



# 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)



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## HIGHLIGHT

*For the six months ended 30th June, 2004*

- Our retail network comprised of 429 outlets, an increase of 265 stores, or 161.6% as compared with the corresponding period in 2003;
- Comparable store sales (the turnover of a particular store in respect of different periods of time) increased by approximately 10.3% as compared with the corresponding period in 2003;
- Turnover amounted to approximately RMB1,228,765,000, representing a growth of 66% as compared with the corresponding period in 2003;
- Gross profit amounted to RMB178,070,000, representing a growth of 41.3% as compared with the corresponding period in 2003;
- Net profit reached RMB48,871,000, representing a growth of 55.3% as compared with the corresponding period in 2003;
- Acquired from Beijing Chao Shifa Company Limited Staff Shareholding Union (北京超市發連鎖股份有限公司職工持股會) an interest of approximately 25.03% in Beijing Chao Shifa Company Limited (北京超市發連鎖股份有限公司) ("Chao Shifa"). The Company also held as trustee an interest of approximately 34.77% in Chao Shifa on trust for Beijing Chao Shifa State-owned Asset Management Company (北京超市發國有資產經營公司). As a result, the Company has an effective control of approximately 59.8% interest in Chao Shifa, which will further consolidate the Company's position as a leading retail chain store operator in Beijing and the northern region of the PRC;
- The Company successfully placed a total of 17,590,000 H Shares at a price of HK\$14.55 per H Share on 9th June, 2004 pursuant to the mandate granted at the Annual General Meeting held on 23rd April, 2004. Immediately after completion of the placing, the Company had a total share capital of 283,987,000 shares, including 105,542,000 H Shares. The successful placing is an indication of investors' confidence in the Company underpinned by its sound operating results.

## CHAIRMAN'S STATEMENT

Dear Shareholders:

I am pleased to present the report on the unaudited interim results of Wumart Stores, Inc. ("Company") and its subsidiaries ("Group" or "Wumart Group") for the six months ended 30th June, 2004 ("Period").

### Review of Results

- Our retail network comprised of 429 outlets, an increase of 265 stores, or 161.6% as compared with the corresponding period in 2003;
- Comparable store sales (the turnover of a particular store in respect of different periods of time) increased by approximately 10.3% as compared with the corresponding period in 2003;
- Turnover amounted to approximately RMB1,228,765,000, representing a growth of 66% as compared with the corresponding period in 2003;
- Gross profit amounted to RMB178,070,000, representing a growth of 41.3% as compared with the corresponding period in 2003;
- Net profit reached RMB48,871,000, representing a growth of 55.3% as compared with the corresponding period in 2003;

The Group reported encouraging results during the Period. Comparable store sales increased by approximately 10.3% as compared with the corresponding period in 2003, reflecting significant enhancement in the Group's core competitive strengths. Turnover growth of over 60% coupled with substantial increase in the number of stores also pointed to enormous opportunities for expansion under the Group's regional development strategy.

The Group's net profit for the Period increased by more than 50%, underpinning the Group's ability to realise efficient growth by exercising effective cost controls in the process of rapid expansion.

The Group put additional focus on expanding its retail network by way of merger and acquisition. During the Period, the Company acquired from Beijing Chao Shifa Company Limited Staff Shareholding Union (北京超市發連鎖股份有限公司職工持股會) an interest of approximately 25.03% in Beijing Chao Shifa Company Limited (北京超市發連鎖股份有限公司) ("Chao Shifa"). The Company also held as trustee an interest of approximately 34.77% in Chao Shifa on trust for Beijing Chao Shifa State-owned Asset Management Company (北京超市發國有資產經營公司). As a result, the Company has an effective control of approximately 59.8% interest in Chao Shifa, which will further consolidate the Company's position as a leading retail chain store operator in Beijing and the northern region of the PRC (for further details, please refer to the Company's announcement dated 5th May, 2004 — Major Transaction: Acquisition of Shares in Beijing Chao Shifa Company Limited and Resumption of Trading). A resolution proposed by the Company concerning the replacement of all directors of Chao Shifa was approved at the extraordinary general meeting of Chao Shifa held on 29 July 2004. The new board of directors appointed the new president and management of Chao Shifa in a subsequent board meeting.

The Company successfully placed a total of 17,590,000 H Shares at a price of HK\$14.55 per H Share on 9th June, 2004 pursuant to the mandate granted at the Annual General Meeting held on 23rd April, 2004. Immediately after completion of the placing, the Company had a total share capital of 283,987,000 shares, including 105,542,000 H Shares. The successful placing is an indication of investors' confidence in the Company underpinned by its sound operating results.

The achievement of such results is in no small part due to the Group's persistence in focusing on practical results and details and its continual efforts to improve the execution abilities of staff at all levels.

## Prospects

China's economy continues to enjoy steady growth. The nation registered a GDP of RMB5,877.3 billion for the first six months of 2004, representing a year-on-year growth of 9.7%. Gross retail sales of consumer goods amounted to RMB2,524.9 billion, representing a year-on-year growth of 12.8%, or 10.2% excluding the price factor. The Company will benefit from sustained growth of the Chinese economy as gross retail sales account for an increasing percentage of the nation's GDP.

The Company will continue to expand through the development of new stores (including the opening of stores at leased premises and the acquisition or building of strategic commercial facilities suitable for store operations) and acquisition of existing commercial network outlets to procure rapid and efficient growth of its retail network.

The Group intends to further reinforce its position as Beijing's leading retail operator and maximise profitability for shareholders by enhancing its core competitive strengths and assuring continual growth in comparable store sales through rigid cost controls and improvements of product mix, leveraging fully on the efficient management system in terms of brand name, management, operation and distribution associated with a chain store operator.

The management team and myself are fully confident in the prospect of the Group, having every reason to believe that targets laid down for the current year will be duly accomplished. Meanwhile, I would like to express my gratitude to the Company's shareholders for their unfailing support, and to the Company's staff for their excellent performance in the past six months.

**Dr. Zhang Wen-zhong**

*Chairman*

Beijing, the PRC  
4th August, 2004

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

During the Period, the Group recorded a turnover of approximately RMB1,228,765,000, increasing by approximately 66% as compared with the corresponding period in 2003. The increase in the Group's turnover was mainly attributable to the increase in the number of retail outlets, and the 10.3% growth in comparable store sales as compared with the corresponding period last year. The growth in comparable store sales was the result of the Group's continual efforts of managing its product mix and promoting the Wumart's brand which increased the number of store visitors, visiting frequency and pay per visit of customers.

The Group's gross profit during the Period amounted to approximately RMB178,070,000, representing a growth of approximately 41.3% as compared with the corresponding period in 2003. Gross profit margin was approximately 14.5%, being approximately 2.5% less than that for the corresponding period in 2003. The reduced gross profit margin was due to (i) the higher sales to managed stores and associated company at cost, excluding which the gross profit margin for the Period would have been approximately 18.4%, or approximately 0.4% higher than that for the corresponding period in 2003; and (ii) the opening of 3 hypermarkets, which incurred set up costs for the Group.

Net profit for the Group during the Period amounted to approximately RMB48,871,000, representing a growth of approximately 55.3% as compared with the corresponding period in 2003. The growth in net profit was mainly attributable to a high gross profit and the reduction of administrative expenses and sales and distribution costs in aggregate as a percentage of turnover by 2% to 10.3%, as compared with 12.3% in the corresponding period of the previous year. Reduction in operating costs was primarily driven by the continued implementation of stringent cost control and economies of scale associated with a chain store group operation.

Compared to the corresponding period in 2003, rental expenses and salaries/staff benefits, which constituted the Group's major expenses, amounting to approximately RMB26,048,000 and RMB44,403,000, respectively, and accounted for approximately 2.1% and 3.6% of the Group's turnover, which both decreased as compared with the corresponding period in 2003.

Net profit margin for the Period was approximately 4.0%, as compared with approximately 4.3% for the corresponding period last year. The decline in net profit margin was mainly due to increased sales to managed stores and associated company at cost and the incurrence of set up costs for the 3 new hypermarkets.

During the Period, the Group recorded earnings per share of approximately RMB0.182, as compared to approximately RMB0.176 for the corresponding period in 2003. The calculation of earnings per share for the Period was based on the weighted average number of 268,329,967 shares in issue, as compared with 178,445,000 shares in the corresponding period in 2003. Based on 178,445,000 shares in issue, earnings per share of the Company for the six months ended 30th June, 2004 would have been approximately RMB0.274, which would have been 55.7% higher than that for the corresponding period last year.

The Group mainly financed its capital requirement by cash income from operations. As of 30th June, 2004, the Group had non-current assets of approximately RMB345,621,000, which mainly comprised property, plant and equipment of approximately RMB186,731,000 and interests in associated companies of approximately RMB41,538,000, prepaid rent of approximately RMB42,849,000, and investment deposits of RMB73,664,000 paid for acquiring a 25.03% interest in Chao Shifa.

As of 30th June, 2004, the Group had net current assets of approximately RMB777,381,000. Total current assets was approximately RMB1,205,395,000, mainly comprised of cash and deposits with financial institutions of approximately RMB687,065,000 plus a pledged deposit of RMB100,000,000 in respect of a bank loan granted to Chao Shifa (relating to the holding of another 34.77% interest in Chao Shifa as trustee), inventories of approximately RMB111,344,000, other receivables and prepayments of approximately RMB162,237,000, and amounts due from related companies of approximately RMB118,786,000. Current liabilities mainly comprised trade payables of approximately RMB317,742,000, other payables of approximately RMB93,316,000, tax payable of approximately RMB8,391,000 and amounts due to related parties of approximately RMB8,562,000.

The Group's average account payable turnover was 50 days for the Period, as compared with 48 days for 2003. Inventory turnover of the Group reduced to 21 days from 23 days for 2003.

As of 30th June, 2004, 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.



## USE OF PROCEEDS

During the period from 1st January, 2004 to 30th June, 2004, listing proceeds of the Company were generally applied in the manner set out in the Company's prospectus dated 11th November, 2003 (the "Prospectus"), a comparison of which is set out as follows:

	<b>Intended application 1st January, 2004 to 30th June, 2004 HK\$'000</b>	<b>Actual application 1st January, 2004 to 30th June, 2004 HK\$'000</b>	<b>Balance unutilised  As at 30th June, 2004 HK\$'000</b>
Store network expansion			
Hypermarkets — to open not less than 2 hypermarkets in Beijing and surrounding areas	80,000	126,060	(46,060)
Supermarkets — to open not less than 5 supermarkets in Beijing and surrounding areas	25,000	4,910	20,090
Convenience Stores — to open not less than 24 convenience stores in Beijing and surrounding areas	14,400	4,400	10,000
	<b>119,400</b>	<b>135,370</b>	<b>(15,970)</b>
Brand management			
Enhancing quality of merchandise offered/ introducing new "Wumart logo" branded merchandise	4,000	3,600	400
Operating, information and logistics systems enhancement			
Supermarkets/Hypermarkets	11,800	10,800	1,000
Convenience stores	2,900	2,500	400
	<b>14,700</b>	<b>13,300</b>	<b>1,400</b>

	<b>Intended application 1st January, 2004 to 30th June, 2004 HK\$'000</b>	<b>Actual application 1st January, 2004 to 30th June, 2004 HK\$'000</b>	<b>Balance unutilised As at 30th June, 2004 HK\$'000</b>
Staff training			
To continue with first and second Executive Master of Business Administration ("EMBA") training programmes	500	500	—
Working capital	5,000	99,340	(94,340)
<b>Total</b>	<b>143,600</b>	<b>252,110</b>	<b>(108,510)</b>

During the period from 1st January, 2004 to 30th June, 2004, proceeds actually applied by the Company were approximately HK\$252,110,000, which had exceeded the proposed application of approximately HK\$108,510,000 as stated in the Prospectus, mainly because of the fact that the Company opened 3 hypermarkets (as contrasted to the planned 2 hypermarkets) during the six months ended 30th June, 2004, resulting in the actual application of proceeds being approximately HK\$46,060,000 more than the amount proposed for hypermarkets under network expansion, and that the Company made a pledged deposit for granting a loan of RMB100,000,000 (equivalent to approximately HK\$94,340,000) to Chao Shifa to support its orderly operation as a trustee holder of 34.77% in the shares of Chao Shifa on behalf of Beijing Chao Shifa State-owned Asset Management Company, resulting in the actual application of proceeds as working capital being approximately HK\$94,340,000 more than the proposed amount.

As at 30th June, 2004, the balance of net proceeds from the Company's initial public offer of H Shares amounted to approximately HK\$181,842,000.

The Company completed the placing of 17,590,000 H Shares to institutional investors on 10th June, 2004. Net proceeds raised amounted to approximately HK\$248,200,000, which are currently unutilised.

All balances of the proceeds from the two aforesaid issues were placed with licensed banks and non-banking financial institutions in the PRC.

The Company's Board of Directors will continue to expand the Company's retail network through the development of new stores by itself (including the opening of stores at leased premises and the acquisition or building of strategic commercial facilities suitable for store operations) and acquisition of existing commercial network outlets. It will seek to accomplish its business development objectives by appropriate applications of proceeds from the Company's initial public offering and placing referred to above.

## BUSINESS REVIEW

### Network Expansion

As at 30th June, 2004, the retail network of the Group consisted of 429 stores, comprising 5 hypermarkets, 27 supermarkets, 389 convenience stores and 8 drug stores.

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

	<b>As at 30th June, 2004</b>	As at 30th June, 2003	Geographical distribution
Hypermarkets	4	Nil	Beijing, Tianjin
Supermarkets (Note 1)	25	23	Beijing, Hebei
Convenience Stores			
Direct ownership (Note 2)	130	110	Beijing
Franchise (Note 3)	229	24	Beijing
Drug stores	8	7	Beijing
<b>Total (Note 4)</b>	<b>396</b>	164	

## Notes:

1. Comprised 24 self-owned stores and 1 store owned through an associated company as of 30th June, 2004. The number does not include the 60 plus stores of Chao Shifa.
2. Comprised 122 self-owned stores and 8 stores owned through an associated company as of 30th June, 2004.
3. Franchise stores refer to outlets operated by the Group through various franchise arrangements.
4. The total number shown above does not include stores owned by Chao Shifa.

Stores operated and managed by the Group under the Management Agreement (details of which are set out in the Prospectus) ("Managed Stores"):

	<b>As at 30th June, 2004</b>	As at 30th June, 2003	Geographical distribution
Hypermarkets	<b>1</b>	Nil	Beijing
Supermarkets	<b>2</b>	Nil	Hebei
Convenience Stores	<b>30</b>	Nil	Beijing, Tianjin
<b>Total</b>	<b>33</b>	Nil	

## Store operations

### *Hypermarkets*

During the Period, the Company opened 3 new stores in Beijing and Tianjin, all located at business districts with enormous potential. The net saleable area of hypermarkets increased to 21,072 sq.m., which, combining with the 2 existing stores, has a net saleable area of about 37,884 sq.m..

The Group expanded its market share in the business districts and retail market in Beijing and Tianjin with the rapid growth in the number of its hypermarkets, resulting in a major boost in terms of brand awareness. Such expansion contributed

significantly to the Group's sales growth. For the six months ended 30th June, 2004, the hypermarket operation recorded a turnover of approximately RMB247,223,000, accounting for approximately 20.1% of the Group's total turnover.

#### *Supermarkets*

As at 30th June, 2004, 27 supermarkets (including 2 Managed Stores) were owned and operated by the Group, contributing approximately RMB739,243,000 to and accounting for approximately 60.2% of the Group's total turnover. Total net saleable area increased to 59,154 sq.m.

Revised Merchandise Display Standards were implemented at our supermarkets during the Period as all stores rearranged commodity display according to the new standards with a view to rationalised arrangements and optimal use of space. Such changes proved to be positive in enhancing our sales and gross profit margin.

The Group also adopted more rigid criteria for opening new stores by itself. The lifestyle, spending powers, living conditions and income level of prospective consumers in the business district were taken into consideration when assessing and selecting a store location to ensure that all planned stores will be able to attain the profit level stipulated by the Company.

#### *Convenience stores*

During the Period, the Group opened 8 new directly-owned stores but closed 2 existing stores. There were 69 new franchise stores, while 5 franchise stores were closed.

Subsequent to the opening of a convenient store within the Beijing University campus, the Group opened its second campus convenient store at North China University of Technology during the Period. Apart from making sound contributions to the Group's sales, such campus stores have also become an interface through which university graduates are attracted to join the Group's staff team.

As at 30th June, 2004, the Company operated 21 convenient stores in Beijing subway stations, all being situated at the station hall level. Pursuant to relevant provisions of the Beijing Rules for Safe Operation of Urban Rail Transport promulgated by the Beijing Municipal Government and were effective since 1st

June, 2004 (the "Rules"), the operation of commercial stores and outlets in station platforms, halls and evacuation passages of urban rail transport systems are prohibited. At present, Beijing Subway Commerce and Trade Development Centre (北京市地下鐵道商貿發展中心) (the "Subway Centre," being the provider of all commercial venues within Beijing's subway stations) has requested all commercial stores operating on the platform level of the subway stations to move out in accordance with the Rules, but has yet to give the same notice to the relevant 21 convenient stores of the Group. Negotiations with relevant government authorities are currently underway concerning the closure of hall-level stores in accordance with the Rules. The Group will find proper solutions to deal with these stores according to the requirements of relevant government authorities and the Subway Centre, pending results of negotiations between the Subway Centre and the government. During the Period, sales generated by the aforesaid 21 subway convenient stores amounted to RMB4,281,000, accounting for 2% of the turnover of the Group's convenient store operations.

### **Human Resources Management**

As at 30th June, 2004, the Group employed a total of 5,801 full-time staff.

The Group offered 111 training programmes during the Period through its Wumart Staff Development and Training School, with a total of 2,976 enrolments, including headquarter staff, store managers, supervisors, store attendants and new staff.

The two EMBA programmes continued during the Period. The Group amended the syllabus of each subject and increased the number of lessons to give more depth and content to the courses. As such, the duration of the programmes was extended. Participants of the first programme are expected to graduate by the end of December 2004, while the second will conclude in the first quarter of 2005.

### **Marketing**

The Group launched a variety of marketing activities to enhance sales by increasing the number of store visitors, visiting frequency and pay per visit of customers.

During the Period, the Group's supermarkets and convenient stores organised 14 and 10 marketing programmes, respectively. While most activities were aimed at commercial advertising, sessions devoted to the promotion of community welfare were also included.

The Group's marketing strategy is underpinned by ongoing improvements in the quality of services and products on the basis of bargain prices. Thematic promotions such as "No Worries Shopping at Wumart" (放心購物在物美) were launched to enhance the Group's image and reinforce customers' confidence in our stores. Adjustments to marketing strategies resulted in increased gross profit margin for the Company.

### **Quality Customer Service**

The Group continued to enhance management of its membership programme. During the Period, our supermarkets recruited over 30,000 new members, while our hypermarkets formulated a marketing plan that featured essentially service upgrades for members, for which preparations had been completed.

The Group was also frequently introducing new services in the stores, such as instant cooking of raw or fresh food, free audition of audio-visual products, laundry and photo development. Convenient stores in areas passed through by busy traffic provided free-of-charge bicycle tyre inflation services. Our hypermarkets increased the frequency and route coverage of their free shuttle bus service for shoppers.

The Group continued to foster store attendants' awareness for service quality through enhanced training, with a view to creating an ever more comfortable shopping environment for customers as a way to ensure steady growth of comparable store sales.

### **Prospects**

Given enormous potential of China's retail sector, the Group will seek to capture every business opportunity and achieve rapid growth in results by pursuing the regional development strategy to gear up expansion in Beijing and its surrounding area to consolidate its regional dominance and increase its core competitive strengths.

The management of the Group pledges brighter career prospects for staff through vigorous implementation of employee incentive programmes and greater return for shareholders and investors by leveraging fully on the Group's strengths in development and management.

### **Subsequent Events**

On 3rd August, 2004, the Company entered into the Merger Agreement with Beijing Huairou Bureau of Commerce and 北京京北大世界集團 (Beijing Jingbei Dashijie Group) ("Jingbei Group"), pursuant to which the Company shall establish a subsidiary, tentatively named as 北京物美京北大世界商貿有限公司 (Beijing Wumei Jingbei Dashijie Commercial and Trading Company Limited) ("Wumei Dashijie") subject to the final approval of Beijing Administration for Industry and Commerce, with a registered capital of not less than RMB20,000,000. Wumei Dashijie will take over all assets and liabilities with assessable values of Jingbei Group. Wumei Dashijie will be responsible for employing or making arrangements for 761 employees of Jingbei Group registered as at 30th June, 2004. In accordance with relevant provisions of the PRC Labour Law and labour policies, and will undertake all rights and obligations under the labour contracts entered into between the aforesaid staff and Jingbei Group. We believe that the Merger Agreement provides an excellent opportunity for the Group to expand its business into the Huairou District of Beijing, which has enormous growth potential. This agreement enables the Company to manage and operate the stores currently operated by Dashijie in the Huairou District in Beijing.



## REVIEW OF BUSINESS OBJECTIVES

The following is a comparison between the actual operation progress and the business objectives as set out in the prospectus for the same period.

### Store network expansion

	<b>Implementation schedule for the six months ended 30th June, 2004</b>	<b>Current progress</b>
Hypermarkets	To open not less than 2 hypermarkets in Beijing and surrounding areas	Opened 3 hypermarkets, namely Asian Games Village Store and Yun Gang Store in Beijing and Wei Lai Store in Tianjin
Supermarkets	To open not less than 5 supermarkets in Beijing and surrounding areas	Opened one supermarket, the Jiang Cheng Store. Entered into agreements in respect of 4 supermarkets, currently under pre-operating preparations
Convenience Stores	To open not less than 24 directly owned stores in Beijing and surrounding area	Opened 8 directly-owned stores in Beijing
	To open not less than 36 franchise stores in Beijing and surrounding area	Opened 69 franchise stores in Beijing

During the Period, the Company devoted additional resources to gear up the expansion of its retail network through mergers and acquisitions. During the Period, the Company acquired an interest of approximately 25.03% in Chao Shifa, which owned more than 60 stores, and held another 34.77% on trust, effectively controlling 59.80% interest in Chao Shifa, which owned more than 60 stores (for further details please refer to the Company's announcement dated 5th May, 2004 — Major Transaction: Acquisition of Shares in Beijing Chao Shifa Company Limited and Resumption of Trading).

Currently, the Group's convenient stores are mainly located in residential communities to serve their daily needs. The Group also operates franchise stores in selected prime locations. Franchise store is an efficient mode of operation because it can generate revenues with a relatively small amount of investment. However, it should be noted that if expansion is pursued at an excessive pace, problems might arise in the management of franchise stores and the Company's reputation might be adversely affected as a result. Therefore we should seek a balance between development and over-expansion.

## Brand management

### Implementation schedule for the 6 months ended 30th June, 2004 as set out in the prospectus

### Current progress

Enhancing the quality of the customer services	Launch the “Wumart Group Integrated Customer Services Campaign”	As part of the “Wumart Group Integrated Customer Services Campaign”, the Group set up a three-tier (headquarters, regional headquarters and stores) regime for instant solutions to customers’ complaints; services and legal training in accordance with the principal provisions of the “Law on Protection of Consumer Rights” offered to store managers and other higher-ranking staff
Enhancing the quality of merchandise offered	Introduce and offer value-added services to customers	Free product knowledge seminars provided to consumers on topics such as the distinction between genuine and faked goods
	Continue the sampling checks campaign on all categories of merchandise offered	The Company provided training on merchandise acceptance at the quality control department of each store to enforce related ISO9000 processes. The operational department conducted periodic and random sampling checks on the quality of every type of merchandise in order to ensure product quality
Introducing new “Wumart logo” branded merchandise	Introducing “Wumart” branded fresh foods	Introduced 172 items of “Wumart” branded merchandise, including 81 types of fresh foods

## Operating, information and logistic systems enhancement

	<b>Implementation schedule for the six months ended 30th June, 2004 as set out in the Prospectus</b>	<b>Current progress</b>
Supermarket/ hypermarket	Launch new operations standards for Wumart Group's supermarkets	The Company amended and promulgated new operational management and duty standards. New standards training and examination for staff conduct
	Launch Wumart Group membership management system	Membership of supermarkets and hypermarkets was established and under operation. Hypermarket formulated and prepared "Member Service Upgrade" marketing plan. It will be launched upon the completion of relevant computer programmes, which is now in progress
	Set up a Web-based group-wise enterprise resources planning (ERP) system	The Company finished the detailed planning, study and design for the ERP system with constant amendments and improvements during the process

**Implementation schedule  
for the six months ended  
30th June, 2004 as set out  
in the Prospectus**

**Current progress**

Convenience stores	All newly-opened shops adopt the “Standard Shop” standard	Store image and layout of all new stores was standardised according to the “Standard Shop” standard
	Launch the “Quality Services” Campaign	Introduced laundry and photo development services and free-of-charge bicycle tyre inflation services at busy traffic districts and enhanced training on quality services to create best shopping environment and services for customers
	Commerce installation of integrated “purchase-sell-inventory” system to achieve individual product management	Integrated “purchase-sell-inventory” system was installed in all stores, except for certain stores of Beijing Tongtang Wumart Convenience Stores Company Limited

## Staff training

### Implementation schedule for the six months ended 30th June, 2004 as set out in the Prospectus

### Current Progress

Graduation of members of the first and second EMBA training programmes	EMBA training programme in progress. The first EMBA training programme is expected to conclude on or before the end of December 2004. The second is expected to conclude within the first quarter of 2005
Offer additional professional training to store managers	Wumart Staff Development and Training School organised 9 training courses for store managers, with over 300 sessions
Offer operational training courses to the staff of supervisor-grade or above	Wumart Staff Development and Training School organised 20 training courses to staff of supervisor-grade or above, with over 580 sessions
Offer training courses to newly-employed staff to promote the unique culture of Wumart Group	Offered 13 new recruit training courses on technical knowledge and Wumart culture for about one-third of the new staff

**CONDENSED CONSOLIDATED INCOME STATEMENT**

For the three months and six months ended 30th June, 2004

	NOTES	For the three months ended 30th June,		For the six months ended 30th June,	
		2004	2003	2004	2003
		RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Turnover	3	561,880	353,056	1,228,765	740,023
Cost of sales		(471,466)	(290,066)	(1,050,695)	(614,002)
Gross profit		90,414	62,990	178,070	126,021
Other operating income		9,664	4,808	20,200	9,574
Administrative expenses		(25,116)	(17,852)	(40,139)	(29,531)
Selling and distribution costs		(44,410)	(30,134)	(86,490)	(61,228)
Profit from operations	5	30,552	19,812	71,641	44,836
Finance costs		(40)	(209)	(147)	(311)
Loss on disposal of subsidiaries		—	(74)	—	(74)
Share of results of associates		1,839	2,166	4,661	5,053
Profit before taxation		32,351	21,695	76,155	49,504
Taxation	6	(10,784)	(7,874)	(25,476)	(16,554)
Profit before minority interests		21,567	13,821	50,679	32,950
Minority interests		(1,167)	(268)	(1,808)	(1,481)
Net profit for the period		20,400	13,553	48,871	31,469
Earnings per share					
— basic	8	RMB0.08	RMB0.08	RMB0.18	RMB0.18

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30th June, 2004

	NOTES	<b>30.6.2004</b> <b>RMB'000</b> <b>(Unaudited)</b>	31.12.2003 RMB'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	9	<b>186,731</b>	132,528
Interests in associates		<b>41,538</b>	39,321
Investment deposits	10	<b>73,664</b>	—
Prepaid rent		<b>42,849</b>	—
Goodwill		<b>943</b>	1,004
Negative goodwill		<b>(104)</b>	(111)
		<b>345,621</b>	172,742
<b>Current assets</b>			
Inventories		<b>111,344</b>	127,951
Investments in securities		<b>23,545</b>	15,001
Trade receivables	11	<b>2,418</b>	6,608
Prepayments, deposits and other receivables		<b>162,237</b>	130,893
Amounts due from related parties	12	<b>118,786</b>	122,210
Pledged deposit	13	<b>100,000</b>	—
Cash and deposits with financial institutions	14	<b>687,065</b>	571,559
		<b>1,205,395</b>	974,222



**CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)**

At 30th June, 2004

	NOTES	30.6.2004 RMB'000 (Unaudited)	31.12.2003 RMB'000 (Audited)
<b>Current liabilities</b>			
Trade payables	15	317,742	258,984
Other payables, deposits received and accruals		93,316	67,294
Amounts due to related parties	12	8,562	949
Dividend payable		3	3
Taxation payable		8,391	9,411
		<b>428,014</b>	336,641
<b>Net current assets</b>			
		<b>777,381</b>	637,581
		<b>1,123,002</b>	810,323
<b>Capital and reserves</b>			
Share capital	16	283,987	266,397
Reserves	17	823,436	529,113
		<b>1,107,423</b>	795,510
<b>Minority interests</b>			
		<b>15,579</b>	14,813
		<b>1,123,002</b>	810,323

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2004

	Total equity RMB'000 (Unaudited)
At 1st January, 2003	186,396
Net profit for the period	31,469
At 30th June, 2003	217,865
Issue of shares	582,675
Share issue expenses	(45,157)
Net profit for the period	40,127
At 31st December, 2003	795,510
Issue of shares	271,291
Share issue expenses	(8,249)
Net profit for the period	48,871
At 30th June, 2004	1,107,423

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

For the six months ended 30th June, 2004

	Six months ended 30th June,	
	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
Net cash from operating activities	103,296	145,768
Net cash used in investing activities	(250,685)	(85,879)
Net cash from (used in) financing activities	262,895	(44,400)
Net increase in cash and cash equivalents	115,506	15,489
Cash and cash equivalents at beginning of the period	571,559	118,274
Cash and cash equivalents at end of the period	687,065	133,763

## **NOTES TO THE FINANCIAL STATEMENTS**

For the six months ended 30th June, 2004

### **1. BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market on The Stock Exchange of Hong Kong Limited.

### **2. PRINCIPAL ACCOUNTING POLICIES**

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2003.

### 3. TURNOVER

The Group is principally engaged in the operation and management of hypermarkets, supermarkets and conveniences stores in Beijing, Tianjin and Hebei. Turnover recognised for the three months and six months ended 30th June, 2004 are as follows:

	Three months ended 30th June,		Six months ended 30th June,	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Turnover				
Sales of merchandise	505,523	327,473	1,130,698	683,514
Rental income from leasing shop premises	15,828	13,617	31,786	27,227
Service income, including store display income and promotion income	44,380	14,114	73,440	33,779
	565,731	355,204	1,235,924	744,520
Business tax and other government charges	(3,851)	(2,148)	(7,159)	(4,497)
	561,880	353,056	1,228,765	740,023

### 4. SEGMENT INFORMATION

The Group is primarily engaged in the operations of supermarkets, convenience stores and hypermarkets and operates in the People's Republic of China ("PRC"). Accordingly, no segmental analysis is presented.

## 5. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging (crediting):

	Three months ended 30th June,		Six months ended 30th June,	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Amortisation of goodwill (included in administrative expenses)	31	34	61	67
Depreciation and amortisation	7,994	2,133	13,287	6,811
Realised gain on investments in securities	—	(205)	—	(205)
Unrealised loss (gain) on investments in securities	2,175	(589)	1,171	(76)
Loss on disposal of property, plant and equipment	7	534	153	602
Release of negative goodwill to income (included in other operating income)	(4)	(4)	(7)	(7)
Interest income	(5,304)	(146)	(7,109)	(441)

## 6. TAXATION

	Three months ended 30th June,		Six months ended 30th June,	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
The charge comprises:				
PRC income tax attributable to the Company and its subsidiaries	9,617	7,053	23,378	14,783
Share of taxation of associates	1,167	821	2,098	1,771
	10,784	7,874	25,476	16,554

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

No provision for Hong Kong Profits Tax has been made in the condensed financial statements as the Group's income neither arises in, nor is derived from Hong Kong.

## 7. DIVIDEND

The directors do not recommend the payment of an interim dividend for the period.

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following data:

	Three months ended 30th June,		Six months ended 30th June,	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Net profit for the period	20,400	13,553	48,871	31,469
Weighted average number of shares for the purpose of basic earnings per share	268,329,967	178,445,000	268,329,967	178,445,000

No diluted earnings per share has been presented as the Company had no outstanding potential shares during the period or at the balance sheet date.

## 9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30th June, 2004, the Group spent approximately RMB32,094,000 (2003: RMB7,284,000) on additions to furniture, fixtures and equipment and approximately RMB21,540,000 (2003: RMB9,467,000) on additions to leasehold improvements, respectively.

## 10. INVESTMENT DEPOSITS

The amount represents deposit paid for acquisition of 25.03% interest in Beijing Chao Shifa Company Limited ("Chao Shifa").

## 11. TRADE RECEIVABLES

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

The aged analysis of trade receivables is as follows:

	30.6.2004 RMB'000	31.12.2003 RMB'000
0 – 30 days	2,418	6,608

## 12. AMOUNTS DUE FROM/TO RELATED PARTIES

	30.6.2004 RMB'000	31.12.2003 RMB'000
Amount due from an associate	56,359	45,916
Amounts due from fellow subsidiaries	50,167	54,191
Amounts due from minority shareholders of subsidiaries	12,260	22,103
	<b>118,786</b>	122,210
Amount due to immediate holding company	—	133
Amounts due to fellow subsidiaries	8,562	—
Amounts due to minority shareholders of subsidiaries	—	816
	<b>8,562</b>	949

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



**13. PLEDGED DEPOSIT**

The amount represents a deposit pledged to a bank in respect of a bank loan granted to Chao Shifa.

**14. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS**

	<b>30.6.2004</b>	31.12.2003
	<b>RMB'000</b>	RMB'000
Bank balances and cash	<b>137,065</b>	571,559
Trust monies placed with a financial institution (Note)	<b>550,000</b>	—
	<b>687,065</b>	571,559

Note: The amount represents trust monies placed with a company incorporated in the PRC that is engaged in the business of assets management.

**15. TRADE PAYABLES**

An aged analysis of trade payables is as follows:

	<b>30.6.2004</b>	31.12.2003
	<b>RMB'000</b>	RMB'000
0 – 30 days	<b>117,565</b>	94,093
31 – 60 days	<b>190,645</b>	159,142
61 – 90 days	<b>6,355</b>	3,691
Over 90 days	<b>3,177</b>	2,058
	<b>317,742</b>	258,984

## 16. SHARE CAPITAL

	Number of Domestic Shares of RMB1 each	Number of H Shares of RMB1 each	Value RMB'000
At 1st January, 2003 and 30th June, 2003	178,445,000	—	178,445
Issue of H Shares through initial public offer (Note a)	—	87,952,000	87,952
At 31st December, 2003	178,445,000	87,952,000	266,397
Issue of H Shares through placing (Note b)	—	17,590,000	17,590
At 30th June, 2004	178,445,000	105,542,000	283,987

## Notes:

- (a) 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 Company intended to use the net proceeds from shares issued for expansion and general working capital of the Group.
- (b) On 28th May, 2004, arrangements were made for a private placement to independent investors of 17,590,000 H Shares of RMB1.00 each in the Company at a price of HK\$14.55 per share, representing a discount of 4.59% to the closing market price of the Company's shares on 28th May, 2004. The net proceeds were intended to be used for possible acquisition. The transaction was completed on 10th June, 2004. These shares rank pari passu with the existing H Shares in issue in all respects.
- (c) As at 30th June, 2004, the Company's authorised and issued share capital of Domestic Shares and H Shares was RMB283,987,000 (31.12.2003: RMB266,397,000), divided into 283,987,000 (31.12.2003: 266,397,000) shares of RMB1 each.

## 17. RESERVES

	Share premium RMB'000	Statutory common reserve fund RMB'000	Statutory common welfare fund RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1st January, 2003	—	894	305	6,752	7,951
Net profit for the period	—	—	—	31,469	31,469
At 30th June, 2003	—	894	305	38,221	39,420
Premium arising on initial public offering	494,723	—	—	—	494,723
Share issue expenses	(45,157)	—	—	—	(45,157)
Net profit for the period	—	—	—	40,127	40,127
Profit appropriations	—	7,411	3,705	(11,116)	—
At 31st December, 2003	449,566	8,305	4,010	67,232	529,113
Premium arising on placing of shares	253,701	—	—	—	253,701
Share issue expenses	(8,249)	—	—	—	(8,249)
Net profit for the period	—	—	—	48,871	48,871
At 30th June, 2004	695,018	8,305	4,010	116,103	823,436

## 18. CAPITAL COMMITMENTS

	30.6.2004 RMB'000	31.12.2003 RMB'000
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the financial statements	4,770	8,945

## 19. RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to related companies as disclosed in note 12, during the period, the Group had the following related party transactions:

		Six months ended 30th June,		
		2004	2003	
		RMB'000	RMB'000	
		Notes		
(i)	Sales to an associate	(a)	100,381	34,592
	Sales to fellow subsidiaries	(a)	130,628	15,300
	Service fee income from a fellow subsidiary in respect of merchandise delivery services	(b)	585	—
	Service fee income from an associate in respect of merchandise delivery services	(b)	1,609	1,549
	Service fee income from fellow subsidiaries in respect of providing market materials	(b)	297	—
	Management fee income from fellow subsidiaries	(b)	314	—

Notes:

(a) Sales were made at cost.

(b) The transactions were transacted at terms agreed by both parties.

- (ii) During the six months ended 30th June, 2003, the Group acquired and disposed of subsidiaries from/to the immediate holding company. The details were 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 RMB'000	Consideration RMB'000
<b>Acquisition</b>				
Beijing Wumart Convenience Stores Company Limited ("Wumart Convenience")	8th April, 2003	60%	27,596	27,803
<b>Disposal</b>				
Beijing Wumart Pujinda Convenience Stores Company Limited	30th June, 2003	60%	11,614	11,627
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 the immediate holding company to acquire the entire interest in the Da Hong Men 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.

## LITIGATION

On 20th May, 2004, the Company received notification from the Beijing Municipal High-Level People's Court that a shareholder of Chao Shifa ("Chao Shifa Shareholder") has instituted civil proceeding ("Claim") against, inter alia, the Company that (i) the trust agreement ("Trust Agreement") entered into between the Company and Beijing Chao Shifa State-owned Asset Management Limited ("CSSAM"), pursuant to which CSSAM appointed the Company as trustee to hold 34.77% of the issued share capital of Chao Shifa on trust for CSSAM for a period of one year commencing from 22nd April, 2004, and (ii) the acquisition agreement, between the Company and Beijing Chao Shifa Company Limited Staff Shareholding Union in relation to the Company's acquisition of 25.03% interest in Chao Shifa, were invalid. For further details please refer to the Company's announcement dated 21st May, 2004.

Chao Shifa Shareholder alleges that the Trust Agreement and the transactions contemplated thereunder are in breach of, PRC legal requirements relating to the transfer of control in joint stock limited companies, the asset reorganisation agreement between Chao Shifa and Chao Shifa Shareholder and the articles of association of Chao Shifa. Chao Shifa Shareholder has applied to the court for, inter alia, (a) a declaration that the Trust Agreement is invalid; (b) an injunction to restrain the Company from performing the Trust Agreement; (c) an order to restore the shareholding structure of and the right to operate Chao Shifa to that of immediately prior to the execution of the Trust Agreement; and (d) an order requiring the defendants to bear all costs relating to the Claim.

The trial of the Claim has not yet commenced as at the date of the interim financial report.

## PLEDGE OF THE GROUP'S ASSETS

During the Period, 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 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 30th June, 2004.

## **APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS**

At the Board meeting convened by the Company on 8th August, 2004, Mr. Li Lu'an (李祿安) and Mr. Lu Jiang (呂江) were nominated as independent non-executive Directors. The Company intends to convene an extraordinary general meeting in the near future for considering and approving the appointment of Mr. Li Lu'an (李祿安) and Mr. Lu Jiang (呂江) as independent non-executive Directors. On the other hand, Dr. Robert E. Larson, will resign as independent non-executive Director which such resignation will be effective after the consideration and approval of the addition of new independent non-executive Directors at the forthcoming extraordinary general meeting of the Company. As a result, the Company will have 3 independent non-executive Directors, including one with expertise in the accounting or related financial management field as required by GEM Listing Rule 5.08.

## **AUDIT COMMITTEE**

The Company established an audit committee pursuant to a resolution passed by the Board in October 2003 in accordance with GEM Listing Rules 5.23 to 5.25. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control of the Group. 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. It is intended that after resignation of Dr. Larson as independent non-executive Director, Mr. Li Lu'an and Mr. Lu Jiang will also become members of the audit committee.

## **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.

## **MODEL CODE OF PRACTICE FOR SECURITIES TRANSACTION BY DIRECTORS**

The Company has adopted a model code of practice with standards not lower than those set out in GEM Listing Rules 5.48 to 5.67 for securities transactions by Directors. The Company has confirmed after making due enquiries that all the Directors have complied with the model code of practice in relation to securities transaction by Directors.

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

As at 30th June, 2004, 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 ("SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or required to be notified to the Company and the Stock Exchange in accordance with Rule 5.46 of the GEM Listing Rules, were as follows:

### Interests in the domestic shares of the Company ("Domestic Shares")

Director's name	Number of Domestic Shares held	Approximate percentage of total issued domestic share capital interest	Type of interest
		(%)	
Dr. Zhang Wen-zhong (張文申博士) (note 1)	124,483,232	69.76	Interest of controlled corporation
Dr. Zhang Wen-zhong (張文申博士) (note 2)	6,245,575	3.50	Interest of controlled corporation
Dr. Wu Jian-zhong (吳堅忠博士) (note 3)	124,483,232	69.76	Interest of controlled corporation
Dr. Wu Jian-zhong (吳堅忠博士) (note 4)	6,245,575	3.50	Interest of controlled corporation
Dr. Wu Jian-zhong (吳堅忠博士) (note 5)	40,114,436	22.48	Interest of controlled corporation
Dr. Meng Jin-xian (蒙進熈博士) (note 6)	5,817,307	3.26	Interest of controlled corporation
Dr. Meng Jin-xian (蒙進熈博士) (note 6)	6,245,575	3.50	Interest of controlled corporation
Mr. Wang Jian-ping (王堅平博士) (note 7)	124,483,232	69.76	Interest of controlled corporation
Mr. Wang Jian-ping (王堅平博士) (note 8)	6,245,575	3.50	Interest of controlled corporation
Mr. Wang Jian-ping (王堅平博士) (note 8)	5,817,307	3.26	Interest of controlled corporation



## Notes:

1. The 124,483,232 Domestic Shares are held by Wumei Holdings, Inc. (北京物美投資集團有限公司) ("Wumei Holdings"), one of the promoters of the Company, which is directly and indirectly owned by Beijing CAST Technology Investment Company Limited (北京卡斯特科技投資有限公司) ("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 (北京中勝華特科技有限公司) ("Zhongsheng Huate") and Beijing Jingxi Guigu Technology Company Limited (北京京西硅谷科技有限公司) ("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 Jinxu Guigu, respectively.
2. The 6,245,575 Domestic Shares are held by Beijing Hekang Youlian Technology Company Limited (北京和康友聯技術有限公司) ("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 Beijing Wangshang Shijie E-business Company Limited (北京網商世界電子商務有限公司) ("Wangshang Shijie E-business"), one of the promoters of the Company, which has a direct interest in the 40,114,436 Domestic Shares.
6. Dr. Meng Jin-xian holds 40% of the share capital of Beijing Junhe Investment Company Limited (北京君合投資有限公司) ("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.
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. Junhe Investment also holds 50% of the share capital of Hekang Youlian, which has a direct interest in the 6,245,575 Domestic Shares.

Save as disclosed above, to the best knowledge of the Directors, as at 30th June, 2004, none of the Directors, Supervisors, chief executive of the Company or their respective associates had any interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) 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 the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 of the GEM Listing Rules.

During the Period, 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**

As at 30th June, 2004, the interests and short positions of every person (other than a director, supervisor or chief executive of the Company), as recorded in the register required to be kept pursuant to section 336 of the SFO were as follows:

### **Interests in Domestic shares**

<b>Name</b>	<b>Number of Domestic Shares held</b>	<b>Approximate percentage of total issued domestic share capital</b>
		(%)
Dr. Zhang Wen-zhong (Note 1)	124,483,232	69.76
Dr. Wu Jian-zhong (Note 2)	40,114,436	22.48
Jingxi Guigu (Note 1)	124,483,232	69.76
CAST Technology Investment (Note 1)	124,483,232	69.76
Wumei Holdings (Note 1)	124,483,232	69.76
Wangshang Shijie E-business (Note 2)	40,114,436	22.48
Dr. Meng Jin-xian (Note 3)	12,062,882	6.76

## Notes:

1. Jingxi Guigu is owned as to 85% by Dr. Zhang Wen-zhong, and therefore Dr. Zhang Wen-zhong is entitled to control the exercise of one-third or more of the voting power at general meetings of Jingxi Guigu. 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. Each of Dr. Zhang Wen-zhong, Jingxi Guigu and CAST Technology Investment is therefore deemed, by virtue of Part XV of the SFO, to be interested in the Domestic Shares held by Wumei Holdings.
2. Wangshang Shijie E-business is owned as to 70% by Dr. Wu Jian-zhong, and therefore Dr. Wu Jian-zhong is entitled to control the exercise of one-third or more of the voting power at general meetings of Wangshang Shijie E-business. Dr. Wu Jian-zhong is therefore deemed, by virtue of Part XV of the SFO, to be interested in the Domestic Shares held by Wangshang Shijie E-business.
3. Junhe Investment is owned as to 40% by Dr. Meng Jing-xian, and therefore Dr. Meng Jing-xian is entitled to control the exercise of one-third or more of the voting power at general meetings of Junhe Investment. 5,817,307 domestic shares are directly owned by Junhe Investment. Hekang Youlian is owned as to 50% by Junhe Investment, and therefore Junhe Investment is entitled to control the exercise of one-third or more of the voting power at general meetings of Hekang Youlian. 6,245,575 Domestic Shares are directly owned by Hekang Youlian. Dr. Meng Jing-xian is therefore deemed, by virtue of Part XV of the SFO, to be interested in the Domestic Shares held by Junhe Investment and Hekang Youlian.

## Interests in the H shares of the Company (“H Shares”)

Name	Number of H Shares held	Approximate percentage of total issued H Share capital
		(%)
J.P. Morgan Chase & Co. (note 1)	22,215,000	21.05
The Capital Group Companies, Inc (note 2)	12,802,000	12.13
Morgan Stanley (note 3)	8,873,000	8.41
Invesco Asia Limited in its capacity as manager/adviser of various accounts (note 4)	8,630,000	8.18
International Finance Corporation (note 5)	8,000,000	7.58

## Notes:

1. 6,364,000 H Shares are held by J.P. Morgan Chase & Co. in its capacity as an investment manager and 15,851,000 H Shares in its capacity as a custodian.
2. These 12,802,000 H Shares are held by The Capital Group Companies, Inc. in its capacity as an investment manager.
3. These 8,873,000 H Shares are deemed, by virtue of Part XV of the SFO, to be held by Morgan Stanley through controlled corporations.
4. These 8,630,000 H Shares are held by Invesco Asia Limited in its capacity as investment manager.
5. These 8,000,000 H Shares are directly held by International Finance Corporation.

## **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 30th June, 2004.

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

## **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 refer to 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 Period.

During the Period, several business opportunities in the retail sector (the “Business Opportunities”) emerged in Zhejiang, Shanghai and Tianjin. However, given the fact that these Business Opportunities are either not within the Company’s major target areas for development, or subject to legal problems in respect of certain properties, or involved in the initial stage in property development, which is inconsistent with the principal business of the Company (i.e. chain retail business), the Company has, with the approval of the independent non-executive directors, referred those Business Opportunities to Wumei Holdings or its subsidiaries in accordance with the Non-competition Agreement.”

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, the Group did not exercise any of its right to purchase the retail businesses under Wumei Holdings.

As at the date of this report, the board of directors of the Company comprises of Dr. Zhang Wen-zhong, Dr. Wu Jian-zhong and Dr. Meng Jin-xian as executive directors, Mr. Wang Jian-ping as non-executive director, and Mr. Han Ying and Dr. Robert E. Larson as independent non-executive directors.

By order of the Board  
**Wumart Stores, Inc.**  
**Dr. Zhang Wen-zhong**  
*Chairman*

Beijing, PRC 4th August, 2004