Domestic Shares and the H Shares rank pari passu with each other in all respects and in particular, rank equally for all dividends or distributions declared, paid or made.

(e) As at 31st December, 2003, the Company's authorised and issued share capital of Domestic Shares and H shares was RMB266,397,000 (2002: RMB178,445,000), divided into 266,397,000 (2002: 178,445,000) ordinary shares of RMB1 each.

25. RESERVES

	Share premium RMB'000	Capital reserve RMB'000	Statutory common reserve fund RMB'000	Statutory common welfare fund RMB'000	Accumulated profits RMB'000	Total RMB'000
THE GROUP						
At 1st January, 2002	—	—	1,855	785	16,593	19,233
Capital contribution (Note 24)	—	10,730	—	—	—	10,730
Net profit for the year	—	—	—	—	27,436	27,436
Profit appropriations	—	—	2,739	1,370	(4,109)	—
Dividend	—	—	—	—	(3)	(3)
Capitalisation as share capital pursuant to the Transformation	—	(10,730)	(3,700)	(1,850)	(33,165)	(49,445)
At 31st December, 2002	—	—	894	305	6,752	7,951
Premium arising on initial public offering	494,723	—	—	—	—	494,723
Share issue expenses	(45,157)	—	—	—	—	(45,157)
Net profit for the year	—	—	—	—	71,596	71,596
Profit appropriations	—	—	7,411	3,705	(11,116)	—
At 31st December, 2003	449,566	—	8,305	4,010	67,232	529,113
THE COMPANY						
At 1st January, 2002	—	—	1,855	785	18,280	20,920
Capital contribution (Note 24)	—	10,730	—	—	—	10,730
Net profit for the year	—	—	—	—	22,714	22,714
Profit appropriations	—	—	2,606	1,302	(3,908)	—
Dividend	—	—	—	—	(3)	(3)
Capitalisation as share capital pursuant to the Transformation	—	(10,730)	(3,700)	(1,850)	(33,165)	(49,445)
At 31st December, 2002	—	—	761	237	3,918	4,916
Premium arising on initial public offering	494,723	—	—	—	—	494,723
Share issue expenses	(45,157)	—	—	—	—	(45,157)
Net profit for the year	—	—	—	—	66,305	66,305
Profit appropriations	—	—	7,159	3,579	(10,738)	—
At 31st December, 2003	449,566	—	7,920	3,816	59,485	520,787

25. RESERVES (Continued)

Pursuant to the relevant PRC laws and regulations and the Articles of Association of the companies within the Group, each of them is required to transfer 10% of its net profit, as determined under the PRC accounting regulations, to statutory common reserve fund until the fund aggregates to 50% of its registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

The statutory common reserve fund shall only be used to make good previous year's losses, to expand its production operations, or to increase its capital. Upon approval by a resolution of shareholders' general meeting, each of them may convert its statutory common reserve fund into share capital/registered capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided the balance of the reserve fund after such issue is not less than 25% of the registered capital.

Pursuant to the relevant PRC laws and regulations and the Articles of Association of the companies within the Group, each of them is required to transfer 5% to 10% of its net profit, as determined under the PRC accounting regulations, to the statutory common welfare fund. This fund can only be used to provide staff facilities and other collective benefits to its employees.

26. ACQUISITION OF A SUBSIDIARY

During the year, the Group acquired a subsidiary from the immediate holding company and a related company.

	RMB'000
Investment in an associate	229
Property, plant and equipment	1,614
Inventories	953
Trade receivables	1,436
Prepayments, deposits and other receivables	66,325
Bank balances and cash	2,195
Trade payables	(3,695)
Other payables and accruals	(3,064)
Bank borrowings	(20,000)
Minority interests	(9,199)
Net assets acquired	36,794
Goodwill	276
Total consideration, satisfied by cash	37,070
Net cash outflow arising on acquisition of a subsidiary:	
Cash consideration paid	(37,070)
Bank balances and cash acquired	2,195
	(34,875)

The subsidiary acquired during the year contributed RMB15,777,000 to the Group's turnover, a loss of RMB471,000 to the Group's profit from operations, RMB20,044,000 to the Group's net operating cash inflows and RMB20,000,000 to the Group's cash outflows from financing activities.

27. DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of subsidiaries to the immediate holding company.

	RMB'000
Property, plant and equipment	23,990
Inventories	2,062
Prepayments, deposits and other receivables	11,958
Bank balances and cash	915
Other payables and accruals	(9,673)
Amount due to immediate holding company	(9,520)
Minority interests	(7,743)
	11,989
Attributable goodwill	87
Loss on disposal	(74)
Total consideration	12,002
Satisfied by:	
Cash consideration received	11,627
Increase in amount due from immediate holding company	375
	12,002
Net cash inflow arising on disposal of subsidiaries:	
Cash consideration received	11,627
Bank balances and cash disposed of	(915)
	10,712

The subsidiaries disposed of during the year contributed RMB16,583,000 to the Group's turnover, RMB121,000 to the Group's profit from operations, RMB2,175,000 to the Group's net operating cash inflows and RMB4,000,000 cash outflows from financing activities.

28. MAJOR NON CASH TRANSACTIONS

Other than the non-cash transaction of Transformation set out in note 24, the Group entered into the following major non-cash transactions during the year:

(i) During the year, the Group disposed of certain leasehold improvements at a total consideration of RMB2,942,000 which was satisfied by an increase in construction in progress.

(ii) For the year ended 31st December, 2002, the Group disposed of certain property, plant and equipment to the immediate holding company at a total consideration of RMB4,143,000 which was satisfied by a decrease in amount due from the immediate holding company.

(iii) For the year ended 31st December, 2002, the Company entered into agreements with the immediate holding company and independent suppliers to offset the trade payables totaling RMB264,971,000 as at 30th September, 2002 against the same amount due from the immediate holding company.

29. COMMITMENTS

The Group as lessee

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under operating leases in respect of rented premises which fall due as follows:

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**56,725**	29,653	**42,447**	20,530
In the second to fifth year inclusive	**189,103**	91,678	**140,857**	53,385
Over five years	**518,270**	304,626	**402,064**	156,017
	764,098	425,957	**585,368**	229,932

Leases are negotiated for an average term of 10 years.

30. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the financial statements	**8,945**	—	**672**	—

	THE GROUP AND THE COMPANY	
	2003	2002
	RMB'000	RMB'000
Capital expenditure of investments in subsidiaries contracted for but not provided in the financial statements	**5,400**	5,400

31. RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to related companies as disclosed in note 21, during the year, the Group had the following related party transactions:

(i)

	Notes	2003 RMB'000	2002 RMB'000
Sales to an associate	(a)	**129,722**	9,788
Sales to fellow subsidiaries	(a)	**59,510**	61,995
Purchase of property plant and equipment from immediate holding company	(b)	**2,342**	—
Disposal of property, plant and equipment to immediate holding company	(b)	**—**	4,143
Service fee to immediate holding company	(c)	**—**	4,920
Service fee income from a fellow subsidiary in respect of merchandise delivery services	(d)	**459**	—
Service fee income from an associate in respect of merchandise delivery services	(d)	**3,170**	—
Service fee income from fellow subsidiaries in respect of providing market materials	(d)	**613**	—
Service fee to a related company in respect of computer software application and support services	(d)	**280**	—
Management fee income from fellow subsidiaries	(d)	**103**	—

Notes:

(a) Sales were made at cost.

(b) The property, plant and equipment were acquired/disposed of with reference to the their net book values.

(c) Da Hong Men Procurement and Logistics Centre of immediate holding company ("Procurement and Logistics Centre") provided delivery of merchandise services to the Group. Service fee was determined in accordance with the costs incurred by the Procurement and Logistics Centre.

(d) The transaction was transacted at terms agreed by both parties.

31. RELATED PARTY TRANSACTIONS (Continued)

(ii) The Group acquired and disposed of subsidiaries from/to immediate holding company during the year. The details are as follows:

Name of subsidiaries	Date of acquisition/ disposal	Proportion of the nominal value of registered capital acquired/ disposed of by the Group	Net assets acquired/ disposed of by the Group	Consideration
			RMB'000	RMB'000
Acquisition				
Wumart Convenience	8th April, 2003	60%	27,596	27,803
Disposal				
Wumart Pujinda	30th June, 2003	60%	11,614	11,627
Beijing Meiyijia	28th September, 2003	75%	375	375
Beijing Chongyuan Wumart Commerce Company Limited	30th June, 2003	50.7%	28,800	28,800

(iii) On 28th January, 2003, the Company entered into an agreement with immediate holding company to acquire the entire interest in the Procurement and Logistics Centre, an operational department, at a total consideration of RMB9,760,000, which represented the fair value of net assets at date of acquisition.

(iv) On 8th March, 2003, the Company entered into an agreement with Beijing Kangping Venture Capital Company Limited 北京康平創業投資有限公司 in which Dr. Wu Jian-zhong, a director of the Company, has a beneficial interest to acquire 20% interest in Wumart Convenience. The fair value of net assets acquired was RMB9,198,000 and the consideration paid was RMB9,267,000.

(v) On 30th September, 2002, the Company entered into agreements with immediate holding company and independent suppliers to offset the trade payables totaling approximately RMB264,971,000 as at 30th September, 2002 against the same amount due from immediate holding company.

	For the year ended 31st December,		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
RESULTS			
Turnover	**1,574,862**	1,097,526	689,772
Profit from operations	**101,976**	38,579	27,455
Finance costs	**(1,384)**	(3,256)	(3,497)
Loss on disposal of subsidiaries	**(74)**	—	—
Share of results of associates	**7,931**	6,963	—
Profit before taxation	**108,449**	42,286	23,958
Taxation	**(35,097)**	(14,438)	(9,456)
Profit before minority interests	**73,352**	27,848	14,502
Minority interests	**(1,756)**	(412)	1,111
Net profit for the year	**71,596**	27,436	15,613

	As at 31st December,		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES			
Total assets	**1,146,964**	427,455	518,566
Total liabilities	**(336,641)**	(229,229)	(388,915)
Minority interests	**(14,813)**	(11,830)	(10,418)
Shareholders' funds	**795,510**	186,396	119,233

Note: The results of the Group for each of the two years ended 31st December, 2002 and the assets and liabilities of the Group as at 31st December, 2001 and 2002 are extracted from the Company's prospectus dated 11th November, 2003.