

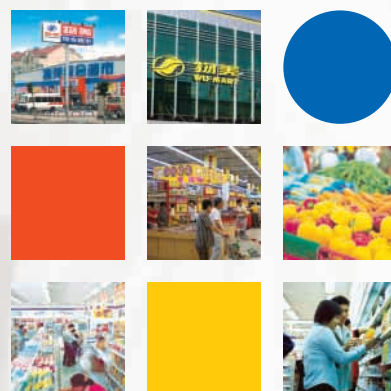


Wumart Stores, Inc.

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 2004



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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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02 Corporate Information

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)

Mr. Li Lu-an (李祿安先生)

Mr. Lu Jiang (呂江先生)

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)
(note 1)

Ms. Li Dong-nu (李冬女女士)

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. Xu Ying (徐瑩女士)

Ms. Xie Dong (謝東女士)

QUALIFIED ACCOUNTANT

Mr. Mak Tak Cheong, Edmund (note 1)

Mr. Chan Wai Lok (陳偉樂先生) (note 2)

COMPANY SECRETARIES

Mr. Mak Tak Cheong, Edmund (note 1)

Ms. Xie Dong

Mr. Chan Wai Lok (note 2)

AUDIT COMMITTEE

Mr. Han Ying

Mr. Li Lu-an

Mr. Lu Jiang

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

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www.wumart.com

STOCK CODE

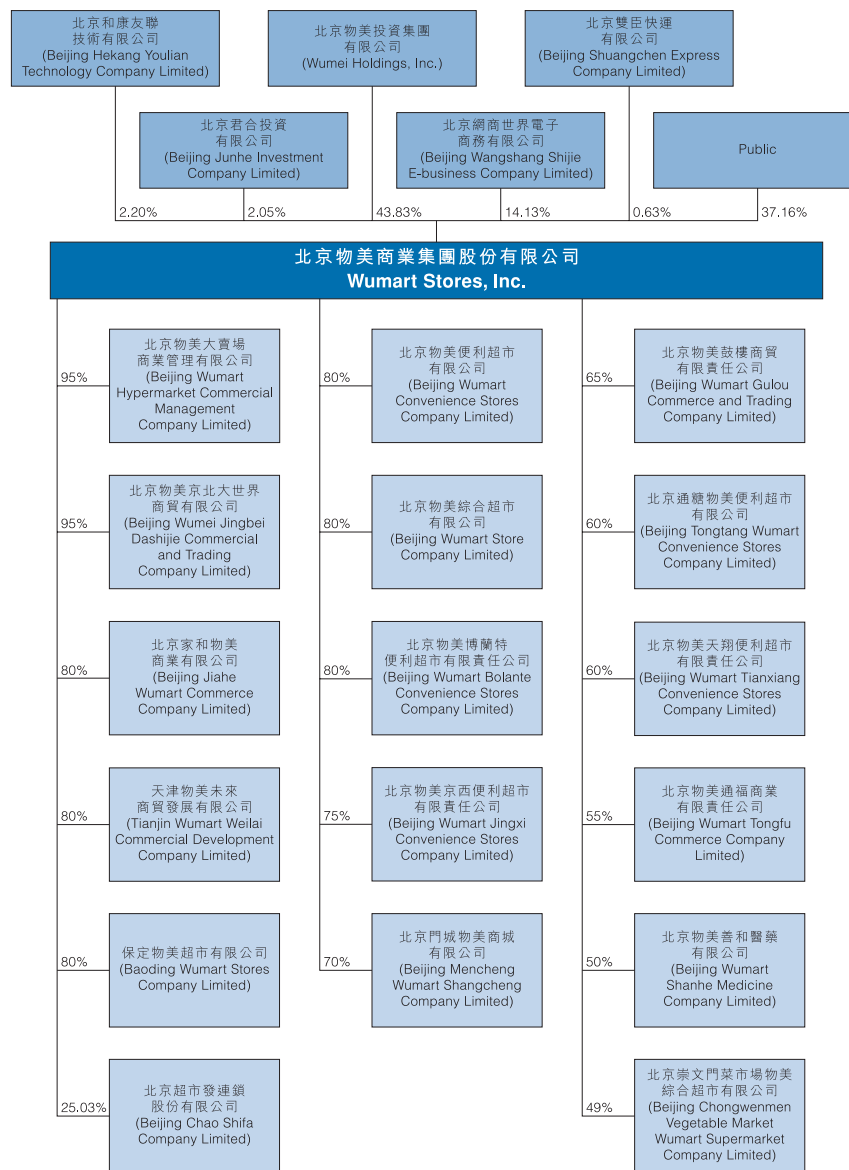
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Note 1: Mr. Mak Tak Cheong, Edmund resigned as the qualified accountant and one of the joint company secretaries of the Company on 8th January, 2005 (for details, please refer to the Company's announcement dated 8th January, 2005 — Resignation of joint company secretary and qualified accountant).

Note 2: Mr. Chan Wai Lok was appointed as the qualified accountant and one of the joint company secretaries of the Company on 8th March, 2005 (for details, please refer to the Company's announcement dated 8th March, 2005 — Appointment of qualified accountant and one of the joint company secretaries of the Company).

Shareholding and Group Structure

As at 31st December, 2004, the shareholding and corporate structure of Wumart Stores, Inc. ("the Company") and its subsidiaries (collectively referred to as the "Group" or the "Wumart Group") and associated companies was as follows:



04 Chairman's Statement

Dear Shareholders:

I am pleased to present the report on the audited results of the Wumart Group for the year ended 31st December, 2004 (the "Period").

APPRECIATION

During the Period, we maintained a rapid pace of development and have sustained significant growth in terms of the number of operational outlets, turnover and net profits. On behalf of the board of Directors (the "Board"), I would like to express my sincere appreciation to our investors, loyal customers and suppliers for their unfailing and generous support to the Group during the Period.

REVIEW OF RESULTS

- Our retail network comprised of 453 outlets, 98 more or an increase of 28% as compared with 2003;
- Comparable store sales (the turnover of a particular store in respect of different periods of time) increased by 9.5% as compared with 2003;
- Turnover amounted to approximately RMB2,597,283,000, representing a growth of 64.9% as compared with 2003;
- Gross profit amounted to approximately RMB384,327,000, representing a growth of 46.6% as compared with 2003;
- Net profit reached approximately RMB107,937,000, representing a growth of 50.8% as compared with 2003;
- Gross profit margin was 14.8%;
- Net profit margin was 4.2%; and
- Final dividend per share was RMB0.18 (tax inclusive).

During the Period, the Group succeeded in sustaining rapid growth in profitability while continued to expand the scale of its business operations.

It remained the Group's long-term strategy to persist in regional developments. The Group procured rapid growth in its retail network through a combination of new stores development, collaborative arrangements with third parties, mergers and acquisitions and the purchase of commercial facilities at strategic locations in the PRC.

During the Period, the Company acquired a 25.03% interest and held as trustee a further 34.77% interest in Beijing Chao Shifa Company Limited (北京超市發連鎖股份有限公司) ("Chao Shifa"). The acquisition of Chao Shifa has increased the Group's market share in respect of retail business in Beijing. With the acquisition of all assets and related businesses of Beijing Jingbei Dashijie Commercial and Trading Group (北京市京北大世界商貿集團) ("Dashijie"), the Group's retail network has extended to Huairou District in Beijing, reinforcing further its position as Beijing's leading chain retail operator.

During the Period, the Company also stepped up expansion in areas surrounding Beijing and enhanced its regional dominance in the chain retail market in the Northern regions of the PRC by acquiring the entire chain store operation of Tianjin Daiei International Trade Company Limited (天津大榮國際貿易有限公司) ("Tianjin Daiei").

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. Immediately after completion of the placing, the Company had a total number of issued share of 283,987,000 shares, including 105,542,000 H shares. The successful placing underpins investors' strong confidence in the Group and the recognition of the Group's value and future development potential on the back of its sound operating results.

The Group made persistent efforts to increase competitiveness and sustained stable growth in comparable store sales with improved operational efficiency by way of stringent cost controls, enhanced management system and strict controls over operation processes.

The Group is led by a professional and experienced management team with sound academic qualifications and an international background. It is supported by a highly efficient and specialized operations team, whose professional skills and management standards are constantly upgraded through ongoing training. It is with the support of such a high-calibre team, which endorses and manifests in practice the philosophy of the Group, that the Group has been able to grow from strength to strength.

PROSPECTS

China continued to enjoy steady economic growth in 2004, registering a year-on-year GDP growth of 9.5% and a growth of 13.3% in gross retail sales of consumer goods. The Board believes that there remains bright prospects for development and enormous growth potential for China's retail industry.

China's retail industry was opened to foreign investments to a greater extent in December 2004 pursuant to China's commitment for its accession to the WTO. However, in practice, global leaders in the retail industry have already established their presence in the PRC market for some years. It is anticipated that the domestic retail market will grow more rapidly in a more open marketplace environment.

With opportunities as well as challenges ahead, the Group will adhere to its principle of persisting in the strategy of regional development in pursuit of rapid network expansion through consolidation of resources. Management standards and operational skills will be upgraded to bring further efficiency improvements to operational processes and management systems. Human resources will be better managed to sustain and enhance competitiveness, hence to establish the Group as the leading retail chain operator with absolute competitive advantage in Beijing, and a promising retailer with solid foundations, sustained growth, focused management and in-depth know-how.

I share with the management team full confidence in the prospects of the Group and its ability to reward investors with positive results by achieving rapid and sustainable growth. Thanks are due to the staff for their contributions during the year and I look forward to them matching or exceeding their past achievements in the coming year with the same dedication and commitment.

Dr. Zhang Wen-zhong
Chairman

Beijing, the PRC
1st March, 2005

Management Discussion and Analysis

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During the Period, the Group achieved outstanding results and generated approximately RMB2,597,283,000 in turnover and approximately RMB107,937,000 in net profit with a retail network comprising 453 outlets, mainly attributable to the relentless efforts of the Board and all members of the staff.

FINANCIAL REVIEW

Financial Highlights

(in RMB'000)

	Year ended 31st December,		Percentage of year-
	2004	2003	on-year increase (%)
Turnover	2,597,283	1,574,862	64.9
Gross Profit	384,327	262,088	46.6
Operating Profit	164,978	101,976	61.8
Net Profit	107,937	71,596	50.8
Basic earnings per share (RMB)	0.39	0.38	2.6

Note: The calculation of basic earnings per share of the Company is based on a net profit of approximately RMB107,937,000 in 2004 (2003: approximately RMB71,596,000) and on the weighted average number of 276,201,000 shares in issue in 2004 (2003: 188,084,000 shares).

Segment information by store formats

(in RMB'000)

	2004				2003			
	Supermarkets	Convenience Stores	Hypermarkets	Total	Supermarkets	Convenience Stores	Hypermarkets	Total
Turnover								
Sales of merchandise	1,352,073	430,921	599,783	2,382,777	1,046,171	362,505	32,387	1,441,063
Rental income from leasing of shop premises	41,903	17,261	12,187	71,351	34,904	17,749	2,846	55,499
Service income	97,234	21,485	39,644	158,363	70,033	17,898	—	87,931
	1,491,210	469,667	651,614	2,612,491	1,151,108	398,152	35,233	1,584,493
Business tax and other governmental charges	(7,064)	(4,615)	(3,529)	(15,208)	(6,692)	(2,688)	(251)	(9,631)
	1,484,146	465,052	648,085	2,597,283	1,144,416	395,464	34,982	1,574,862
Cost of sales	(1,247,340)	(389,373)	(576,243)	(2,212,956)	(960,645)	(320,920)	(31,209)	(1,312,774)
Gross profit	236,806	75,679	71,842	384,327	183,771	74,544	3,773	262,088
Gross profit margin	15.96%	16.27%	11.09%	14.80%	16.06%	18.85%	10.79%	16.64%

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, the Group recorded a turnover of approximately RMB2,597,283,000, an increase of approximately 64.9% from 2003. The increase in the Group's turnover in 2004 was mainly attributable to the increase in the number of retail outlets, and the encouraging growth in comparable store sales of approximately 9.5%.

Turnover by store formats

	Year ended 31st December,			
	2004		2003	
	(in RMB'000)		(in RMB'000)	
Supermarkets	1,484,146	57.1%	1,144,416	72.7%
Convenience stores	465,052	17.9%	395,464	25.1%
Hypermarkets	648,085	25.0%	34,982	2.2%
Total	2,597,283	100%	1,574,862	100%

For the years ended 31st December, 2004 and 31st December, 2003, turnover attributable to supermarkets accounted for approximately 57.1% and 72.7% of the Group's total turnover respectively, turnover attributable to convenience stores accounted for approximately 17.9% and 25.1% of the Group's total turnover respectively, while turnover attributable to hypermarkets accounted for approximately 25.0% and 2.2% of the Group's total turnover respectively. Turnover from hypermarkets rose sharply mainly due to the increase of the number of hypermarkets directly controlled and operated by the Group increased to five in 2004, as compared to only one in 2003 which became operational by the end of 2003.

During the Period, the substantial increase in the Group's turnover was mainly attributable to the following factors:

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

The Group is rapidly expanding its number of retail outlets through new stores development, collaboration with other third parties, mergers and acquisitions as well as purchase of commercial facilities at strategic locations. During the Period on a direct ownership basis, the number of hypermarkets increased to 5, and the number of supermarkets increased to 26 whilst the number of convenience stores increased to 126 in 2004. The increase in the number of outlets drove up the transactions volume, thereby increasing the total turnover attributable to the Group's store operations.

- (II) *Commitment 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 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.

Turnover by activities

	Year ended 31st December,			
	2004	Percentage of total turnover %	2003	Percentage of total turnover %
	(in RMB'000)		(in RMB'000)	
Sales of merchandise	2,382,777	91.2	1,441,063	90.9
Rental income from leasing of shop premises	71,351	2.7	55,499	3.5
Service income	158,363	6.1	87,931	5.6
	<u>2,612,491</u>	<u>100</u>	<u>1,584,493</u>	<u>100</u>
Business tax and other governmental charges	<u>(15,208)</u>		<u>(9,631)</u>	
Turnover	<u>2,597,283</u>		<u>1,574,862</u>	

Sales of merchandise accounted for the majority of the Group's total turnover in 2004 and 2003, representing approximately 91.2% and 90.9% respectively of the total turnover of the Group. The Board believes that merchandise sales will remain the Group's major revenue contributor in future.

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. On the other hand, rental income and service income both demonstrated an increasing trend from 2003. The increase was mainly attributable to an increase in rental space for new stores coupled with increase in rent upon renewal of expired lease. The growth in service income was mainly attributable to a higher rate of agreed service fee attributable to the Group's stronger bargaining power as a result of increased purchases from suppliers following the new opening of 98 outlets during the Period.

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Cost of sales and gross profit margin

The Group's cost of sales for 2004 and 2003 amounted to approximately RMB2,212,956,000 and RMB1,312,774,000 respectively, resulting in a gross profit margin of approximately 14.8% and 16.6% respectively. The decrease in gross profit margin was mainly attributable to the increase in sales at cost to managed stores and related companies, discounting which the Group would have had a gross profit margin of approximately 18.7%.

During the Period, the Group's other operating income amounted to approximately RMB58,842,000, representing approximately 2.3% of the Group's total turnover, as compared to that of approximately 1.4% for 2003. Approximately RMB7,249,000 (being approximately 12% of the Group's other operating income) out of the sum represented government subsidies received in 2004.

Operating costs and net profit

During the Period, the Group's administrative expenses amounted to approximately RMB86,319,000, representing approximately 3.3% of the Group's total turnover, as compared to that of approximately 4.1% for 2003. The administrative expenses mainly comprised personnel-related expenses, amounting to approximately RMB40,048,000, and rental expenses amounting to approximately RMB7,264,000.

During the Period, the Group's selling and distribution costs amounted to approximately RMB191,872,000, accounting for approximately 7.3% of the Group's total turnover, as compared to approximately 7.4% for 2003. Selling and distribution costs mainly included personnel-related expenses amounting to approximately RMB48,770,000 and rental expenses amounting to approximately RMB44,034,000. Improvements in administrative expenses and selling and distribution costs over 2003 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, the Group's finance costs amounted to approximately RMB692,000, as compared to approximately RMB1,384,000 for 2003. The decrease in finance costs was mainly attributable to the Group's partial repayment of its bank loans.

During the Period, the Group achieved net profit of RMB107,937,000, an increase of approximately RMB36,341,000 or approximately 50.8% from approximately RMB71,596,000 in 2003. Net profit margin for the Group was 4.2%, compared to 4.6% in 2003. The drop in net profit margin was mainly attributable to the increase in sales at cost to managed stores and related companies, discounting which the Group would have had an increased net profit margin to 5.3% for 2004.

Liquidity and financial resources

The Group mainly financed its capital requirement by cash income from operations during the Period. As at 31st December, 2004, the Group had non-current assets of approximately RMB556,494,000, which mainly comprised fixed assets and construction in progress of approximately RMB421,073,000 and interests in associated companies of approximately RMB114,100,000.

As at 31st December, 2004, the Group had net current assets of approximately RMB628,207,000. Current assets mainly comprised cash and deposits with banks and other financial institutions of approximately RMB724,257,000, inventories of approximately RMB147,410,000, prepayments, deposits and other receivables of approximately RMB166,039,000, and amounts due from related parties of approximately RMB133,611,000. Current liabilities amounted to approximately RMB659,113,000, mainly comprising trade payables of approximately RMB464,252,000, other payables, deposits received and accruals of approximately RMB161,862,000, and tax payable of approximately RMB20,103,000.

During the Period, the Group's average account payable turnover was 60 days, as compared with 48 days for 2003. Inventory turnover remained at 23 days.

As at 31st December, 2004, the Group had a sound financial position without any bank borrowings. The Group was in a net cash position with zero leverage (arrived at by dividing net debt by shareholders' equity).

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BUSINESS REVIEW

Retail Network

During the Period, the Group continued to pursue its regional expansion strategy by means of new stores development, collaborative arrangements with other third party enterprises, mergers and acquisitions, franchise arrangements and management agreements as well as purchase of commercial facilities at strategic locations with a primary focus in Beijing, Tianjin and Hebei aiming at rapid expansion of its retail chain. As at 31st December, 2004, the retail network (hereinafter referred to as the "Retail Network") of the Group and its associated companies consisted of a total of 453 stores (excluding stores owned by Chao Shifa, Dashijie and Tianjin Daiei), comprising 6 hypermarkets, 33 supermarkets, 406 convenience stores and 8 drug stores which were either directly owned or operated and managed by the Group and its associated companies through franchise arrangements or various Management Agreements (for details, please refer to the Company's prospectus dated 11th November, 2003 (the "Prospectus") and the Company's announcement dated 12th November, 2004 — Delay in Acquisition of Interest in Beijing Wumart Pujinda Convenience Stores Company Limited, Continuing Connected Transactions and Refreshment of General Mandate Before Next Annual General Meeting).

Number of stores directly owned or franchised by the Group and its associated companies are as follows:

	As of 31st December, 2004	As of 31st December, 2003	Region
Hypermarkets	5	1	Beijing, Tianjin
Supermarkets (<i>Note 1</i>)	27	24	Beijing, Hebei
Convenience stores			
Direct ownership (<i>Note 2</i>)	134	124	Beijing
Franchise (<i>Note 3</i>)	235	165	Beijing
Drug stores	8	8	Beijing
Total	409	322	

Number of stores operated and managed by the Group under various Management Agreements (the "Managed Stores") are as follows:

	As of 31st December, 2004	As of 31st December, 2003	Region
Hypermarkets	1	1	Beijing
Supermarkets	6	2	Tianjin, Hebei
Convenience stores	37	30	Beijing, Tianjin
Total	44	33	

Notes:

1. Comprised 26 self-owned stores and 1 store owned through an associated company as at 31st December, 2004.
2. Comprised 126 self-owned stores and 8 stores owned through an associated company as at 31st December, 2004.
3. Franchise stores refer to outlets operated and managed by the Group through various franchise arrangements.

Store Operations

Hypermarkets

During the Period, our hypermarket operations grew at an accelerated pace with the number of stores increasing from 2 to 6 and total saleable area of operations reaching 40,284 square metres. This rapid development was also a major contributor to the growth of the Group's turnover as it extended the commercial reach of the Group in Beijing and Tianjin areas and thus expanding its market share in the respective retail market.

During the Period, renovation was made to the fresh food sections at all our hypermarkets, involving improvements to lighting, expansion of fresh food areas and additions to the varieties of fresh product offerings etc. This has resulted in an increased daily transaction volume.

During the Period, the Company acquired property rights to basement level 1, ground floor, first floor and second floor of Huatian Building, with an approximately total gross floor area of 15,280 square metres (at a consideration of approximately RMB142 million) which will be exclusively used for hypermarket operations. It is located in a densely populated area at Lian Hua Chi East Road, Xiao Ma Chang, Haidian District, Beijing in the PRC and is only approximately 1 km from Beijing West Train Station which is the largest train station in the PRC. Apart from the positive effect on the Company's turnover and profitability, the new opening of this outlet is also expected to enhance reputation of the

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“Wumart” brand name to a great extent, signifying an important step in the Group’s attempt to establish “Wumart” as a national brand name (for details, please refer to the Company’s announcement dated 30th November, 2004 (Discloseable Transaction)).

Supermarkets

Supermarket operation is the Group’s core business and is the most developed mode of retail format of the Group. During the Period, a total of 33 supermarkets were owned and/or operated by the Group. The total saleable area increased to 68,714 square metres.

During the Period, a number of the Group’s supermarkets changed their floor plannings by installing additional operating facilities, whilst a common standard of product display became applicable to the entire store chain. The standardisation in appearance and layout has enhanced the overall image of the Group’s supermarket outlets.

During the Period, steps were taken to boost the sense of service quality of our frontline teams by setting standards of practice aiming at customer service excellence. In the meantime, a series of community activities were carried out, such as our marketing activities called “No Worries Shopping at Wumart” (放心購物在物美) in advocacy of the World Consumer Rights Day on 15th March, 2004 which featured free dissemination of information about various merchandise items. The activity was well received by customers.

Convenience Stores

During the Period, 13 new directly-owned stores were opened and 3 existing ones were closed. In respect of franchise stores, 98 were opened while 28 existing stores were closed. For managed stores, the Group opened 10 stores in Tianjin area and closed 3. Total saleable area for convenience stores (exclude franchise stores) increased to 34,781 square metres.

During the Period, the Group adhered to its pursuit of pragmatism and attention to details by amending and formulating 28 documents of operational rules, including Stock Order Procedures, Administrative Rules for File Management and Integrated Administrative Rules for Store Inspection, enhancing management of basic routines and further improving operational efficiency.

In an initiative to safeguard reputation of the Wumart brand name, the Group continued to strengthen management over franchises by formulating the Documents for Management Filing of Franchise Stores and amending the Three-Tier Management of Customer Complaints for Franchise Stores and the Franchise Store Inspection Schedule. Stores in breach of franchise rules and regulations were handled with severe penalties to ensure that operations and product offerings of franchise stores are up to the Group’s standards in terms of provision of services.

Breakfast-related items such as steam buns, coffee making, milk and juice are now available at more than 70 of our stores in Beijing area. This easy access and convenience has attracted regular and repeated patronage.

Other operations — drug stores

By setting up chain drug stores, the Group aimed to introduce pharmaceutical services to its retail stores to offer more comprehensive services to its customers.

Prospects and Strategy

The year 2004 saw the highest level of economic growth in Beijing in 10 years with a year-on-year growth rate of 13.2% based on comparable prices, which was 2.5 percentage points higher compared with the previous year. The healthy trend of the city's steady and sustainable economic growth has set the scene for continued rapid economic development in 2005.

The Group will continue to enhance its core competence and strengthen its operational management by implementing a process management mechanism that emphasizes effective systems, standards and a straightforward approach. This comprehensive process management model will be implemented throughout the Group to improve effectiveness through process management and to generate efficiencies by the implementation of effective systems and standards.

We will conduct thorough reviews of our under-achievements as well as achievements in 2004, seeking to further standardize and improve fundamental skills such as those applicable to market research, sales planning, brand promotion, information management and centralized distribution, and be innovative. The Group will endeavour to expand its retail network swiftly by actively engaging in mergers and acquisitions, the construction of new commercial facilities etc, assuring growth in both business scale and profitability such that it claims leadership not only on the back of its size, but also its underlying strengths.

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

The Company had no material acquisition or capital expenditure plan as of 31st December, 2004.

16 Review of Business Objectives

The following is a comparison between the actual business progress for the six months ended 31st December, 2004 and the business objectives as set out in the Prospectus for the same period.

STORE NETWORK EXPANSION

	Implementation schedule as set out in the Prospectus	Current progress
Hypermarkets	Open not less than 2 hypermarkets in Beijing and surrounding areas	Opened 1 new hypermarket in Beijing (<i>note 1</i>).
Supermarkets	Open not less than 7 supermarkets in Beijing and surrounding areas	Opened 2 new supermarkets in Beijing (<i>note 2</i>).
Convenience Stores	Open not less than 32 directly-owned convenience stores in Beijing and surrounding areas	Opened 5 directly-owned convenience stores in Beijing (<i>note 3</i>).
	Open not less than 48 convenience stores in Beijing and surrounding areas under franchise arrangements	Opened 29 convenience stores in Beijing under franchise arrangements (<i>note 4</i>).

Notes:

1. A total of 4 hypermarkets were opened during the Period, which was in line with the expansion plan for the year 2004 in respect of hypermarket network as set out in the Prospectus.
2. This number is in addition to stores owned by Chao Shifa, Dashijie and Tianjin Daiei.
3. On-site visits were paid to various potential sites of new openings of convenience stores. To secure the quality and profitability of new stores, the Company has adopted prudent measures for new store opening.
4. As a measure to ensure compliance with the Group's operational standards in its franchised operations to avoid management problems arising from pursuit of high pace of growth which would otherwise be detrimental to its reputation, the Group tightened its requirements of franchised operations and standards of new access in order to maintain the positive image of Wumart along with its profit-making initiatives.

Brand management

	Implementation schedule set out in the Prospectus	Current progress
Enhancing the quality of customer services	Introduce the "Wumart Community" concept	Introduction of the "Wumart Community" concept by boosting service items and facilities at our stores to add varieties to our menu of merchandise to cater to the daily needs of consumers.
	Introduce and offer additional value-added services to customers	Shoppers were offered convenience with the more frequent free shopping shuttles running more routes as well as the expansion of parking lots at our hypermarkets.
		Breakfast-related items were added to the service menu of convenience stores to provide nutritious food offerings to customers.
Enhancing the quality of merchandise offered	Launch various Wumart Group's customers surveys on services, merchandise and pricing satisfactions	Customer surveys were conducted in the form of questionnaire and telephone interviews to understand customers' perception of product quality, varieties and after-sale services which would form the basis for future improvements.
	Continue the sampling checks campaign on all categories of merchandise offered	The operations 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	Introduce "Wumart" branded beverages and spirits	Introduced 10 items of "Wumart" branded beverages and spirits.

Operating, information and logistics systems enhancement

	Implementation schedule set out in the Prospectus	Current progress
Supermarkets/ hypermarkets	Launch the centralised logistics services to certain Wumart Group's supermarkets	Centralised logistics services were made available to certain supermarkets.
	Set up a centralised database to facilitate information exchange across different departments	The Group underwent network renovations to facilitate communication across departments. A database server was set up to enable information exchange.
	Complete automation of human resources management system	The Group completed automation of its human resources management system, moving a step forward in the development of human resources management.
Convenience Stores	Research and improvement of operations	A new direct commissioning system was put in practice in selected directly-owned stores as a measure to motivate store managers. Substantial increase in turnover was recorded. Franchised operations were put under tighter control with the establishment of an assessment mechanism to penalize and expel stores which fail to comply with the Group's standards. The ultimate aim is to create a virtuous cycle in the management of franchised operations.
	Formulate standardised procedures to enhance operations efficiency	Certain standard procedures were amended and formulated to regulate operations of stores to enhance operations efficiency.
	Continue the installation of the integrated "purchase-sell-inventory" system to achieve individual product management	An integrated "purchase-sell-inventory" system was installed in all stores except those under Beijing Tongtang Wumart Convenience Stores Company Limited.

Staff training

Implementation schedule set out in the Prospectus	Current progress
Offer additional training courses to the headquarters' professional staff	A number of training sessions were provided to professional employees at our headquarter encompassing principles of cooperation, details management and introductory finance knowledge.
Offer training courses to newly-employed staff to promote the unique culture of Wumart Group	Apart from attending training sessions on Wumart culture, every new recruit was assigned a mentor by the human resources department for the inculcation of Wumart's corporate culture.

20 Use of Proceeds

During the Period, the Company applied the proceeds from the listing for the purposes listed in the Prospectus, a comparison of which is set out as follows:

	Intended application for six months ended 31st December, 2004 HK\$'000	Actual application for six months ended 31st December, 2004 HK\$'000	Unutilised balance as at 31st December, 2004 HK\$'000
Store network expansion			
Hypermarkets — open not less than 2 hypermarkets in Beijing and surrounding areas	80,000	37,540	42,460
Supermarkets — open not less than 7 supermarkets in Beijing and surrounding areas	25,000	11,350	13,650
Convenience Stores — open not less than 32 convenience stores in Beijing and surrounding areas	1,200	11,710	(10,510)
	106,200	60,600	45,600
Brand management			
Enhancing quality of customer services Enhancing quality of merchandise offered/ introducing new "Wumart" branded merchandise	300	4,900	(4,600)
Operating, information and logistics systems enhancement			
Supermarkets/Hypermarkets	5,800	13,700	(7,900)
Convenience stores	1,900	3,400	(1,500)
	7,700	17,100	(9,400)
Staff training			
Continue first batch of EMBA training programme and commence second batch of EMBA training programme	100	300	(200)
Working capital	5,900	—	5,900
Total	120,200	82,900	37,300

For the six months ended 31st December, 2004, proceeds actually applied by the Company were approximately HK\$82,900,000, which were less than the proposed applications of HK\$120,200,000 for same period stated in the Prospectus mainly as a result of the opening of one new hypermarket (instead of two as planned) during the second half of the year.

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

Net proceeds from placing of H Shares on 9th June, 2004 amounted to approximately HK\$248,200,000, out of which approximately HK\$134,000,000 were used in the acquisition of Huatian Building (for details, please refer to the Company's announcement dated 30th November, 2004 — Discloseable Transaction) and HK\$114,200,000 will be used to settle 84% of the consideration for the acquisition of the Huixin Store ("Beijing Huixin Hypermarket") owned by Beijing Wumart Hypermarket Commerce Company Limited ("Beijing Hypermarket") (for details, please refer to the Company's announcement dated 31st December, 2004 — Discloseable and Connected Transaction).

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

22 Directors, Supervisors and Senior Management Profile

DIRECTORS

Executive Directors

Dr. Zhang Wen-zhong (張文中博士), aged 42, is chairman and president of the Company and chairman of Wumei Holdings, Inc. ("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. Since 1994, Dr. Zhang has been chairman of Wumei Holdings. Dr. Zhang was appointed Chairman and President of the Company since its formation in August 2000.

Dr. Wu Jian-zhong (吳堅忠博士), aged 47, is vice chairman and a vice president of the Company and chairman of Beijing Wangshang Shijie E-business Company Limited (the "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). 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. Wu has been general manager of the human resources and administration department of the Company since August 2004.

Dr. Meng Jin-xian (蒙進暹博士), aged 48, 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). 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 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 41, is a non-executive Director of the Company and an executive director of Wumei Holdings. Mr. Wang received his master degree in law from China University of Political Science and Law (中國政法大學). 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.

directors, supervisors
and senior management profile**Independent non-executive Directors**

Mr. Han Ying (韓英先生), aged 69, is an independent non-executive Director. Mr. Han holds a bachelor's degree from the Beijing Institute of Mines (北京礦業學院). 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 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.

Mr. Li Lu-an (李祿安先生), aged 61, is the chairman of National Travel United Company Limited (國旅聯合股份有限公司). During the period from 1998 to early 2002, Mr. Li was director of Huaxia Travel Net (華夏旅遊網), a subsidiary of TOM Group Limited which is listed on the Stock Exchange of Hong Kong Limited. Mr. Li has served as chairman in various companies and has been the vice president of China Travel Association (中國旅遊協會), the China Mid-Western District Economic Development Consultant, a consultant to the Strategic Development Commission of the World Travel Organization. Mr. Li was appointed as independent non-executive director of the Company in September 2004.

Mr. Lu Jiang (呂江先生), aged 48, is the chairman of Yongtuo Engineering Company Limited (北京永拓工程造價諮詢有限責任公司), the chairman and general manager of Beijing Yongtuo Accountants Company Limited (北京永拓會計師事務所有限責任公司), a committee member of the Beijing Registered Accountants Association (北京註冊會計師協會) and a committee member of Beijing Asset Valuation Association (北京資產評估協會). Mr. Lu is a PRC certified public accountant and has more than 13 years of experience in accounting, auditing, asset valuation and management. Mr. Lu was appointed as independent non-executive director of the Company in September 2004.

SUPERVISORS**Supervisor nominated by shareholders or employees**

Mr. Wang Jin-yue (王勁躍先生), aged 46, 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 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.

directors, supervisors and senior management profile

Members of the independent supervisors

Mr. Fan Kui-jie (范奎杰先生), aged 41, 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 (袁州礦業集團) 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 41, 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. 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 40, was the Company's chief financial officer and one of the joint company secretaries of the Company during the Period. He is also a qualified accountant. 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 Institute of Certified Public 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. Mr. Mak resigned as qualified accountant and joint company secretary of the Company for personal reasons on 8th January, 2005.

Ms. Li Dong-nu (李冬女士), aged 51, 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). 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 and Wumart Bolante Convenience Stores Company Limited. 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.

directors, supervisors
and senior management profile

Ms. Zhang Feng-ru (張鳳茹女士), aged 56, is the general manager of the convenience store department of the Company. Ms. Zhang graduated from Beijing Administration for Industry and Commerce Employee University (北京市二商局職工大學), majoring in enterprise management (企業管理). From 1999 to 2000, Ms. Zhang was the general manager of the human resources department of Wumei Holdings. From August 2000 to August 2004, Ms. Zhang has acted as the general manager of the human resources and administration department of the Company. Since August 2004, Ms. Zhang has been General Manager of the convenience store department of the Company.

Mr. Xu Shao-chuan (許少川先生), aged 33, 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). 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 37, 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). 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. Xu Ying (徐瑩女士), aged 40, associate director of finance, holds an MBA Degree from Meinders School of Business, Oklahoma City University, US. Before joining Wumart, from 1987 to 2001 she served at Tianjin International Trust and Investment Corp, as investment manager, between 1996 and 2000, she was appointed as Director, Vice President of Sino Korean Joint Venture LG Company in China. From 2001 Ms. Xu was invited to teach and research as associate professor at Tianjin University of Finance and Economics in the field of business logistics and supply chain management. Ms. Xu formally joined Wumart in 2004 as the associate director of finance.

Ms. Xie Dong (謝東女士), aged 36, 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. 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.

26 Report of the Board

The Board is pleased to present the report of the Group for the year ended 31st December, 2004 to the shareholders.

PRINCIPAL ACTIVITIES AND RESULTS

With a view to “developing China’s own retail industry and improving the public’s living quality”, the Group 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 of the Company’s subsidiaries are set out in note 15 to the financial statements.

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 AND CUSTOMERS

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 and sales to the five largest customers of the Group in aggregate accounted for less than 30% of the consolidated turnover of the Group.

SHARE CAPITAL

Name of shareholder	Nature of shares	Number of shares (shares)	As a percentage of total share capital (%)
Wumei Holdings	Domestic shares	124,483,232	43.83
Beijing Hekang Youlian Technology Company Limited (the “Hekang Youlian”)	Domestic shares	6,245,575	2.20
Beijing Junhe Investment Company Limited (the “Junhe Investment”)	Domestic shares	5,817,307	2.05
Wangshang Shijie E-business	Domestic shares	40,114,436	14.13
Beijing Shuangchen Express Company Limited	Domestic shares	1,784,450	0.63
The public	H shares	105,542,000	37.16
Total share capital		283,987,000	100.00

Details of the movement in the Company's share capital during the period are set out in note 26 to the financial statements.

FIXED ASSETS

Details of movements in fixed assets of the Group are set out in note 14 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, 2004 were approximately RMB107,206,000 (2003: approximately RMB59,485,000).

DISTRIBUTION OF DIVIDEND

The Directors have proposed a dividend of RMB0.18 per share (tax inclusive) payable to the shareholders whose names appear on the register of members of the Company on 29th March, 2005, subject to approval by way of an ordinary resolution at the annual general meeting. Payment to domestic shareholders will be made in RMB. Payment to H shareholders will be made in Hong Kong dollars.

The register of members of the Company will be closed from 24th March, 2005 to 29th March, 2005, both days inclusive. The Company is to hold the annual general meeting of 2004 on 29th April, 2005, hence, there will be another 30 days closed for the register of members of the Company from 29th March, through 29th April, 2005, both days inclusive.

SUBSIDIARIES

Details of the Company's subsidiaries during the period under review are set out in note 15 to the financial statements.

PLEDGE OF THE GROUP'S ASSETS

During the Period, 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.

EXCHANGE RATE RISK

The majority of the income and expenses of the Group are denominated in RMB. Proceeds from our initial public offering and placing in Hong Kong dollars have been converted into 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 31st December, 2004.

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

As at 31st December, 2004, the interests or short positions of the Directors, supervisors and chief executives 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, 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 Rule 5.52 of the GEM Listing Rules were as follows:

Long positions in Domestic Shares of the Company

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

Notes:

- 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 Beijing CAST Technology Investment Company Limited (the "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 (the "Zhongsheng Huate") and Beijing Jingxi Guigu Technology Company Limited (the "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, 2004, none of the Directors, supervisors, chief executives of the Company or their respective associates had any 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 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 5.52 of the GEM Listing Rules.

During the year ended 31st December, 2004, 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 31st December, 2004, the interests or short positions of persons other than the Directors, supervisors or chief executives recorded in the register required to be kept pursuant to section 336 of the SFO were as follows:

Long Position in the Domestic Shares

Name	Number of domestic shares	Approximate percentage of total issued domestic share capital (%)
Dr. Zhang Wen-zhong (張文中博士) (note 1)	124,483,232	69.76
Dr. Wu Jian-zhong (吳堅忠博士) (note 2)	40,114,436	24.48
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	24.48
Dr. Meng Jin-xian (蒙進暹博士) (note 3)	12,062,882	6.76

Notes:

- 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.
- 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.
- Junhe Investment is owned as to 40% by Dr. Meng Jin-xian, and therefore Dr. Meng Jin-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 held 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 held by Hekang Youlian. Dr. Meng Jin-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.

Long Position in the H shares of the Company

Name	Number of H shares held	Approximate percentage of the total issued H share capital (%)
JPMorgan Chase & Co. <i>(note 1)</i>	16,320,072	15.46
The Capital Group Companies, Inc. <i>(note 2)</i>	12,802,000	12.13
Morgan Stanley <i>(note 3)</i>	9,058,000	8.58
Fidelity International Limited <i>(note 4)</i>	8,343,000	7.90
Invesco Asia Limited <i>(note 5)</i>	7,339,000	6.95

Notes:

1. 5,317,000 H shares were held by JPMorgan Chase & Co. in its capacity as investment manager and 11,003,072 H shares were held in its capacity as custodian corporation/approved lending agent.
2. These 12,802,000 H shares were held by The Capital Group Companies, Inc. in its capacity as investment manager.
3. These 9,058,000 H shares were deemed corporate interests under the SFO indirectly held by a company in which Morgan Stanley controlled.
4. These 8,343,000 H shares were held by Fidelity International Limited in its capacity as investment manager.
5. These 7,339,000 H shares were held by Invesco Asia Limited in its capacity as investment manager.

Save as disclosed above, no person had registered an interest or short position in the shares or underlying shares of the Company that was required to be disclosed under Divisions 2 and 3 of Part XV of the SFO and the GEM Listing Rules.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

At the first extraordinary general meeting convened by the Company on 24th September, 2004, Mr. Li Lu-an and Mr. Lu Jiang were appointed as independent non-executive Directors of the Company. At the same time, Dr. Robert E. Larson, an independent non-executive Director, has resigned with effect from 24th September, 2004 due to his personal commitment with other matters and difficulties arising from his residence in California of the United States. As a result, the Board will have 3 independent non-executive Directors including Mr. Lu Jiang who has expertise in the accounting or related financial management field (for details, please refer to the Company's announcement dated 24th September, 2004 (changes in directorship)).

The Company has received an annual confirmation of independence from each of the three independent non-executive Directors that as of 31st December, 2004, each of them was independent of and not connected with the promoters, Directors, supervisors, chief executives, senior management, controlling shareholders, substantial shareholders, management shareholders or any of their respective associates, nor do they have interest in any share within the meaning of Part XV of the SFO.

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 34 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.

AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive Directors, namely Mr. Han Ying, Mr. Li Lu-an and Mr. Lu Jiang, with Mr. Han Ying as the chairman of the audit committee. During the reporting period, the Company convened four sessions of audit committee meetings in compliance with GEM Listing Rules 5.28 to 5.33. 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.

BOARD PRACTICES AND PROCEDURES

The Company had complied with the board practices and procedures set out in GEM Listing Rules 5.34 to 5.45 during the period.

STANDARD OF DEALINGS AND MODEL CODE OF PRACTICE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a model code of practice with standards not lower than those required for securities transactions by directors. The Company has confirmed after making due enquiries with the Directors in accordance with the code of practice, that all the Directors have complied with the standard of dealings and model code of practice in relation to securities transaction by directors.

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.

CONNECTED TRANSACTIONS

Connected transactions entered into by the Company during 2004 are set out in note 34 to the financial statements.

In report of the connected transaction entered into by the Company, the Company has strictly complied with the relevant provisions of the GEM Listing Rules relatively to connected transactions.

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

- (I) entered into during the ordinary and usual course of business of the Company;
- (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 appropriate) 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.

On 12th November, 2004, the Company entered into (a) a Management Agreement with Wumei Holdings and Beijing Wumart Pujinda Convenience Stores Company Limited ("Beijing Pujinda"); (b) a Management Agreement with Wumei Holdings and Beijing Hypermarket; and (c) a Management Agreement with Wumei Holdings and the Tianjin subsidiaries (*note*) for (1) the supply of merchandise by the Company to Beijing Pujinda, Beijing Huixin Hypermarket and the Tianjin subsidiaries; (2) the delivery of merchandise by the Company to Beijing Pujinda and the Tianjin subsidiaries; and (3) the provision of management services by the Company to Beijing Pujinda, Beijing Huixin Hypermarket and the Tianjin subsidiaries (for details, please refer to the Company's announcement dated 12th November, 2004 (Delay in acquisition of interest in Beijing Wumart Pujinda Convenience Stores Company Limited, continuing connected transactions and refreshment of general mandate before next annual general meeting)).

The three aforesaid Management Agreements and transactions contemplated thereunder constitute continuing connected transactions of the Company within the meanings of "continuing connected transaction" set out in Chapter 20 of the GEM Listing Rules. Terms of the continuing connected transactions have been negotiated on an arm's length basis. The Directors (including independent non-executive Directors) consider that each of the continuing connected transactions is entered into on normal commercial terms and in the ordinary and usual course of business of the Company and that the terms of the continuing connected transactions and the relevant annual caps are fair and reasonable

and in the interests of the Company and its shareholders as a whole. The Company has been in strict compliance with the requirements of reporting, announcement and independent shareholders' approval stipulated by the GEM Listing Rules.

Pursuant to the Acquisition Agreement dated 29th October, 2003 between Wumei Holdings and Beijing Hypermarket, details of which are set out in the Prospectus, the Company and Beijing Hypermarket entered into the Asset Acquisition Agreement (the "Asset Acquisition Agreement", details of which are set out in the announcement dated 31st December, 2004 — Discloseable and Connected Transaction). Pursuant to the Asset Acquisition Agreement, the Company would acquire the entire business operations and assets of Beijing Huixin Hypermarket, at a consideration of approximately RMB143,560,000. The acquisition constitutes a connected transaction of the Company within the meaning of "Connected Transaction" set forth in Chapter 20 of the GEM Listing Rules. An annual general meeting of the Company will be convened shortly in compliance with the GEM Listing Rules to seek shareholders' approval of the acquisition.

note: Tianjin subsidiaries include Tianjin Hedong Wumart Commerce Company Limited, Tianjin Hebei Wumart Convenience Stores Company Limited, Tianjin Hezuo Wumart Commerce Company Limited, Tianjin NanKai Shidai Wumart Commerce Company Limited, Tianjin Hongqiao Wumart Convenience Stores Company Limited and Tianjin Wumart Huaxu Commerce Development Company Limited.

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 Company 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 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 Group's major target areas for development, or subject to legal problems in respect of certain properties, the Group has, with the approval of the then independent non-executive Directors (being Mr. Han Ying and Dr. Robert E. Larson), referred those Business Opportunities to Wumei Holdings or its subsidiaries in accordance with the Non-competition Agreement.

Pursuant to the Acquisition Agreement dated 29th October, 2003 between Wumei Holdings and Beijing Pujinda, details of which are set out in the prospectus, the Company was required to enter into a separate conditional transfer agreement (the "Pujinda Transfer Agreement") with Beijing Pujinda by 31st December, 2004. Due to the absence of proper legal titles to the relevant stores, a supplemental agreement was entered into between the Company, Wumei Holdings and Beijing Pujinda on 12th November, 2004 to amend terms of the Acquisition Agreement so that the deadline for entering into Pujinda Transfer Agreement will be postponed to 31st December, 2006 (for details, please refer to the Company's announcement dated 12th November, 2004 (Delay in acquisition of interest in Beijing Wumart Pujinda Convenience Stores Company Limited, continuing connected transactions and refreshment of general mandate before next annual general meeting)).

The Directors confirm that Wumei Holdings has transferred its entire interests in Hebei Wumart Commerce Company Limited ("Hebei Wumart") to third parties independent of the Company. The Company is also entrusted by an independent third party to operate and manage two supermarkets previously owned by Hebei Wumart.

LITIGATION

On 18th May, 2004 and 20th May, 2004, the Company received notification from the Beijing Municipal First Intermediate People's Court (北京市第一中級人民法院) ("**First Intermediate Court**") ("**First Claim**") and the Beijing Municipal High-Level People's Court (北京市高級人民法院) ("**Beijing High Court**") ("**Second Claim**"), respectively, that a shareholder ("**Chao Shifa Shareholder**") of Chao Shifa has instituted civil proceedings against, inter alia, the Company.

The First Claim relates to the share purchase agreement ("**Share Purchase Agreement**") entered into between the Company and 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) ("**Vendor**"), pursuant to which, the Vendor has agreed to sell, and the Company has agreed to purchase, 23,020,000 issued and fully paid up shares of RMB1.00 each in the share capital of Chao Shifa. In the First Claim, Chao Shifa Shareholder alleges that the Share Purchase Agreement and the transactions contemplated thereunder are in breach of various PRC legal requirements relating to the transfer of staff shares in joint stock limited companies as well as the articles of association of the Vendor and Chao Shifa. Chao Shifa Shareholder has applied to the court for, inter alia, (a) a declaration that the Share Purchase Agreement is invalid; (b) an injunction to restrain the Company from enforcing the term of the Share Purchase Agreement; (c) an order to restore the shareholding structure of Chao Shifa to that of immediately prior to the execution of the Share Purchase Agreement; and (d) an order requiring the Company and the Vendor to bear all costs relating to the First Claim.

The Second Claim relates to 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 in trust for CSSAM for a period of one year commencing from 22nd April, 2004. In the Second Claim, in addition to the allegations in the First Claim, Chao Shifa Shareholder also alleges that the

Trust Agreement and the transactions contemplated thereunder are in breach of, PRC legal requirements relating to the transfer of control in listed companies, the asset reorganization agreement between Chao Shifa and Chao Shifa Shareholder and the articles of association of Chao Shifa. In addition to the remedies referred to in the paragraph above, 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 Company and CSSAM to bear all costs relating to the Second Claim.

On 13th May, 2004, Chao Shifa Shareholder applied to First Intermediate Court for the withdrawal of the First Claim. Before such application was approved, notification of the First Claim was despatched and was received by the Company on 18th May, 2004. On the same day, the application for withdrawal of the First Claim was approved by First Intermediate Court. On 20th May, 2004, the Company received notification of the Second Claim.

On 6th September, 2004, Chao Shifa received notification from the Beijing High Court that Chao Shifa Shareholder has instituted civil proceedings ("**Third Claim**") against Chao Shifa. In the Third Claim, Chao Shifa Shareholder alleges that Chao Shifa is in breach of various provisions under an asset reorganization agreement and a capital increase agreement (together, the "**Chao Shifa Agreements**") entered into between Chao Shifa and Chao Shifa Shareholder on 18th December, 2001 and 26th February, 2002, respectively. Pursuant to the Chao Shifa Agreements, Chao Shifa Shareholder has injected 22 stores, a distribution centre, staff and related liabilities into Chao Shifa and acquired 34.77% of the equity interest in Chao Shifa. Chao Shifa Shareholder has applied to the court for (a) an order to terminate the Chao Shifa Agreements; (b) an order requiring Chao Shifa to return all the assets contributed by Chao Shifa Shareholder pursuant to the Chao Shifa Agreements; and (c) an order requiring Chao Shifa to bear all costs relating to the Third Claim.

On 10th November, 2004, the Beijing High Court ordered that the trial of the Second Claim be suspended because its outcome depends on how the court construes the provisions of the Chao Shifa Agreements in the trial of the Third Claim, which has not yet been concluded. The Directors were not aware of any new developments of the Third Claim as at 31st December, 2004.

Save as disclosed, the Directors are not aware of any litigation or claims of material importance pending or threatened against any member of the Group.

Material Adverse Change

As at 31st December, 2004, the Directors confirm that there is no material adverse change in the financial or trading position of the Group.

SPONSOR'S INTERESTS

Pursuant to the sponsor agreement dated 10th November, 2003 entered into between the Company and Cazenove Asia Limited, Cazenove Asia Limited (the "Sponsor") has been appointed as the sponsor of the Company for the remainder of the year ended 31st December, 2003 and for the period of two years thereafter until 31st December, 2005 and the Sponsor is entitled to receive from the Company an agreed amount of fee for its provision of services.

The Company was informed by the Sponsor that, as at 31st December, 2004 neither Cazenove Asia Limited nor any of its directors, employees or associates (as referred to in Note 3 to GEM Listing Rules 6.35) had any interests in the securities of the Company or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group. The Company was also informed by the Sponsor that none of the Sponsor or its directors, employees or associates (as referred to in GEM Listing Rules 6.36) has any competing interest.

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. Deloitte Touche Tohmatsu acted as the auditors of the Company for the past three years.

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

Beijing, PRC
1st March, 2005

Report of the Supervisory Committee

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 Board, 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 2004 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,
1st March, 2005

Report of the Auditors

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Deloitte.

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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 42 to 75 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 Institute of Certified Public 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, 2004 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
1st March, 2005

Consolidated Income Statement

For the year ended 31st December, 2004

	Notes	2004 RMB'000	2003 RMB'000
Turnover	4	2,597,283	1,574,862
Cost of sales		(2,212,956)	(1,312,774)
Gross profit		384,327	262,088
Other operating income	6	58,842	21,873
Administrative expenses		(86,319)	(64,184)
Selling and distribution costs		(191,872)	(117,801)
Profit from operations	7	164,978	101,976
Finance costs	8	(692)	(1,384)
Loss on disposal of subsidiaries		—	(74)
Share of results of associates		10,325	7,931
Profit before taxation		174,611	108,449
Taxation	11	(62,221)	(35,097)
Profit before minority interests		112,390	73,352
Minority interests		(4,453)	(1,756)
Net profit for the year		107,937	71,596
Dividend	12	51,118	—
Earnings per share — basic	13	RMB0.39	RMB0.38

Consolidated Balance Sheet

At 31st December, 2004

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	Notes	2004 RMB'000	2003 RMB'000
Non-current assets			
Property, plant and equipment	14	421,073	132,528
Interests in associates	16	114,100	39,321
Goodwill	17	1,004	1,004
Negative goodwill	18	—	(111)
Prepaid rentals (non-current portion)		20,317	—
		556,494	172,742
Current assets			
Inventories	19	147,410	127,951
Investments in securities	20	12,125	15,001
Trade receivables	21	3,878	6,608
Prepayments, deposits and other receivables		166,039	130,893
Amounts due from related parties	22	133,611	122,210
Pledged deposit	23	100,000	—
Trust monies placed with a financial institution	24	450,000	—
Cash and bank balances		274,257	571,559
		1,287,320	974,222
Current liabilities			
Trade payables	25	464,252	258,984
Other payables, deposits received and accruals		161,862	67,294
Amounts due to related parties	22	12,893	949
Dividend payable		3	3
Taxation payable		20,103	9,411
		659,113	336,641
Net current assets		628,207	637,581
		1,184,701	810,323

consolidated balance sheet

at 31st december, 2004

	<i>Notes</i>	2004 RMB'000	2003 RMB'000
Capital and reserves			
Share capital	26	283,987	266,397
Reserves	27	882,613	529,113
Minority interests		1,166,600	795,510
		18,101	14,813
		1,184,701	810,323

The financial statements on pages 42 to 75 were approved and authorised for issue by the Board of Directors on 1st March, 2005 and are signed on its behalf by:

Wu Jian-zhong
DIRECTOR

Meng Jin-xian
DIRECTOR

Balance Sheet

At 31st December, 2004

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	Notes	2004 RMB'000	2003 RMB'000
Non-current assets			
Property, plant and equipment	14	211,188	59,093
Investments in subsidiaries	15	99,770	49,720
Interests in associates	16	107,400	33,736
Prepaid rentals (non-current portion)		1,276	—
		419,634	142,549
Current assets			
Inventories	19	52,387	57,140
Investments in securities	20	12,125	15,001
Trade receivables	21	1,037	4,411
Prepayments, deposits and other receivables		117,532	120,727
Amounts due from related parties	22	398,651	267,889
Pledged deposit	23	100,000	—
Trust monies placed with a financial institution	24	450,000	—
Cash and bank balances		218,768	541,582
		1,350,500	1,006,750
Current liabilities			
Trade payables	25	458,337	254,634
Other payables, deposits received and accruals		108,564	37,050
Amounts due to related parties	22	80,865	61,136
Dividend payable		3	3
Taxation payable		7,717	9,292
		655,486	362,115
Net current assets		695,014	644,635
		1,114,648	787,184
Capital and reserves			
Share capital	26	283,987	266,397
Reserves	27	830,661	520,787
		1,114,648	787,184

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2004

	Total equity
	RMB'000
<hr/>	
At 1st January, 2003	186,396
Issue of shares	582,675
Share issue expenses	(45,157)
Net profit for the year	71,596
<hr/>	
At 31st December, 2003 and 1st January, 2004	
— as originally stated	795,510
— adoption of HKFRS 3 — derecognition of negative goodwill	111
<hr/>	
— as restated	795,621
Issue of shares	271,291
Share issue expenses	(8,249)
Net profit for the year	107,937
<hr/>	
At 31st December, 2004	<u>1,166,600</u>

Consolidated Cash Flow Statement

For the year ended 31st December, 2004

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	Notes	2004 RMB'000	2003 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		174,611	108,449
Adjustments for:			
Interest expenses		692	1,384
Share of results of associates		(10,325)	(7,931)
Loss on disposal of subsidiaries		—	74
Depreciation and amortisation		25,912	16,573
Loss on disposal of property, plant and equipment		—	515
Unrealised loss (gain) on investments in securities		2,876	(530)
Realised gain on investments in securities		(124)	(205)
Allowances for bad and doubtful debts		—	18
Amortisation of goodwill		—	117
Release of negative goodwill to income		—	(14)
Interest income		(22,507)	(801)
Operating cash flows before movements in working capital		171,135	117,649
Increase in inventories		(19,459)	(56,865)
Decrease (increase) in trade receivables		2,730	(4,726)
Increase in prepayments, deposits and other receivables		(55,463)	(24,464)
Increase in amounts due from related parties		(11,401)	(76,631)
Increase in trade payables		205,268	101,786
Increase in other payables, deposits received and accruals		94,568	17,168
Increase (decrease) in amounts due to related parties		11,944	(3,984)
Cash generated from operations		399,322	69,933
Income tax paid		(46,837)	(23,321)
NET CASH FROM OPERATING ACTIVITIES		352,485	46,612
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(315,507)	(63,725)
Proceeds from disposal of property, plant and equipment		1,050	267
Acquisition of a subsidiary	28	—	(34,875)
Disposal of subsidiaries	29	—	10,712
Investments in associates		(73,664)	(4,461)
Purchases of investments in securities		(80,000)	(28,800)
Proceeds from disposal of investments in securities		80,124	31,670
Increase in pledged deposit		(100,000)	—
Interest received		22,507	801
Dividend received from an associate		4,518	3,430
Dividend paid to minority shareholders of subsidiaries		(1,665)	—
Increase in amounts due from related parties		—	(20,480)

consolidated cash flow statement

for the year ended 31st december, 2004

	2004 RMB'000	2003 RMB'000
NET CASH USED IN INVESTING ACTIVITIES	(462,637)	(105,461)
FINANCING ACTIVITIES		
Net proceeds from issue of shares	263,042	537,518
Contribution by a minority shareholder of a subsidiary	500	—
New bank borrowings raised	—	40,000
Repayments of bank borrowings	—	(64,000)
Interest paid	(692)	(1,384)
NET CASH FROM FINANCING ACTIVITIES	262,850	512,134
NET INCREASE IN CASH AND CASH EQUIVALENTS	152,698	453,285
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	571,559	118,274
CASH AND CASH EQUIVALENTS AT END OF YEAR	724,257	571,559
Trust monies placed with a financial institution	450,000	—
Cash and bank balances	274,257	571,559
	724,257	571,559

Notes to the Financial Statements

For the year ended 31st December, 2004

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1. GENERAL

The Company is 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 hypermarkets, supermarkets and convenience stores.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has considered these new HKFRSs but does not expect that the issuance of these HKFRSs will have a material effect on how the results of operations and financial position of the Group are prepared and presented. The Group has early adopted the following new HKFRSs from 1st January, 2004. The revised accounting policies are set out in note 3.

HKFRS 3	Business Combinations
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets

HKFRS3 supersedes Hong Kong Standard Statement of Accounting Practices ("SSAP") 30 "Business Combinations" and sets out the requirement of accounting for business combinations for which the agreement date is on or after 1st January, 2005.

In previous years, goodwill was capitalised and amortised on a straight-line basis over its useful economic life of 10 years and was assessed for an indication for impairment at each balance sheet date. Negative goodwill was recognised as income on a straight-line basis over the useful life of the identified acquired depreciated assets of 10 years.

The adoption of HKFRS 3 from 1st January, 2004 has resulted in the Group ceasing annual amortisation of goodwill and to test for impairment annually at the cash generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently) and to recognise excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over cost immediately in the income statement.

notes to the financial statements

For the year ended 31st December, 2004

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

In accordance with the transitional provision of HKFRS 3, the Group ceased amortisation of goodwill from 1st January, 2004 and eliminate the carrying amount of the accumulated amortisation of approximately RMB211,000 with a corresponding decrease in the cost of goodwill. The carrying amount of negative goodwill of approximately RMB111,000 at 1st January, 2004 is derecognised with the corresponding adjustment to the accumulated profits as at 1st January, 2004.

This change in accounting policy has resulted in an increase in the profit of approximately RMB3,056,000 for the current year and an increase in accumulated profits of approximately RMB111,000 as at 1st January, 2004.

3. 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.

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 the conditions relating to the subsidies have been fulfilled.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is presented separately in the balance sheet. Goodwill on acquisition of the associate is included in investments in associates. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Goodwill already carried in the balance sheet ceased to amortise after 1st January, 2004. Goodwill is carried at cost less any accumulated impairment losses.

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 (net of any accumulated impairment loss) on acquisition.

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.

Property, plant and equipment

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

notes to the financial statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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 of assets excluding goodwill

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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. Net realisable value represents the estimated selling price less all estimated costs to be incurred 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, 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.

notes to the financial statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

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.

4. TURNOVER

	2004 RMB'000	2003 RMB'000
Sales of merchandise	2,382,777	1,441,063
Rental income from leasing of shop premises	71,351	55,499
Service income, including store display income and promotion income	158,363	87,931
	2,612,491	1,584,493
Business tax and other governmental charges	(15,208)	(9,631)
	<u>2,597,283</u>	<u>1,574,862</u>

notes to the financial statements
For the year ended 31st December, 2004

5. SEGMENT INFORMATION

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

6. OTHER OPERATING INCOME

	2004 RMB'000	2003 RMB'000
Government subsidies	7,249	5,756
Interest income	22,507	801
Delivery service income	17,231	7,059
Others	11,855	8,257
	<u>58,842</u>	<u>21,873</u>

7. PROFIT FROM OPERATIONS

	2004 RMB'000	2003 RMB'000
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	1,696	760
Amortisation of goodwill (included in administrative expenses)	—	117
Depreciation and amortisation	25,912	16,573
Realised gain on investments in securities	(124)	(205)
Unrealised loss (gain) on investments in securities	2,876	(530)
Operating lease rentals in respect of rented premises	51,298	35,080
Loss on disposal of property, plant and equipment	—	515
Allowances for bad and doubtful debts	—	18
Release of negative goodwill to income (included in other operating income)	—	(14)
Staff costs:		
Directors' and supervisors' remuneration	1,561	1,047
Other staff costs		
— Salaries and other benefits	76,726	57,863
— Retirement benefits scheme contributions	10,531	5,252
	<u>88,818</u>	<u>64,162</u>

notes to the financial statements

For the year ended 31st December, 2004

8. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interests on bank borrowings wholly repayable within five years	692	1,384

9. DIRECTORS' AND SUPERVISORS' REMUNERATION

	2004 RMB'000	2003 RMB'000
Directors and supervisors:		
Fees	85	30
Salaries and other benefits	1,396	954
Retirement benefits scheme contributions	80	63
	<u>1,561</u>	<u>1,047</u>

The emoluments of directors and supervisors during the period are stated as follows:

	2004 RMB'000	2003 RMB'000
Director A	349	230
Director B	—	59
Director C	515	333
Director D	465	313
Director E	36	15
Director F	27	15
Director G	11	—
Director H	11	—
Supervisor A	75	66
Supervisor B	36	8
Supervisor C	36	8
	<u>1,561</u>	<u>1,047</u>

The amounts disclosed above included directors' fees of RMB85,000 (2003: RMB30,000) payable to independent non-executive directors. No other emoluments were paid to the independent non-executive directors during the year.

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

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.

10. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals included three (2003: three) directors of the Company for the year (details of whose remuneration are set out in note 9 above), the emoluments of the remaining two (2003: two) highest paid individuals for the year were as follows:

	2004 RMB'000	2003 RMB'000
Salaries and other benefits	1,095	560
Retirement benefits scheme contributions	34	17
	<u>1,129</u>	<u>577</u>

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.

notes to the financial statements

For the year ended 31st December, 2004

11. TAXATION

	2004 RMB'000	2003 RMB'000
The charge comprises:		
PRC income tax attributable to the Company and its subsidiaries	57,529	32,197
Share of taxation of associates	4,692	2,900
	<u>62,221</u>	<u>35,097</u>

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:

	2004 RMB'000	2003 RMB'000
Profit before taxation	174,611	108,449
Taxation at the income tax rate of 33%	57,622	35,788
Tax effect of share of results of associates	1,512	283
Effect of government subsidies that are not assessable in determining taxable profit	(2,392)	(1,899)
Tax effect of expenses that are not deductible in determining taxable profit	5,479	925
Taxation for the year	<u>62,221</u>	<u>35,097</u>

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

notes to the financial statements
For the year ended 31st December, 2004

12. DIVIDEND

	2004	2003
	RMB'000	RMB'000
Domestic shares and H Shares:		
Final, proposed — RMB0.18 per share (2003: Nil)	51,118	—

The final dividend of RMB0.18 per share (2003: Nil) has been proposed by the directors and is subject to approval by shareholders in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the net profit for the year of RMB107,937,000 (2003: RMB71,596,000) and on the (2003: 188,084,000) weighted average number of 276,201,000 shares in issue during the year.

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

14. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RMB'000	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
THE GROUP							
COST							
At 1st January, 2004	3,794	27,715	63,796	61,957	11,965	711	169,938
Additions	54,762	151,627	53,285	49,828	6,005	—	315,507
Transfer	(852)	—	—	852	—	—	—
Disposals	—	—	(801)	(1,309)	(369)	—	(2,479)
At 31st December, 2004	57,704	179,342	116,280	111,328	17,601	711	482,966
DEPRECIATION AND AMORTISATION							
At 1st January, 2004	—	—	18,561	14,131	4,480	238	37,410
Provided for the year	—	1,449	9,585	11,505	3,319	54	25,912
Eliminated on disposals	—	—	(54)	(1,126)	(249)	—	(1,429)
At 31st December, 2004	—	1,449	28,092	24,510	7,550	292	61,893
NET BOOK VALUES							
At 31st December, 2004	57,704	177,893	88,188	86,818	10,051	419	421,073
At 31st December, 2003	3,794	27,715	45,235	47,826	7,485	473	132,528

notes to the financial statements

For the year ended 31st December, 2004

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Electronic equipment RMB'000	Total RMB'000
THE COMPANY					
COST					
At 1st January, 2004	—	37,415	32,553	6,491	76,459
Additions	142,001	8,821	10,664	1,709	163,195
Disposals	—	—	(1,199)	(195)	(1,394)
At 31st December, 2004	142,001	46,236	42,018	8,005	238,260
DEPRECIATION AND AMORTISATION					
At 1st January, 2004	—	7,605	6,933	2,828	17,366
Provided for the year	—	4,815	4,157	1,804	10,776
Eliminated on disposals	—	—	(898)	(172)	(1,070)
At 31st December, 2004	—	12,420	10,192	4,460	27,072
NET BOOK VALUES					
At 31st December, 2004	142,001	33,816	31,826	3,545	211,188
At 31st December, 2003	—	29,810	25,620	3,663	59,093

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

15. INVESTMENTS IN SUBSIDIARIES

	2004 RMB'000	2003 RMB'000
Unlisted equity investments, at cost	99,770	49,720

15. INVESTMENTS IN SUBSIDIARIES (Continued)

Details of the Company's subsidiaries as at 31st December, 2004, 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		Principal activities
		Directly	Indirectly	
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 Stores Company Limited 北京物美綜合超市有限公司	10,000,000	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%	—	Supermarket
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
Beijing Jiahe Wumart Commerce Company Limited 北京家和物美商業有限公司	10,000,000	80%	14.4%	Hypermarket
Tianjin Wumart WeiLai Commercial Development Company Limited 天津物美未來商貿發展有限公司	1,000,000	80%	19.2%	Hypermarket
Baoding Wumart Stores Company Limited 保定物美超市有限公司	1,000,000	80%	19.2%	Supermarket
Beijing Wumart Hypermarket Commercial Management Company Limited 北京物美大賣場商業管理有限公司	10,000,000	95%	4.8%	Hypermarket
Beijing Wumart Jingbei Dashijie Commercial and Trading Company Limited 北京物美京北大世界商貿有限公司	20,000,000	95%	4.8%	Inactive

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

notes to the financial statements

For the year ended 31st December, 2004

16. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted equity investments, at cost	—	—	107,400	33,736
Share of net assets	56,575	39,321	—	—
Goodwill (Note)	57,525	—	—	—
	114,100	39,321	107,400	33,736

Note: There is an ongoing litigation between Beijing Chao Shifa Company Limited ("Chao Shifa") and one of its shareholders in relation to the ownership of and the right to operate certain supermarkets. The outcome of such litigation may affect the net identifiable assets of Chao Shifa and accordingly, adjustment may have to be made to the goodwill amount.

Details of the Group's associates as at 31st December, 2004, 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
Chao Shifa 北京超市發連鎖股份有限公司	91,980,000	25.03%	Supermarkets
Beijing Wumart Shanhe Medicine Company Limited 北京物美善和醫藥有限公司	8,627,200	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 the PRC

notes to the financial statements
For the year ended 31st December, 2004

16. 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	
	2004	2003
	RMB'000	RMB'000
Result for the year		
Turnover	259,106	277,817
Net profit for the year	10,315	10,018
Attributable profit to the Group	5,054	4,909
Financial position		
Non-current assets	63,855	68,208
Current assets	66,868	50,907
Current liabilities	(58,487)	(48,196)
Non-current liabilities	(26)	(26)
Net assets	72,210	70,893
Net assets attributable to the Group	35,383	34,738

notes to the financial statements

For the year ended 31st December, 2004

17. GOODWILL

	THE GROUP RMB'000
<hr/>	
GROSS AMOUNT	
At 1st January, 2004	1,215
Eliminated on adoption of HKFRS 3	(211)
<hr/>	
At 1st January, 2004 and 31st December 2004	1,004
<hr/>	
AMORTISATION	
At 1st January, 2004	211
Eliminated on adoption of HKFRS 3	(211)
<hr/>	
At 1st January, 2004 and 31st December, 2004	—
<hr/>	
CARRYING AMOUNT	
At 31st December, 2004	1,004
<hr/>	
At 31st December, 2003	1,004
<hr/>	

18. NEGATIVE GOODWILL

	THE GROUP RMB'000
<hr/>	
GROSS AMOUNT	
At 1st January, 2004	139
Derecognised on adoption of HKFRS 3	(139)
<hr/>	
At 1st January, 2004 and 31st December, 2004	—
<hr/>	
RELEASE TO INCOME	
At 1st January, 2004	28
Derecognised on adoption of HKFRS 3	(28)
<hr/>	
At 1st January, 2004 and 31st December, 2004	—
<hr/>	
CARRYING AMOUNT	
At 31st December, 2004	—
<hr/>	
At 31st December, 2003	111
<hr/>	

notes to the financial statements
For the year ended 31st December, 2004

19. INVENTORIES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
At cost:				
Merchandise for resale	145,060	126,562	51,392	56,472
Consumables	2,350	1,389	995	668
	147,410	127,951	52,387	57,140

20. INVESTMENTS IN SECURITIES

	THE GROUP AND THE COMPANY	
	2004	2003
	RMB'000	RMB'000
Other securities:		
Investment fund listed in the PRC, at market value	12,125	15,001

21. 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	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
0-30 days	3,852	6,608	1,037	4,411
31-60 days	26	—	—	—
	3,878	6,608	1,037	4,411

notes to the financial statements

For the year ended 31st December, 2004

22. AMOUNTS DUE FROM/TO RELATED PARTIES

	2004 RMB'000	2003 RMB'000
THE GROUP		
Amounts due from associates	29,956	45,916
Amounts due from fellow subsidiaries	81,887	54,191
Amounts due from minority shareholders of subsidiaries	21,768	22,103
	<u>133,611</u>	<u>122,210</u>
Amount due to immediate holding company	—	(133)
Amount due to a fellow subsidiary	(12,893)	—
Amounts due to minority shareholders of subsidiaries	—	(816)
	<u>(12,893)</u>	<u>(949)</u>

The amounts due from associates and fellow subsidiaries are trading in nature, the age of these balances is within 30 days.

	2004 RMB'000	2003 RMB'000
THE COMPANY		
Amounts due from subsidiaries	286,808	167,782
Amount due from an associate	29,956	45,916
Amounts due from fellow subsidiaries	81,887	54,191
	<u>398,651</u>	<u>267,889</u>
Amount due to immediate holding company	—	(133)
Amounts due to subsidiaries	(67,972)	(61,003)
Amounts due to a fellow subsidiary	(12,893)	—
	<u>(80,865)</u>	<u>(61,136)</u>

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

notes to the financial statements

For the year ended 31st December, 2004

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23. PLEDGED DEPOSIT

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

24. TRUST MONIES PLACED WITH A FINANCIAL INSTITUTION

The amount represents trust monies placed with a financial institution incorporated in the PRC that is engaged in the business of assets management. The amount is repayable on demand and interest income is determined at a mutually agreed interest rate.

25. TRADE PAYABLES

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

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
0-30 days	168,876	94,093	165,452	89,743
31-60 days	284,472	159,142	284,472	159,142
61-90 days	5,670	3,691	5,670	3,691
Over 90 days	5,234	2,058	2,743	2,058
	464,252	258,984	458,337	254,634

notes to the financial statements

For the year ended 31st December, 2004

26. SHARE CAPITAL

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

Notes:

- (a) 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 of approximately RMB263 million were intended to be used for possible acquisition and/or investment of retail network. These shares rank pari passu with the existing H Shares in issue in all respects.
- (b) 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 the 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 other respects and in particular, rank equally for all dividends or distributions declared, paid or made.
- (c) As at 31st December, 2004, the Company's authorised and issued share capital of Domestic Shares and H Shares was RMB283,987,000 (2003: RMB266,397,000), divided into 283,987,000 (2003: 266,397,000) ordinary shares of RMB1 each.

notes to the financial statements
For the year ended 31st December, 2004

27. RESERVES

	Share premium 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, 2003	—	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					
— as originally stated	449,566	8,305	4,010	67,232	529,113
— adoption of HKFRS 3 (note 2)	—	—	—	111	111
— as restated	449,566	8,305	4,010	67,343	529,224
Premium arising on placing of shares	253,701	—	—	—	253,701
Share issue expenses	(8,249)	—	—	—	(8,249)
Net profit for the year	—	—	—	107,937	107,937
Profit appropriations	—	17,094	8,548	(25,642)	—
At 31st December, 2004	695,018	25,399	12,558	149,638	882,613
THE COMPANY					
At 1st January, 2003	—	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
Premium arising on placing of shares	253,701	—	—	—	253,701
Share issue expenses	(8,249)	—	—	—	(8,249)
Net profit for the year	—	—	—	64,422	64,422
Profit appropriations	—	11,133	5,568	(16,701)	—
At 31st December, 2004	695,018	19,053	9,384	107,206	830,661

notes to the financial statements

For the year ended 31st December, 2004

27. RESERVES (Continued)

Pursuant to the relevant PRC 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 regulations and the Articles of Association of the companies registered in the PRC 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.

28. ACQUISITION OF A SUBSIDIARY

For the year ended 31st December, 2003, 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)

notes to the financial statements
For the year ended 31st December, 2004

28. ACQUISITION OF A SUBSIDIARY (Continued)

The subsidiary acquired for the year ended 31st December, 2003 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 for that year.

29. DISPOSAL OF SUBSIDIARIES

	2004 RMB'000	2003 RMB'000
Property, plant and equipment	—	23,990
Inventories	—	2,062
Prepayments, deposits and other receivables	5,000	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)
	<u>5,000</u>	<u>11,989</u>
Attributable goodwill	—	87
Loss on disposal	—	(74)
	<u>5,000</u>	<u>12,002</u>
Satisfied by:		
Cash consideration received	—	11,627
Other receivables	5,000	—
Increase in amount due from immediate holding company	—	375
	<u>5,000</u>	<u>12,002</u>
Net cash inflow arising on disposal of subsidiaries:		
Cash consideration received	—	11,627
Bank balances and cash disposed of	—	(915)
	<u>—</u>	<u>10,712</u>

The subsidiaries disposed of for the year ended 31st December, 2003 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 to the Group's cash outflows from financing activities for that year.

notes to the financial statements

For the year ended 31st December, 2004

30. MAJOR NON CASH TRANSACTIONS

The Group entered into the following major non-cash transactions during the year:

- (i) The Group disposed of a subsidiary at a total consideration of RMB5,000,000 which was satisfied by an increase in other receivables.
- (ii) For the year ended 31st December, 2003, 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.

31. 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	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	79,701	56,725	67,707	42,447
In the second to fifth year inclusive	318,046	189,103	274,875	140,857
Over five years	604,631	518,270	510,418	402,064
	1,002,378	764,098	853,000	585,368

Leases are negotiated for an average term of 10 years.

32. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditures contracted for but not provided in the financial statements in respect of				
— property, plant and equipment	96,991	8,945	96,991	672
— investments in subsidiaries	145,420	5,400	145,420	5,400
	242,411	14,345	242,411	6,072

33. 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 (the "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 (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 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.

Based on the PRC legal opinions, the Directors consider that the Claim does not and would not have a material adverse impact on the validity of the Acquisition Agreement and the Trust Agreement. The trial of the Claim has not yet commenced as at the date of the annual report.

notes to the financial statements

For the year ended 31st December, 2004

34. RELATED PARTY TRANSACTIONS

- (i) Apart from the amounts due from and to related companies as disclosed in note 22, during the year, the Group had the following related party transactions:

	<i>Notes</i>	2004 RMB'000	2003 RMB'000
Sales to an associate	<i>(a)</i>	212,139	129,722
Sales to fellow subsidiaries	<i>(a)</i>	299,159	59,510
Service fee income from a fellow subsidiary in respect of merchandise delivery services	<i>(b)</i>	1,003	459
Service fee income from an associate in respect of merchandise delivery services	<i>(b)</i>	2,899	3,170
Service fee income from fellow subsidiaries in respect of providing market materials	<i>(b)</i>	582	613
Service fee to a related company in respect of computer software application and support services	<i>(b)</i>	1,200	280
Management fee income from fellow subsidiaries	<i>(b)</i>	603	103
Purchase of property plant and equipment from immediate holding company	<i>(c)</i>	—	2,342

Notes:

- (a) Sales were made at cost.
- (b) The transaction was transacted at terms agreed by both parties.
- (c) The property, plant and equipment were acquired/disposed of at the net book values.

34. RELATED PARTY TRANSACTIONS (Continued)

- (ii) For the year ended 31st December, 2003, the Group acquired and disposed of certain subsidiaries from/to its 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
Acquisition				
Wumart Convenience	8th April, 2003	60%	27,596	27,803
Disposal				
Beijing Wumart Pujinda Convenience Stores Company Limited	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 its immediate holding company to acquire the entire interest in Da Hong Men Procurement and Logistics Centre of the immediate holding company, an operational department, at a total consideration of RMB9,760,000, which represented the fair value of the net assets at the 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.

76 Financial Summary

	For the year ended 31st December,			
	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000
RESULTS				
Turnover	2,597,283	1,574,862	1,097,526	689,772
Profit from operations	164,978	101,976	38,579	27,455
Finance costs	(692)	(1,384)	(3,256)	(3,497)
Loss on disposal of subsidiaries	—	(74)	—	—
Share of results of associates	10,325	7,931	6,963	—
Profit before taxation	174,611	108,449	42,286	23,958
Taxation	(62,221)	(35,097)	(14,438)	(9,456)
Profit before minority interests	112,390	73,352	27,848	14,502
Minority interests	(4,453)	(1,756)	(412)	1,111
Net profit for the year	107,937	71,596	27,436	15,613
	As at 31st December,			
	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000
ASSETS AND LIABILITIES				
Total assets	1,843,814	1,146,964	427,455	518,566
Total liabilities	(659,113)	(336,641)	(229,229)	(388,915)
Minority interests	(18,101)	(14,813)	(11,830)	(10,418)
Shareholders' funds	1,166,600	795,510	186,396	119,233

Note: The results of the Group for 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.