ANNUAL REPORT 2005

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)

Stock Code : 8277

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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 annual 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

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)
Ms. Yan Li-xia (閆立霞女士)

SENIOR MANAGEMENT

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)
Mr. Chan Wai Lok (陳偉樂先生)

QUALIFIED ACCOUNTANT

Mr. Chan Wai Lok (CPA)

COMPANY SECRETARIES

Ms. Xie Dong
Mr. Chan Wai Lok (CPA)

AUDIT COMMITTEE

Mr. Han Ying
Mr. Li Lu-an
Mr. Lu Jiang

REMUNERATION COMMITTEE

Dr. Wu Jian-zhong
Mr. Han Ying
Mr. Li Lu-an

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 in association with
Orrick, Herrington & Sutcliffe LLP

As to PRC Law:
Haiwen & Partners

PRINCIPAL BANKERS

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

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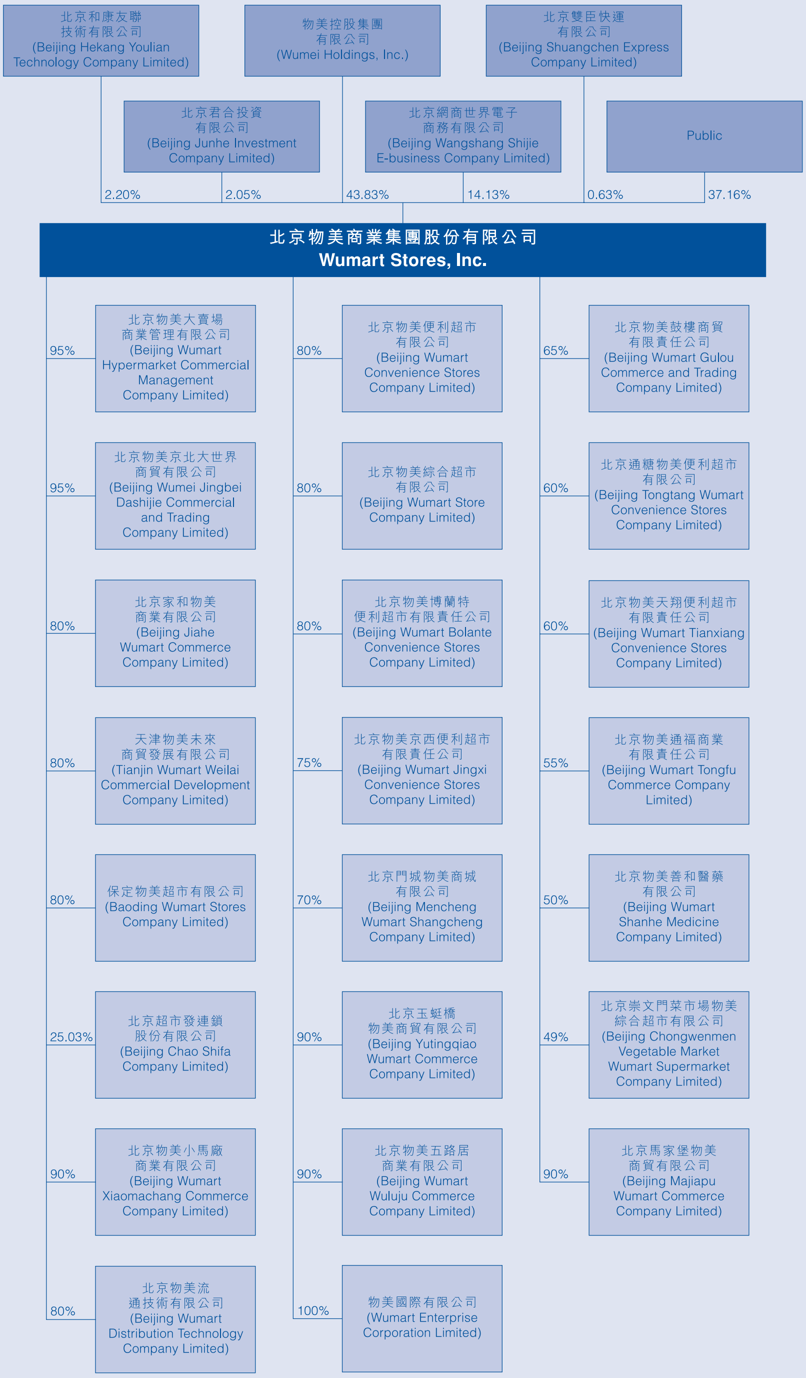
WEBSITE

www.wumart.com

STOCK CODE

8277

As at 31st December, 2005, the 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:



Dear Shareholders:

I am pleased to present the report on the audited results of the Wumart Group for the year ended 31st December, 2005 (the "Period").

APPRECIATION

During the Period, the Group kept on maintaining a rapid pace of development and sustaining its profitability, with significant growth in terms of its retail network, turnover and net profit. On behalf of the board of Directors (the "Board"), I would like to express my sincere appreciation to our investors, loyal customers, suppliers and the community for their generous and continuous support to the Group during the Period.

REVIEW OF RESULTS

- Our retail network comprised 503 outlets, 50 more in number or a 40.6% increase in terms of net saleable area as compared with 2004;
- Revenue amounted to approximately RMB3,918,598,000, representing a growth of 50.9% as compared with 2004;
- Gross profit amounted to approximately RMB629,382,000, representing a growth of 63.8% as compared with 2004;
- Net profit reached approximately RMB164,533,000, representing a growth of 52.4% as compared with 2004;
- Consolidated gross profit margin was approximately 16.1%;
- Net profit margin was approximately 4.2%;
- Comparable store sales (turnover recognized by a particular store in respect of different periods of time) increased by approximately 7.5% as compared with 2004; and
- Final dividend per share was RMB0.18 (tax inclusive).

During the Period, it remained the Group's strategy to persist in regional developments. Through a combination of new stores development and pursuit of mergers and acquisitions, the Group procured an expanding scale of operations with an increasingly stronger operational capability and sustainable and stable profitability.

During the Period, 50 outlets or an additional 58,429 square metres of net saleable area were added to our retail network, including 6 in the form of hypermarkets. Hypermarkets and supermarkets have emerged as our major business and principal source of our operating income. Given the increasing number of retail outlets and the continuous improvement in our sales capability, coupled with the on-going integration of our procurement system as well as regulation and standardization of store management, the Group achieved a substantial increase in operating income and an upward trend in consolidated gross profit margin, which translated to a satisfactory level of profit margin under our effective cost control measures.

Based on our long-term apprehension of the local market and consumer preferences and in view of the gradual change in consumption habits of the general public in China, the Group adopted a diversified strategy in operating its various formats of retail outlets with distinct features and advantages, so as to cater to the different needs of different groups of consumers. From store layout to product offering, we set out to be customer-oriented and respond promptly to market development. To establish itself as a customer-oriented brand and enterprise, Wumart has had its various management functions implemented at its retail frontlines, thereby establishing sound and responsive mechanisms adaptable to different spheres of the market.

Based on a pragmatic approach, the management team of the Group kept on refining expansion and operational strategies to suit the domestic market in light of local consumption patterns and development trends of retail industry. Our well-structured training methodology and effective performance appraisal system have ensured the effectiveness of our human resources and boosted the efficiency of our workforce. Through its recruitment exercises and development of its existing staff members, the Group managed to ensure an adequate reservoir of human resources.

Prospect

In continual pursuit of its regional expansion strategy with a primary focus in Beijing and its surrounding areas, the Group will strive to consolidate its position as a regional market leader and seek opportunities for an expansion of its retail network without compromising a steady trend of rapid growth of results and sustainable profitability. The Group will be committed to augmenting its core competence against an ever-changing competitive landscape. With our insight into the local market, advanced technology and innovative ideas on business operations, supported by our professional management team with high calibre, the Board and I are fully confident of the future development of the Group.

I would like to express my gratitude towards the dedication and hard work of our staff members throughout the year. Looking ahead, the new year will be full of competition as well as opportunities. It is through upholding proper strategies, the continual implementation of strategies and pursuit in learning and innovations that we will be in a position to grasp opportunities amid competition and continue to grow faster and stronger.

Dr. Zhang Wen-zhong
Chairman

Beijing, PRC
21st February, 2006

During the Period, the Group achieved outstanding results and generated approximately RMB3,918,598,000 in revenue and approximately RMB164,533,000 in net profit with an expansion of retail network to 503 outlets, thanks to the effort of the Board and all members of the staff.

FINANCIAL REVIEW

Financial Highlights

(in RMB'000)

	Year ended 31st December,		Percentage of year-on-year increase
	2005	2004	(%)
Revenue	**3,918,598**	2,597,283	50.9
Gross profit	**629,382**	384,327	63.8
Net profit	**164,533**	107,937	52.4
Basic earnings per share (RMB)	**0.58**	0.39	48.7

Note: The calculation of basic earnings per share is based on the profit for the year 2005 attributable to equity holders of the Company of approximately RMB164,533,000 (2004 : approximately RMB107,937,000) and on the weighted average number of 283,987,000 shares (2004 : 276,201,000 shares) in 2005.

Segment information by store formats

(in RMB'000)

	Year ended 31st December,							
	2005				2004			
	Supermarkets	Hypermarkets	Convenience Stores	Total	Supermarkets	Hypermarkets	Convenience Stores	Total
Revenue								
Sales of merchandise	1,667,107	1,435,769	439,257	3,542,133	1,352,073	599,783	430,921	2,382,777
Rental income from leasing of shop premises	57,247	51,442	18,895	127,584	41,903	12,187	17,261	71,351
Service income	120,678	136,437	16,654	273,769	97,234	39,644	21,485	158,363
	1,845,032	1,623,648	474,806	3,943,486	1,491,210	651,614	469,667	2,612,491
Business tax and other governmental charges	(8,072)	(10,495)	(6,321)	(24,888)	(7,064)	(3,529)	(4,615)	(15,208)
	1,836,960	1,613,153	468,485	3,918,598	1,484,146	648,085	465,052	2,597,283
Cost of sales	(1,549,148)	(1,340,553)	(399,515)	(3,289,216)	(1,247,340)	(576,243)	(389,373)	(2,212,956)
Gross profit	287,812	272,600	68,970	629,382	236,806	71,842	75,679	384,327
Consolidated gross profit margin	15.67%	16.90%	14.72%	16.06%	15.96%	11.09%	16.27%	14.80%

Revenue

Revenue 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 revenue of approximately RMB3,918,598,000, an increase of approximately 50.9% from 2004. The increase in the Group's revenue in 2005 was mainly attributable to the increase in the number of retail outlets, and the growth in comparable store sales of approximately 7.5% when compared with the previous year.

Revenue by store formats

(in RMB'000)

	Year ended 31st December,			
	2005		2004	
Supermarkets	**1,836,960**	**46.9%**	1,484,146	57.1%
Hypermarkets	**1,613,153**	**41.2%**	648,085	25.0%
Convenience stores	**468,485**	**11.9%**	465,052	17.9%
Total	**3,918,598**	**100%**	2,597,283	100%

For the years ended 31st December, 2005 and 31st December, 2004, revenue attributable to supermarkets accounted for approximately 46.9% and 57.1% of the Group's total revenue respectively, revenue attributable to hypermarkets accounted for approximately 41.2% and 25.0% of the Group's total revenue respectively, while revenue attributable to convenience stores accounted for approximately 11.9% and 17.9% of the Group's total revenue respectively.

During the Period, the substantial increase in the Group's revenue was mainly attributable to:

(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, 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 12, and the number of supermarkets increased to 32 whilst the number of convenience stores increased to 130. The increase in the number of outlets drove up the sales volume, thereby increasing the total turnover attributable to the Group's store operations.

(II) *Commitment to increasing transaction value as well as transaction volume, thereby boosting comparable store sales*

The Group has always strived to improve the operational efficiency of its retail outlets and strengthen restructuring of the processes throughout the entire system. The increase of comparable store sales was primarily attributable to the higher number of daily transactions and the average transaction value, which was due to a more customer-oriented merchandize mix effective marketing and promotional activities, and enhanced customer services.

Revenue by activities
(in RMB'000)

	Year ended 31st December,			
	2005	**Percentage of total revenue (%)**	2004	Percentage of total revenue (%)
Sales of merchandise	**3,542,133**	**89.8**	2,382,777	91.2
Service income	**273,769**	**6.9**	158,363	6.1
Rental income from leasing of shop premises	**127,584**	**3.3**	71,351	2.7
	3,943,486	**100**	2,612,491	100
Business tax and other governmental charges	**(24,888)**		(15,208)	
Revenue	**3,918,598**		2,597,283	

Sales of merchandise in combination with service income accounted for the majority of the Group's total revenue in 2005 and 2004, representing 89.8% and 91.2% respectively of the total revenue of the Group. The Board believes that merchandise sales will remain as the Group's major revenue contributor in the future. The growth in service income was a reflection of the Group's stronger bargaining power in signing annual service agreements as a result of increased purchases from suppliers during the Period. Service income was generated from fees for consignment arrangements offered to the Group's business partners, as well as promotional and other service fees charged to the Group's suppliers, such as festival promotion fees, printing fees for direct-mail marketing, store display fees and on-sale items display fees. Rental income was generated from leasing of shop premises to the Group's business partners. The increase of which was mainly attributable to an increase in rental space for an increased number of new stores coupled with increase in rent upon renewal of expired lease.

Cost of sales and gross profit margin

The Group's cost of sales for 2005 and 2004 amounted to approximately RMB3,289,216,000 and RMB2,212,956,000 respectively, resulting in a consolidated gross profit margin of approximately 16.1% and 14.8% respectively. The increase in gross profit margin was mainly attributable to a more reasonable pricing policy and reduced unit costs due to economies of scale as a result of increased purchasing volume and the on-going consolidation of purchases. Taking out the effect on sales at cost to managed and franchised stores and related companies, the Group would have had a higher consolidated gross profit margin of approximately 19.3%.

During the Period, the Group's other income amounted to approximately RMB67,281,000, representing approximately 1.7% of the Group's total revenue, as compared to that of approximately 2.3% for 2004.

Operating costs and net profit

During the Period, the Group's administrative expenses amounted to approximately RMB144,039,000, representing approximately 3.7% of the Group's total revenue, as compared to that of approximately 3.3% for 2004. The administrative expenses mainly comprised personnel-related expenses of approximately RMB43,014,000 and rental expenses of approximately RMB3,741,000.

During the Period, the Group's selling and distribution costs amounted to approximately RMB325,770,000, accounting for approximately 8.3% of the Group's revenue, as compared to approximately 7.4% for 2004. The increase of selling and distribution costs, which mainly included personnel-related expenses of approximately RMB95,937,000 and rental expenses of approximately RMB86,781,000, was mainly due to the increased number of stores.

During the Period, the Group's finance costs amounted to approximately RMB5,895,000, as compared to approximately RMB692,000 for 2004. The increase in finance costs was mainly attributable to the Group's taking over of the debts of Beijing Jingbei Dashijie Commercial and Trading Group.

During the Period, the Group achieved net profit of approximately RMB164,533,000, an increase of approximately RMB56,596,000 or 52.4% from approximately RMB107,937,000 in 2004. Net profit margin for the Group was approximately 4.2% which is stable compared to 2004. Taking out the effect on the sales at cost to managed and franchised stores and related companies, the Group would have had a net profit margin of approximately 5.1%.

Liquidity and financial resources

The Group mainly financed its capital requirement by cash income from operations during the Period. As at 31st December, 2005, the Group had non-current assets of approximately RMB1,201,565,000, which mainly comprised property, plant and equipment of approximately RMB878,023,000, interests in associated companies of approximately RMB120,765,000 and goodwill of approximately RMB144,564,000.

As at 31st December, 2005, the Group had net current assets of approximately RMB101,207,000. Current assets mainly comprised cash and bank balances of approximately RMB415,998,000, inventories of approximately RMB238,813,000, trade receivables and other receivables of approximately RMB384,760,000, and amounts due from related parties of approximately RMB375,956,000. Current liabilities amounted to approximately RMB1,445,866,000, mainly comprising trade payables and other payables of approximately RMB1,302,660,000, tax payable of approximately RMB13,555,000 and secured bank loans of approximately RMB79,960,000.

During the Period, the Group's average account payable turnover was 82 days as compared to 60 days in 2004. Inventory turnover was 21 days, as compared to 23 days in 2004. Gearing ratio is 6.2%, as compared to zero in 2004.

Business Review

Retail Network

During the Period, the Group sustained steady development of its retail network whilst stressing enhancement of the store operations. As at 31st December, 2005, the retail network of the Group and its associated companies consisted of a total of 503 stores, comprising 12 hypermarkets, 47 supermarkets, 436 convenience stores and 8 chain drug stores, which were either directly owned or operated and managed by the Group and its associated companies through certain franchise arrangements or various management agreements.

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

	As of 31st December, 2005	As of 31st December, 2004	Region
Hypermarkets	**12**	5	Beijing, Tianjin
Supermarkets (Note 1)	**33**	27	Beijing, Hebei
Convenience stores			
Direct ownership (Note 2)	**139**	134	Beijing
Franchise (Note 3)	**244**	235	Beijing
Drug stores	**8**	8	Beijing
Total	**436**	409	

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

	As of 31st December, 2005	As of 31st December, 2004	Region
Hypermarkets	**0**	1	Beijing
Supermarkets	**14**	6	Hebei, Tianjin
Convenience stores	**53**	37	Beijing, Tianjin
Total	**67**	44	

Notes:

1. Comprised 32 self-owned stores and 1 store owned through an associated company as at 31st December, 2005.

2. Comprised 130 self-owned stores and 9 stores owned through an associated company as at 31st December, 2005.

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 continued to grow at an accelerated pace with the number of outlets increased from 6 to 12 and net saleable area reaching 79,707 square metres.

During the Period, the growing trend witnessed in the turnover of our hypermarkets was primarily attributable to the following: (1) continual optimization of product mix and analysis of consumption changes in light of customer needs, and timely adjustment of product mix based on the results of analyzing sales data; (2) intensive training for staff members and executives, who then became better aware of sense of business operations and catering services; (3) strengthened promotion of marketing campaigns, thereby increased average daily transaction volume; and (4) stringent control over the quality of merchandise by implementing a product quality management system whereby merchandise underwent quality checks by dedicated personnel at various stages from stock receipt until the product was sold, thereby increasing the average transaction value as customer satisfaction continued to go up.

During the Period, staffing at our hypermarket operations has been improved to a more rational and reasonable level which has reduced wastage of manpower so as to lower the staff costs dramatically. Meanwhile, cost control was better defined as a responsibility of individual staff members. The adoption of these measures significantly reduced costs of the hypermarket operations.

The Directors believe that a retail chain enterprise should be operated in a standardized, regulated and professional manner, which are all important indicators of business achievement. During the Period, aiming at "high standards on the back of solid foundations", the Group focused on the formulation of processes at its hypermarkets to standardize, simplify and make more user-friendly the processes and systems, which helped to enhance operational efficiency and management standards.

As a token of appreciation for our customers' continuous support and our employees' sincere contributions to the Wumart Group, a series of campaigns were rolled out at the hypermarkets as gracious reciprocation. In particular, campaigns for customers included product promotions to reward them with the lowest prices, and introduction of Wumart culture to customers and collecting their opinions. Customers' active participation in the campaign has shortened their distance with our hypermarket outlets. Campaigns for staff members included talent show, cultural and sports contest, work skill drilling tournament and senior staff seminar, articulating the business pursuit of Wumart, praising the advancement in its development and in turn boosting team spirit of the Group.

During the Period, an Italian Food Festival was jointly organized by the Group and the Italian Trade Commission, presenting to local consumers assortment of unique and well-known Italian brands. The activity enriched the varieties of merchandise items at our hypermarkets and provided more quality product offerings to consumers, giving them a taste of foreign sophistication at affordable prices with superior quality.

Supermarkets

As at 31st December, 2005, a total of 47 supermarkets were owned and/ or operated by the Group. Net saleable area increased to 86,479 square metres.

Supermarket operation remains as a major contributor to the Group's revenue. During the Period, revenue from this segment was approximately RMB1,836,960,000 or 46.9% of the total revenue of the Group.

During the Period, supermarkets of the Group underwent optimization in terms of product mix, supplier base and work processes and positive results have already reaped. Product mix was optimized to cater to the needs of the respective commercial circles and improve inventory turnover by reducing stocks of slow-moving items. Supplier list was optimized by screening strictly the qualifications of suppliers and their product quality as well as taking measures such as making definite requests to suppliers of delivery time and quantity, to ensure availability of merchandise. Optimization of processes improved the operating capability of each process and in turn enhanced work efficiency and product quality.

During the Period, a specific check and assessment system continued to be in place in each store of supermarket, whereby assessment would be conducted on individual basis by store managers using standard forms for job duty assessment, promotion scheme assessment, display management assessment and operations 50-items assessment to strengthen the inspection over store operations. Meanwhile, store inspections were persistently conducted on a weekly basis by headquarters general managers and the supervision team in supermarket division to closely monitor basic operational management. Inspection over each level of hierarchy served to further raise the operational management standard.

Convenience Stores

During the Period, the Group opened 9 directly-owned stores and 12 franchised stores, whereas 3 directly-owned stores and 6 non-complying franchised stores were closed down. As at 31st December, 2005, our convenience store operations had a net saleable area (excluding franchised stores) of 36,022 square metres.

During the Period, convenience stores were further classified into community minimarts, 24-hour express stores and school campus convenience stores according to different commercial circles and customer shopping behaviour. Market research and data analysis were conducted on a large scale at the pre-inception stage to form the basis of determining product offering at each type of outlet so that product types and product mix were adjusted and specialty merchandise were enhanced to further suit consumers at various extents of commercial circles. Meanwhile, strategies were differentiated among different types of outlets in pricing, fixing display layouts and promotions in order to increase average daily transaction volume and average transaction value and in turn raise the sales and profitability of individual outlets.

The Group continued to strengthen the management of basic operational processes, such as product display and store cleaning, to provide a more comfortable shopping environment and attract repeated patronage. Daily checks and integrated inspections formed the basis for an overall assessment and implementation of basic operational management, thereby raising store management standards.

To maintain consistently high product quality, general managers of our convenience stores organized and participated in monthly supplier assessment, through which thorough review of qualifications of new suppliers was conducted and better suppliers were introduced. Newly introduced products were also assessed based on quality and customer suitability to ensure a more rational product mix.

During the Period, a community campaign named "100 plus 100 Sunshine Project" was launched by our community minimarts with an aim to penetrate the community. Under the project, 100 selected convenience stores were commissioned to conduct home cleaning, give out daily necessities, provide free delivery services and emergency call services for single elderly residing in their respective community or their vicinity. Not only was the campaign well-acclaimed by the general public and served to foster a harmonious and civilized community, but it also served to establish good relationships between our outlets and the surrounding community and customers, thereby maximizing the brand recognition and corporate image of the Group.

Prospects and Strategy

The year 2005 saw a steady and rapid pace of economic growth in Beijing, marking the seventh consecutive year for the city to record an economic growth at a rate of more than 10% per annum, with a GDP per capita exceeding US$5,000 and a gross retail consumption growing at a rate of 12.9% in a steady upward trend. Retail chain industry has become an indispensable sector of the PRC's economy.

Looking ahead, we will continue to attach great importance to customers. In the provision of goods and services, we will continue to optimize product mix to cater to market demand and customer characteristics by integrating procurement resources across different formats and strictly implementing our supplier admission system. In regulating our store operation management, operational processes will be refined and simplified for easier implementation. By streamlining the hierarchy of management between the headquarters and individual stores, it is intended that an efficient management mechanism and structure, featuring lower costs, higher standard and larger scale, will be established to respond promptly to customer needs.

Notwithstanding the upcoming changes and refinements accompanied with the development of Wumart Group, the persistent pursuit of goals and targets has been and will always be our sole golden rule. Reaping a fruitful year in 2005, we will endeavour to scale new heights in the year 2006.

Future plans for material investments or capital assets

On 1st February, 2006, the Company entered into a strategic cooperation agreement, pursuant to which the Company agreed to acquire 68% equity interests in Beijing MerryMart Chainstores Development Co., Ltd. ("Mei Lian Mei") at a consideration of RMB253,500,000 (equivalent to approximately HK$243,750,000). In addition, the Company agreed to make capital contribution by injecting RMB120,000,000 (equivalent to approximately HK$115,385,000) to Mei Lian Mei subsequent to the completion of the acquisition, through which the Company would acquire additional 7% equity interests in Mei Lian Mei. Upon completion of the acquisition and the capital increase, the Company shall own 75%

equity interests in Mei Lian Mei. Meanwhile, the Group's competitiveness will be dramatically enhanced through the potential synergy brought forth by further integrating procurement, information system and logistics system of both parties. The retail networks are also complementary in their geographical locations. Such strategic collaboration will enormously strengthen Wumart's leading position in the retail market in Beijing and northern region in China.

Subsequent events

The Company successfully placed a total of 21,100,000 H shares at a price of HK$21.40 per H share on 17th February, 2006 pursuant to the mandate granted at the annual general meeting held on 29th April, 2005. Immediately after completion of the placing, the Company had a total share capital of 305,087,000 shares, including 126,642,000 H shares. The successful placing is a demonstration of the Group's sound operating results as well as an indication of investors' confidence in the Group.

The following is a comparison between the actual business progress for the six months ended 31st December, 2005 and the business objectives as set out in the prospectus of the Company dated 11th November, 2003 (the "Prospectus") for the same period.

Store Network Expansion

	Implementation schedule as set out in the Prospectus	Current progress
Hypermarkets	Open not less than 3 hypermarkets in Beijing and surrounding areas	Opened 2 new hypermarkets in Beijing (note 1)
Supermarkets	Open not less than 10 supermarkets in Beijing and surrounding areas	Opened 1 new supermarket in Beijing (note 2)
Convenience Stores	Open not less than 52 directly-owned convenience stores in Beijing and surrounding areas	Opened 9 new directly-owned convenience stores in Beijing (note 2)
	Open not less than 78 convenience stores in Beijing and surrounding areas under franchise arrangements	Opened 12 new convenience stores in Beijing under franchise arrangements (note 3)

Notes:

1. A total of 6 hypermarkets were opened during the Period, outperforming the expansion plan for the year 2005 in respect of hypermarket network as set out in the Prospectus.

2. Based on the market demand and the store sites secured, more hypermarkets were added by the Company, resulting in an adjustment to the number of new store opening across the formats.

3. 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. This measure was to establish a benign cycle for the management of convenience stores under franchise arrangements.

Brand Management

	Implementation schedule as set out in the Prospectus	Current progress
Enhancing the quality of customer services	Launch the "Wumart Culture Week"	Launched the "Wumart Culture Week" and held campaigns including "Gratitude towards Customers". These events aimed to introduce the Wumart Group's corporate culture of "customer first" to customers during their shopping experience.
	Introduce and offer additional value-added services to customers	Offered a number of additional value-added services to customers, such as, inter alia, a "100 plus 100 Sunshine Project" by the convenience stores and community services by the supermarkets; introduced a system of returning merchandise at any hypermarket store instead of returning it to the original point of sale.
Enhancing the quality of merchandise offered	Continue the sampling checks campaign on all categories of merchandise offered	The operations department of the Company conducted periodic and random sampling checks on the quality of each type of merchandise in order to ensure product quality.

Operating, information and logistics systems enhancement

	Implementation schedule as set out in the Prospectus	Current progress
Supermarkets/ hypermarkets	Renovation of all retail outlets according to the new standard store layout	Launched the new standard store layout and adopted the new layout in all newly-opened outlets. Commenced gradual renovation and adjustment to the existing stores addressing both customer needs and characteristics of commercial circles.
	Set up information system to offer online shopping and ordering services to customers	Designing an online shopping and ordering system and conducting a feasibility study on that system.
Convenience Stores	Develop and launch new "Management-by-district"	Launched a new "Management-by-district" system, pursuant to which the hierarchy of management between headquarters and individual stores are simplified, to streamline management and simplify work processes in order to reduce management costs and enhance management 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 as 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 staff at our headquarters encompassing culture concepts, operational knowledge and management basics.
	Offer various English language training courses to the Wumart Group's staff to prepare them for the 2008 Olympic Games in Beijing	English language training courses were provided to the Wumart Group's staff, allowing them to provide quality services to a greater number of foreigners during the 2008 Olympic Games in Beijing.
	Offer additional professional training courses to the employees of Wumart Group's staff	245 training sessions have been organized by Wumart Development and Training Institute. In addition, overseas field studies provided management with the best business practices of international retailers.

USE OF PROCEEDS

Proceeds from the initial public offering of the Company were fully utilized as at 30th June, 2005. Therefore, actual application of proceeds was zero during the six months ended 31st December, 2005.

DIRECTORS

Executive Directors

Dr. Zhang Wen-zhong (張文中博士), aged 43, 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 (中國科學院系統科學研究所). From 1992 to 1993, Dr. Zhang conducted post-doctorate research at Stanford University in the United States. In 1994, Dr. Zhang founded Wumei Holdings and became its chairman. Dr. Zhang became chairman and president of the Company since its formation in August 2000. Under the leadership of Dr. Zhang, the Company has now developed into a leading retail chain operator in Beijing and northern China. Dr. Zhang currently serves the community in various capacities, including being a member of the National Committee of the Chinese People's Political Consultative Conference, a deputy to Beijing People's Congress, a standing member of All-China Federation of Industry & Commerce, a standing member of All-China Youth Federation, the vice-president of China Federation of Logistics & Purchasing and the vice-president of China Chain Store and Franchise Association.

Dr. Wu Jian-zhong (吳堅忠博士), aged 48, is vice chairman and a vice president of the Company and chairman of Beijing Wangshang Shijie E-business Company Limited ("Wangshang Shijie E-business"). Dr. Wu has earned his doctorate at the Institute of Automation of the Chinese Academy of Sciences (中國科學院自動化研究所). 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 position as the vice president of Wumei Holdings. From 2000 to 2002, Dr. Wu was president of Wumei Holdings. Dr. Wu was appointed as one of the Directors, upon the formation of the Company in August 2000, and was appointed as vice chairman of the Company in November 2002. Since July 2003, Dr. Wu has served as a vice president of the Company.

Dr. Meng Jin-xian (蒙進暹博士), aged 49, 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, 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 42, 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.

Independent non-executive Directors

Mr. Han Ying (韓英先生), aged 70, 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). 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 62, is an independent non-executive Director. Mr. Li 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. 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 and a consultant to the Strategic Development Commission of the World Travel Organization. Mr. Li was appointed as an independent non-executive Director of the Company in September 2004.

Mr. Lu Jiang (呂江先生), aged 49, is an independent non-executive Director. Mr. Lu 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 years of experience in accounting, auditing, asset valuation and management. Mr. Lu was appointed as an independent non-executive Director of the Company in September 2004.

SUPERVISORS

Supervisors nominated by shareholders or employees

Ms. Yan Li-xia (閆立霞女士), aged 40, was a graduate of Beijing University of Technology. Ms. Yan had held supervisory positions at the human resources department of Beijing Kraft Foods Company Limited prior to joining the Company. She worked as a customer service supervisor at the Company's supermarket stores from 1994 to July 2000. In August 2000, she was appointed as the manager of the staff administration department under the supermarket department of the Company, a post which she held until August 2004. She has been assistant to the director of the staff administration department under the convenience store department of the Company since September 2004. Ms. Yan was appointed as a supervisor of the Company in November 2005.

Members of the independent supervisors

Mr. Fan Kui-jie (范奎杰先生), aged 42, is the chairman of the supervisory committee 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 (兗州礦業集團) 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 42, 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 PRC certified public 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). From 2003 to 2005, Ms. Xu was in the employ of Beijing Municipal Science & Technology Commission (北京市科學技術委員會) as a financial evaluation expert. Ms. Xu was appointed as an independent supervisor of the Company in July 2003.

SENIOR MANAGEMENT

Ms. Li Dong-nu (李冬女女士), aged 52, 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 Beijing 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.

Ms. Zhang Feng-ru (張鳳茹女士), aged 57, 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 34, 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 38, 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 41, associate director of finance, holds an MBA Degree from Meinders School of Business, Oklahoma City University, US. Before joining the Company, 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 joined the Company in 2004 as the associate director of finance.

Ms. Xie Dong (謝東女士), aged 37, 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.

Mr. Chan Wai-lok (陳偉樂先生), aged 34, is a qualified accountant and one of the joint company secretaries of the Company. In 1993, Mr. Chan graduated with a bachelor of arts degree in accounting from the Hong Kong Polytechnic (now the Hong Kong Polytechnic University). Mr. Chan is an associate member of the Hong Kong Institute of Certified Public Accountants, and he joined the Company in March 2005.

The Board is pleased to present the report of the Group for the year ended 31st December, 2005 for shareholders' perusal.

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 40 to the financial statements.

The annual results and financial information of the Group for the Period, 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, 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 combined total turnover of the Group.

SHARE CAPITAL

Name of shareholder	Nature of shares	Number of shares (shares)	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 30 to the financial statements.

FIXED ASSETS

Details of movements in fixed assets of the Group are set out in note 16 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, 2005 were approximately RMB206,226,000 (2004: approximately RMB107,206,000).

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 the date of the commencement of the annual general meeting 2005 (the "Annual General Meeting"), subject to approval by way of an ordinary resolution at the Annual General Meeting. The register of members of the Company will be closed 30 days preceding the commencement of the Annual General Meeting, both days inclusive, during which no transfer of shares of the Company will be effected. Payment to domestic shareholders of the Company will be made in RMB, while payment to the H shareholders will be made in Hong Kong dollars.

SUBSIDIARIES

Details of the Company's subsidiaries during the Period are set out in note 40 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$96,154,000) to Beijing Chao Shifa Company Limited ("Chao Shifa") to support its orderly operation.

As at 31st December 2005, the bank loan of RMB75,460,000 is secured by the pledge-of-leasehold land and building with carrying amount of RMB77,040,000.

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, 2005.

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

As at 31st December, 2005, 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")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules were as follows:

Long positions in domestic shares of the Company

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

Notes:

1. The 124,483,232 domestic shares are held by one of the promoters of the Company, Wumei Holdings, which is directly and indirectly owned by Beijing CAST Technology Investment Company Limited (北京卡斯特科技投資有限公司) ("CAST Technology Investment") as to 70% and 7.22% of its share capital, respectively. CAST Technology Investment is directly and indirectly owned by Beijing Zhongsheng Huate Technology Company Limited (北京中勝華特科技有限公司) ("Zhongsheng Huate") and Beijing Jingxi Guigu Technology Company Limited (北京京西硅谷科技有限公司) ("Jingxi Guigu") as to 20% and 80% of its share capital, respectively. Dr. Zhang Wen-zhong holds 60% and 85% of the share capital of Zhongsheng Huate and Jingxi Guigu, respectively.

2. The 6,245,575 domestic shares are held by one of the promoters of the Company, Hekang Youlian, 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 one of the promoters of the Company, Wangshang Shijie E-business, which has a direct interest in the 40,114,436 domestic shares.

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

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 one of the promoters of the Company, Junhe Investment, which has a direct interest in the 5,817,307 domestic shares. Junhe Investment also holds 50% of the share capital of Hekang Youlian, which has a direct interest in the 6,245,575 domestic shares.

Save as disclosed above, to the best knowledge of the Directors, as at 31st December, 2005, 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 Rules 5.46 to 5.68 of the GEM Listing Rules.

As at 31st December, 2005, 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 acquiring shares in, or debentures of, the Company.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2005, the interests or short positions of persons other than the Directors, supervisors or chief executives of the Company in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Long positions in domestic shares of the Company

Name	Number of domestic shares held	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	22.48
Jingxi Guigu (note 1)	124,483,232	69.76
CAST Technology Investment (note 1)	124,483,232	69.76
Wumei Holdings (note 1)	124,483,232	69.76
Wangshang Shijie E-business (note 2)	40,114,436	22.48
Dr. Meng Jin-xian (蒙進暹博士) (note 3)	12,062,882	6.76

Notes:

1. Jingxi Guigu is owned as to 85% by Dr. Zhang Wen-zhong, and therefore Dr. Zhang Wen-zhong is entitled to control the exercise of one-third or more of the voting power at general meetings of Jingxi Guigu. CAST Technology Investment is owned as to 80% by Jingxi Guigu, and therefore Jingxi Guigu is entitled to control the exercise of one-third or more of the voting power at general meetings of CAST Technology Investment. Wumei Holdings is owned as to 70% by CAST Technology Investment, and therefore CAST Technology Investment is entitled to control the exercise of one-third or more of the voting power at general meetings of Wumei Holdings. Each of Dr. Zhang Wen-zhong, Jingxi Guigu and CAST Technology Investment is therefore deemed, by virtue of Part XV of the SFO, to be interested in the domestic shares held by Wumei Holdings.

2. Wangshang Shijie E-business is owned as to 70% by Dr. Wu Jian-zhong, and therefore Dr. Wu Jian-zhong is entitled to control the exercise of one-third or more of the voting power at general meetings of Wangshang Shijie E-business. Dr. Wu Jian-zhong is therefore deemed, by virtue of Part XV of the SFO, to be interested in the domestic shares held by Wangshang Shijie E-business.

3. Junhe Investment is owned as to 40% by Dr. Meng 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 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 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 positions in H Shares of the Company

Name	Number of H shares held	Approximate percentage of total issued H share capital (%)
The Capital Group Companies, Inc. (Note 1)	11,652,000	11.04
JPMorgan Chase & Co. (Note 2)	7,070,000	6.70
Fidelity International Limited (Note 3)	6,298,000	5.97

Notes:

1. These 11,652,000 H shares were held by The Capital Group Companies, Inc. in its capacity as investment manager.

2. 1,988,000 H shares were held by JPMorgan Chase & Co. in its capacity as investment manager and 5,082,000 H shares were held in its capacity as custodian corporation or approved lending agent.

3. These 6,298,000 H shares were held by Fidelity International 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.

PARTICULARS OF DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the executive Directors and supervisors of the Company has entered into a service contract with the Company for a term commencing from 25th October, 2005 and ending on the date of the conclusion of the 2007 annual general meeting of the Company.

The non-executive Director of the Company has entered into a letter of appointment with the Company for a term commencing from 25th October, 2005 and ending on the date of the conclusion of the 2007 annual general meeting of the Company.

Save as disclosed above, none of the Directors or supervisors of the Company has 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/appointment letter mentioned above and those set out in note 11 to the financial statements, the Directors and supervisors of the Company did not have any 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.

EMPLOYEES

As at 31st December, 2005, the Group had a total of 9,646 full time employees, whose remunerations are in line with market rates. During the Period, no employee share option scheme was in effect.

To strengthen our core competence by making available sufficient human resources in parallel to rapid development through persistent enhancement of the management skills and professional expertise of our management staff and service quality of our frontline staff, 245 training sessions were held by our Wumart Development and Training Institute, aiming at the continual improvement of their general skills and professional expertise.

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 being the chairman. During the Period, the Company convened four meetings of the audit committee, in which members of the audit committee and senior management reviewed the accounting principles and methods adopted by the Group and discussed, inter alia, matters relating to internal control and financial reporting, including a review of the financial statements of the Company prepared in accordance with the generally accepted accounting principles of Hong Kong, in compliance with GEM Listing Rules 5.28, 5.29 and 5.33.

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

The Company has adopted a model code of practice for securities dealings by Directors on terms no less exacting than the required standard of dealings. The Company has confirmed, after making specific 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 dealings 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

The related party transactions set out in note 38 to the financial statements, other than those with the associate of the Company, constituted connected transactions or continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules.

The independent non-executive Directors consider that the continuing connected transactions carried out by the Company have been:

(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 than terms available to or from (as appropriate) independent third parties;

(III) in accordance with the relevant management 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 Wumart Hypermarket Commerce Company Limited ("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 Hypermarket's Huixin store 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 Hypermarket's Huixin store and the Tianjin subsidiaries. The three aforesaid Management Agreements and all the transactions contemplated thereunder constitute continuing connected transactions of the Company within the meaning of "continuing connected transactions" set out in Chapter 20 of the GEM Listing Rules.

On 31st December, 2004, the Company and Beijing Hypermarket entered into the asset acquisition agreement. The acquisition by the Company of all business operations and assets of Beijing Hypermarket's Huixin store, at a consideration of approximately RMB143,560,000, was approved by independent shareholders on the annual general meeting of the Company held on 29th April, 2005. The acquisition constitutes a connected transaction of the Company within the meaning of "connected transaction" set out in Chapter 20 of the GEM Listing Rules.

Terms of the aforesaid continuing connected transactions and connected transaction have been negotiated on an arm's length basis. The Directors (including independent non-executive Directors) consider that each of the continuing connected transactions and connected transactions has been entered into on normal commercial terms in the ordinary and usual course of business of the Company and that the terms and relevant annual caps of the continuing connected transactions are fair and reasonable and in the interest 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.

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 Company.

In line with its business objectives, the Group will implement its expansion plan first in Beijing and surrounding areas, then the northern region and followed by the eastern region of the PRC and ultimately across other regions of the PRC. On 29th October, 2003, the Group entered into the non-competition agreement, the trademark licensing agreement and the letter of undertaking with Wumei Holdings with a view to avoiding business competition with Wumei Holdings. On 12th November, 2004, the Company and Wumei Holdings entered into management agreements respectively with (a) Beijing Pujinda and (b) Tianjin subsidiaries. Since then, Wumei Holdings has operated in strict compliance with the aforementioned agreements in order to avoid business competition with the Group to the fullest extent.

Save as the competing business disclosed above, Wumei Holdings did not engage in any businesses that were in direct or indirect competition against the Group, nor did it have any interests in any of such businesses.

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**") (the "**First Claim**") and the Beijing Municipal High-Level People's Court (北京市高級人民法院) ("**Beijing High Court**") (the "**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 (the "**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) (the "**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 performing the terms of the Share Purchase Agreement, (c) an order to restore the shareholding structure of Chao Shifa to that of immediately preceding the execution of the Share Purchase Agreement and (d) an order requiring the Company and the Vendor to bear the whole cost of the First Claim.

The Second Claim relates to 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 in trust for CSSAM for one year commencing on 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 preceding the execution of the Trust Agreement and (d) an order requiring the Company and CSSAM to bear the whole cost of 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 Beijing High Court that Chao Shifa Shareholder has instituted civil proceedings (the "**Third Claim**") against Chao Shifa. In the Third Claim, Chao Shifa Shareholder alleges that Chao Shifa is in breach of various provisions of 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 the whole cost of the Third Claim.

On 10th November, 2004, Beijing High Court ordered that the trial of the Second Claim be suspended because its outcome shall depend 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 development of the Third Claim as at 31st December, 2005.

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, 2005, the Directors confirmed that there was no material adverse change in the financial or trading conditions 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") was 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, 2005, save as 6,373,000 H Shares in the registered capital of the Company, neither the Sponsor 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 the Notes to GEM Listing Rules 6.35) had any competing interest against the Company or any member of the Group.

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
21st February, 2006

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 carried out its work in a dedicated, diligent and proactive manner with reasonable prudence to safeguard the interests of the shareholders and the Company.

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 management of the Company to ensure that such decisions are in compliance with the laws and regulations of the PRC and the articles of association of the Company, and are in the interest of the shareholders.

The Supervisory Committee has reviewed diligently and was satisfied with the report of the Board and the audited financial statements to be tabled at the forthcoming annual general meeting of the Company. In the opinion of the Supervisory Committee, 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, bona fide worked for the best interests of the Company, performed their duties in accordance with the articles of association of the Company, standardised the operation and enhanced the internal control system. The transactions between the Company and its related companies have been strictly implemented under terms that are in the interest of the shareholders of the Company as a whole at fair and reasonable considerations. No abuse of rights, acts detrimental to the interests of the Company, its shareholders and staff, infringement of laws, regulations or the articles of association of the Company by any of the Directors, president and senior management of the Company has been found.

The Supervisory Committee is satisfied with the performance and financial results of the Company for 2005 and is confident of the development prospect of the Company.

By order of the Supervisory Committee
Fan Kui-jie
Chairman of the Supervisory Committee

Beijing, PRC
21st February, 2006

The Company is committed to achieving high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the rapid growth of the Group and for safeguarding and maximizing shareholders' interests.

On 8th December, 2004, the Stock Exchange, in its Note to subscribers for the amendments to the GEM Listing Rules — Update No. 20, issued the draft Code on Corporate Governance Practices (the "Code") and Rules on the Corporate Governance Report, which require inclusion by issuers of corporate governance reports in their annual reports. The rules became applicable to accounting periods commencing on or after 1st January, 2005. The Board has already noted such changes and applied them to the Company.

During the Period, the Company conducted voluntary reviews of its internal governance against the principles and provisions set out in the Code from time to time. In December 2005, the Code on Corporate Governance Practices of Wumart Stores, Inc. (the "Wumart Code") was adopted on standards no less exacting than those required by the Code. The Board will continue to monitor and revise the Wumart Code and assess the effectiveness of our Corporate Governance Practices in tandem with changes in the environment and requirements and the increasingly stringent standards, to ensure such policies are in line with the expectations and interests of shareholders in order to gain recognition by the international capital market on the back of a fair, transparent and sound corporate governance system.

Pursuant to GEM Listing Rules 18.81 and 18.44, this report is to be incorporated in the Company's summary financial report and annual report, respectively, to disclose its corporate governance practices adopted in the year under review together with the prospective practices under development to the shareholders.

THE BOARD

The Board is responsible for managing the Company on behalf of shareholders. The Board is of the view that it is the Directors' responsibilities to create value for shareholders and safeguard the best interests of the Company and the shareholders by discharging its duties in a dedicated, diligent and prudent manner on the principle of good faith.

The Board comprises 7 Directors, including 3 executive Directors and 4 non-executive Directors, three of whom being independent non-executive Directors, in compliance with the requirement of GEM Listing Rules which states that "every board of directors of an issuer must include at least 3 independent non-executive directors".

The primary functions of the Board include:

- deciding on the overall strategies, overseeing operational and financial performance and formulating appropriate policies to manage risk exposure associated with realizing the strategies and goals of the Group;

- being held accountable for the internal control system of the Company and responsible for reviewing its effectiveness;

- being ultimately responsible for preparing financial accounts and discussing the performance, financial conditions and prospects of the Company in a balanced, clear and comprehensible manner. These responsibilities are applicable to quarterly, interim and annual reports of the Company, other price sensitive announcements published according to the GEM Listing Rules and disclosure of other financial information, reports submitted to regulatory bodies and information disclosable under statutory requirements;

- whilst executive Directors/chief executives, who oversee the overall business of the Company, are responsible for the daily operations of the Company, the Board is responsible for affairs involving the overall policies, finance and shareholders of the Company, namely financial statements, dividend policy, significant changes to accounting policies, annual operating budgets, material contracts, major financing arrangements, principal investment and risk management strategy;

- the management is well informed of its power with clear guidelines and instructions, in particular regarding situations under which reporting to the Board is necessary and matters that require the approval of the Board before any decisions or commitments can be made on behalf of the Company; and

- regularly reviewing its own functions and the powers conferred upon executive Directors/chief executives to ensure appropriate arrangements are in place.

COMMITMENTS

The full Board meets at least four times a year, at approximately quarterly intervals, to review the financial performance, results of each period, material investments and other matters of the Group that require the resolution of the Board. Simultaneous conference call may be used to improve attendance when individual Director cannot attend the meeting in person. Opinions of the non-executive Directors, including independent non-executive Directors, are actively sought by the Company if they are unable to attend the meeting in person.

EXPERIENCE

Executive and non-executive Directors possess administrative leadership, diversified expertise and extensive industrial management experience. Independent non-executive Directors possess extensive expertise, experience and judging capability in various fields, in particular the appropriate accounting qualifications possessed by Mr. Lu Jiang. During its decision-making process, the Board holds in high regard the views of the independent non-executive Directors, which serve as the effective direction of the Group's operations.

BOARD MEETING

Members of the Board, who are well-informed of their duties and responsibilities, held a total of 11 meetings during the year 2005. The Directors are given sufficient time to review documents and information relating to matters to be discussed in Board meetings in advance.

Proposals considered and approved by the Board during the Period mainly included:

- financial performance and results of each period as well as review of corporate governance measures;
- a proposal to seek approval from shareholders in general meeting for distribution of final dividends to shareholders;
- issuance of an additional 21.18 million H shares in a timely manner pursuant to the mandate granted by the shareholders in general meeting;
- extension of the term of the Trust Agreement in relation to the 34.77% interests in Chao Shifa and continual provision of an entrusted loan of RMB100 million to Chao Shifa to support its orderly operation;
- a proposal to seek approval from shareholders in general meeting for submitting applications to the China Securities Regulatory Commission, other relevant PRC regulatory authorities and the Listing Committee of the Stock Exchange for voluntary withdrawal of listing of the H shares on GEM and listing of the H shares on the Main Board;
- a proposal to seek approval from shareholders in general meeting for re-election and re-appointment of Directors to the second session of the Board and supervisors to the second session of the Supervisory Committee;
- a proposal to seek approval from shareholders in general meeting for the issuance of a short-term debenture in an amount of up to RMB467 million;

- a proposal to seek approval from shareholders in general meeting for the subdivision of domestic shares and/or H shares of RMB1.00 each into four shares of RMB0.25 each; and
- other material acquisitions or capital expenditure.

Details of Directors' attendance at Board meetings held in 2005 are as follows:

Board Meeting	**Members**						
	Executive Directors			**Non-executive Director**	**Independent non-executive Directors**		
Date (Year/Month/Day)	**Dr. Zhang Wen-zhong**	**Dr. Wu Jian-zhong**	**Dr. Meng Jin-xian**	**Mr. Wang Jian-ping**	**Mr. Han-ying**	**Mr. Li Lu-an**	**Mr. Lu Jiang**
2005/3/1	√	√	√	√	√	√	√
2005/4/15	√	√	√	√	√	√	√
2005/5/9	√	√	√	√	√	√	
2005/5/23	√	√	√	√	√	√	
2005/8/10	√	√	√	√	√	√	√
2005/9/2	√	√	√	√	√	√	√
2005/10/25	√	√	√	√	√	√	
2005/11/8	√	√	√	√	√	√	
2005/12/12	√	√	√	√	√	√	√
2005/12/20	√	√	√	√	√	√	√
2005/12/30	√	√	√	√	√	√	√
Attendance	100%	100%	100%	100%	100%	100%	64%

CODE FOR DEALING IN SECURITIES OF THE COMPANY

Details of Directors' interests in securities of the Company have been historically disclosed in each of the published results announcements of the Company. The Company has adopted a model code of practice for securities dealings by Directors on terms no less exacting than the required standard of dealings. The Company has confirmed, after making specific 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 dealings by Directors for the Period.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under A.2.1 of the Code, "the roles of chairman and chief executive officer should be separate and should not be performed by the same individual". Dr. Zhang Wen-zhong concurrently takes up the posts of chairman and chief executive officer of the Company. The departure can be explained by the sole suitability of Dr. Zhang Wen-zhong, founder of the Group, to take up the role of chairman of the Group with his high standing both within the Group and in the domestic retail industry at large in light of the swift expansion of the Group, which is a pioneer to operate the retail format of supermarkets in Beijing and has now become a leading retail chain store operator in Beijing and one of the largest retail enterprises in northern China, under the leadership of Dr. Zhang. It can further be explained by his thorough grasp of the business models and development of the Group due to his hands-on involvement in the daily operations of the Group ever since the commencement of operation of the first outlet and his extensive experience in retail operations and management. In view of the above, the Board, after due and careful consideration, is of the view that Dr. Zhang is to date the single most suitable person to be the chairman and chief executive officer of the Group. Therefore, the roles of the chairman and chief executive officer of the Group are exercised by the same individual. The Company will do its best endeavours to look for a suitable person to fill the office of the chief executive of the Company, who will be in charged of the daily operation of the Company, so as to comply with all the code provisions set out in the Code. Details about the separation of duties between the chairman and the chief executive officer is set out in the Wumart Code.

APPOINTMENT OF DIRECTORS

During their terms of office, the Directors of the first session of the Board all carried out their work in a dedicated, diligent and proactive manner with reasonable prudence. Meanwhile, they carried out the duties of directors imposed by the Company Law, the articles of association of the Company and the GEM Listing Rules, complied with the relevant requirements, strictly implemented resolutions of general meetings, promoted the continuous and healthy development of the Company's operations, pressed for the improvement of the governance standard of the Company and exerted the decision-making function of the Board in its full swing. In this regard, on the extraordinary general meeting held on 25th October, 2005, all the Directors of the first session of the Board were re-elected and re-appointed by the shareholders to the second session of the Board with a term commencing on 25th October, 2005 and expiring at the conclusion of the annual general meeting 2007 of the Company.

None of the independent non-executive Directors holds any other offices in the Company or any of its subsidiaries. Within the meaning of the laws and regulations issued by relevant securities regulatory authorities, none of them is interested in any shares of the Company. The Company has received from each of the independent non-executive Directors a written confirmation of his/her independence under Rule 5.09 of the GEM Listing Rules.

Names and biography of the Directors are set out on pages 23 to 24 of this annual report and also made available on the Company's website.

AUDIT COMMITTEE

The audit committee of the Company is primarily responsible for reviewing the financial reporting process, internal control system and the completeness of financial reports of the Company. 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. During the year, the Company convened four meetings of the audit committee in compliance with GEM Listing Rules 5.28, 5.29 and 5.33. The audit committee of the Company, together with the senior management of the Company and external auditors, has reviewed the accounting principles and methods adopted by the Group and discussed, inter alia, matters relating to internal control and financial statements of the Company (i.e. quarterly, half-yearly and annual results) prepared in accordance with the generally accepted accounting principles of Hong Kong and has also made relevant recommendations.

Details of attendance of members at meetings of the audit committee held in 2005 are as follows:

	Independent non-executive Directors		
Date (Year/Month/Day)	**Mr. Han Ying**	**Mr. Li Lu-an**	**Mr. Lu Jiang**
2005/3/1	√	√	√
2005/5/9	√	√	
2005/8/10	√	√	√
2005/10/25	√	√	
Attendance	100%	100%	50%

INTERNAL CONTROLS

The Directors have conducted an annual review of the effectiveness of the system of internal control of the Company and its subsidiaries, which has covered major and material controls in areas of financial, operations, compliance and risk management of the Company.

REMUNERATION COMMITTEE

The remuneration committee of the Company comprises executive Director Dr. Wu Jian-zhong and independent non-executive Directors Mr. Han Ying and Mr. Li Lu-an, with Dr. Wu Jian-zhong as the chairman. The committee performs its functions, which primarily include assisting the Board in the overall management of the remuneration practices of the Company to ensure that effective policies, processes and practices are implemented in respect of the incentives for the Directors and senior management, in accordance with B.1.3 of the Code.

During the Period, the remuneration committee of the Company convened two meetings, in which duties of the remuneration committee were identified, the appraisal system of the Company was reviewed, and all matters concerning the determination of remuneration of the

Directors and senior management were discussed. In addition, the remuneration policies and incentive mechanism applicable to the Directors and senior management and the overall remuneration system of the Company were further refined and reasonable recommendations were made to the Board in the meetings.

Details of attendance of members at meetings of the remuneration committee held in 2005 are set out as follows:

	Executive Director	Independent non-executive Directors	
Date (Year/Month/Day)	**Dr. Wu Jian-zhong**	**Mr. Han Ying**	**Mr. Li Lu-an**
2005/8/10	√	√	√
2005/12/30	√	√	√
Attendance	100%	100%	100%

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The main aims of the Company's remuneration policy are:

- to ensure that none of the Directors or any of their associates should determine their own remuneration;
- the remuneration should be broadly aligned with companies with which the Company competes for human resources;
- the Group should aim to attract and retain executives and to motivate them to pursue appropriate growth strategies whilst take into account individual performance and should avoid paying more than necessary for such purpose; and
- the remuneration should reflect the performance, complexity of duties and responsibility of the individual.

Under the service contract between each of the Directors and the Company and the resolutions passed on the extraordinary general meeting held on 25th October, 2005, remuneration of the executive Directors shall be determined in accordance with their respective management functions in the Company; the non-executive Director shall not receive any remuneration from the Company; and remuneration of each independent non-executive Director shall be fixed at RMB60,000 per annum (tax inclusive), which is arrived at after arm's length negotiation between the parties with reference to prevailing market conditions. Exact amounts are disclosed on page 71 of this annual report.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of accounts for each financial period by the management. Subsequent to each reporting period, quarterly, interim or annual financial highlights and business review are published as soon as possible (or in accordance with the GEM Listing Rules, as the case may be) to disclose all information that are necessary for shareholders to assess the performance, financial conditions and prospects of the Company.

The Board has the responsibility to regularly review the internal control and risk management systems of the Company to ensure their effectiveness and efficiency. With the support of the internal audit department, the practices, processes, expenses and internal control of the Company and its subsidiaries are reviewed on a regularly basis. Matters of importance reported by the internal audit department are monitored regularly by the management to ensure remedial measures are implemented as appropriate. The Board and senior management may also require the internal audit team to conduct auditing procedures on special scopes of importance and report significant findings to the Board and the audit committee.

During the Period, the performance and remuneration of external auditors were reviewed. Auditors' remuneration payable to external auditors by the Company amounted to HK$1,800,000. Non-audit service charges included those for reviewing the interim financial report and fees for being the scrutinizers at annual and extraordinary general meetings of the Company amounted to approximately HK$530,000.

SUPERVISORY COMMITTEE

The Supervisory Committee of the Company comprises three members, namely Mr. Fan Kui-jie, Ms. Xu Ning-chun and Ms. Yan Li-xia, with Mr. Fan Kui-Jie as the chairman. The supervisors have performed their work in a dedicated and diligent manner and carried out effectively the function of supervising the legal and regulatory compliance of financial matters and the Directors and senior management of the Company during their offices.

INVESTOR RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the shareholders in the following manner:

- delivery of the quarterly, interim and annual results and reports to all shareholders;
- publication of announcements on the quarterly, interim and annual results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the GEM Listing Rules;

- the general meeting of the Company is also an effective communication channel between the Board and shareholders.

The Company maintains effective communications with its shareholders, investors and analysts through, inter alia:

- establishing dedicated divisions and personnel for liaison with investors and analysts by answering their questions;
- arranging on-site visits to the stores of the Company to enhance their timely understanding of the situations and latest development of the Company's business operations;
- gathering, in a timely manner, opinions and comments from analysts and investors on the operations of the Company, compiling reports thereon at regular intervals and selectively adopting them in the Company's operations;
- making available information on the Company's website, including description of the Company, Board and corporate governance, results of the Company, financial highlights, promotional materials and press releases of the Company, etc.; and
- actively communicating with various parties, in particular, convening briefing sessions, press conferences and individual meeting with institutional investors upon the announcement of interim and annual results and making decisions on material investments. The Company also participates in a range of investor activities and communicates on one-on-one basis with its investors regularly.

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 consolidated financial statements of Wumart Stores, Inc. on pages 52 to 92 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 consolidated financial statements which give a true and fair view. In preparing consolidated 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 consolidated 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 consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances 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 consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2005 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
21st February, 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2005

	Notes	2005 RMB'000	2004 RMB'000
Revenue	6	**3,918,598**	2,597,283
Cost of sales		**(3,289,216)**	(2,212,956)
Gross profit		**629,382**	384,327
Other income	8	**67,281**	58,842
Selling and distribution costs		**(325,770)**	(191,872)
Administrative expenses		**(144,039)**	(86,319)
Finance costs	9	**(5,895)**	(692)
Share of profit of associates		**11,883**	5,633
Profit before tax	10	**232,842**	169,919
Income tax expense	13	**(63,179)**	(57,529)
Profit for the year		**169,663**	112,390
Attributable to:			
Equity holders of the Company		**164,533**	107,937
Minority interests		**5,130**	4,453
		169,663	112,390
Dividend	14	**54,916**	51,118
Earnings per share — basic	15	**RMB0.58**	RMB0.39

At 31st December, 2005

	Notes	2005 RMB'000	2004 RMB'000
Non-current assets			
Property, plant and equipment	16	**878,023**	421,073
Interests in associates	17	**120,765**	114,100
Goodwill	18	**144,564**	1,004
Land use right	19	**29,961**	—
Prepaid lease payments	20	**26,255**	20,317
Deferred tax asset	31	**1,997**	—
		1,201,565	556,494
Current assets			
Inventories	21	**238,813**	147,410
Investments held-for-trading	22	**31,546**	—
Trading securities	23	**—**	12,125
Trade and other receivables	24	**384,760**	169,917
Amounts due from related parties	25	**375,956**	133,611
Pledged deposit	26	**100,000**	100,000
Trust monies placed with a financial institution	27	**—**	450,000
Cash and bank balances		**415,998**	274,257
		1,547,073	1,287,320
Current liabilities			
Trade and other payables	28	**1,302,660**	626,114
Amounts due to related parties	25	**49,691**	12,893
Dividend payable		**—**	3
Tax liabilities		**13,555**	20,103
Secured bank loans	29	**79,960**	—
		1,445,866	659,113
Net current assets		**101,207**	628,207
Net assets		**1,302,772**	1,184,701

At 31st December, 2005

	Notes	**2005 RMB'000**	2004 RMB'000
Capital and reserves			
Share capital	30	**283,987**	283,987
Reserves		**996,028**	882,613
Equity attributable to equity holders of the Company		**1,280,015**	1,166,600
Minority interests		**22,757**	18,101
Total equity		**1,302,772**	1,184,701

The financial statements on pages 52 to 92 were approved by the Board of Directors and authorised for issue on 21st February, 2006 and are signed on its behalf by:

Wu Jian-zhong
DIRECTOR

Meng Jin-xian
DIRECTOR

	Attributable to equity holders of the Company							
	Share capital RMB'000	**Share premium** RMB'000	**Statutory common reserve fund (Note)** RMB'000	**Statutory common welfare fund (Note)** RMB'000	**Retained profits** RMB'000	**Total** RMB'000	**Minority interests** RMB'000	**Total** RMB'000
At 1st January, 2004	266,397	449,566	8,305	4,010	67,343	795,621	14,813	810,434
Placing of shares	17,590	253,701	—	—	—	271,291	—	271,291
Share issue expense	—	(8,249)	—	—	—	(8,249)	—	(8,249)
Contribution from a minority shareholder	—	—	—	—	—	—	500	500
Dividend paid by asubsidiary	—	—	—	—	—	—	(1,665)	(1,665)
Profit for the year	—	—	—	—	107,937	107,937	4,453	112,390
Profit appropriations	—	—	17,094	8,548	(25,642)	—	—	—
At 31st December, 2004	283,987	695,018	25,399	12,558	149,638	1,166,600	18,101	1,184,701
Dividend paid by the parent	—	—	—	—	(51,118)	(51,118)	—	(51,118)
Dividend paid by subsidiaries	—	—	—	—	—	—	(474)	(474)
Profit for the year	—	—	—	—	164,533	164,533	5,130	169,663
Profit appropriations	—	—	23,052	11,526	(34,578)	—	—	—
At 31st December, 2005	283,987	695,018	48,451	24,084	228,475	1,280,015	22,757	1,302,772

Note: 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 profit, as determined under the PRC accounting regulations, to the 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 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 within the Group, each of them is required to transfer 5% to 10% of its 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.

For the year ended 31st December, 2005

	Notes	2005 RMB'000	2004 RMB'000
OPERATING ACTIVITIES			
Profit for the year		**169,663**	112,390
Adjustments for:			
Income tax expense		**63,179**	57,529
Finance costs		**5,895**	692
Share of profit of associates		**(11,883)**	(5,633)
Depreciation for property, plant and equipment		**54,242**	25,912
Prepaid lease payments charged to the income statement		**481**	—
Amortisation for land use right		**873**	—
Gain on disposal of property, plant and equipment		**(2,687)**	—
Gain on disposal of investments held-for-trading		**(3,844)**	(124)
Discount on acquisition of a subsidiary		**(9,577)**	—
Decrease in fair value of investments held-for-trading		**624**	2,876
Interest income		**(17,895)**	(22,507)
Operating cash flows before movements in working capital		**249,071**	171,135
Increase in inventories		**(91,403)**	(19,459)
Increase in trade and other receivables		**(214,843)**	(52,733)
Increase in amounts due from related parties		**(242,345)**	(11,401)
Increase in trade and other payables		**602,639**	299,836
Increase in amounts due to related parties		**36,798**	11,944
Cash generated from operations		**339,917**	399,322
Dividend paid		**(51,121)**	—
Income tax paid		**(71,724)**	(46,837)
NET CASH FROM OPERATING ACTIVITIES		**217,072**	352,485

	Notes	2005 RMB'000	2004 RMB'000
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(417,667)**	(315,507)
Proceeds from disposal of property, plant and equipment		**10,391**	1,050
Acquisition of a subsidiary	32	**(103,168)**	—
Investments in associates		**—**	(73,664)
Purchases of investments held-for-trading		**(438,176)**	—
Purchases of trading securities		**—**	(80,000)
Proceeds from disposal of investments held-for-trading		**421,975**	—
Proceeds from disposal of trading securities		**—**	80,124
Increase in pledged deposit		**—**	(100,000)
Interest received		**17,895**	22,507
Dividend received from associates		**5,218**	4,518
Dividend paid to minority shareholders of subsidiaries		**(474)**	(1,665)
NET CASH USED IN INVESTING ACTIVITIES		**(504,006)**	(462,637)
FINANCING ACTIVITIES			
Repayments of bank loans		**(15,430)**	—
Interest paid		**(5,895)**	(692)
Net proceeds from issue of shares		**—**	263,042
Contribution by a minority shareholder of a subsidiary		**—**	500
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(21,325)**	262,850
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(308,259)**	152,698
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**724,257**	571,559
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by		**415,998**	724,257
Trust monies placed with a financial institution		**—**	450,000
Cash and bank balances		**415,998**	274,257
		415,998	724,257

1. GENERAL

The Company is registered in the People's Republic of China (the "PRC") as a joint stock company with limited liability and its H shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "SEHK") 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.

The consolidated financial statements are presented in Reminbi ("RMB"), which is the functional currency of the Company and all of its subsidiaries.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The Group has early adopted the HKFRS 3, HKAS 36 and HKAS 38 from 1st January, 2004. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior year adjustment has been required.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

The impact of these changes in accounting policies is discussed below.

Investment securities

By 31st December, 2004, the Group classified its equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in equity securities are classified as "trading securities" and "non-trading securities". Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in profit or loss for the year in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or 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. In accordance with HKAS 39 "Financial Instruments: Recognition and Measurement", quoted investment funds are either classified as investments held-for-trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Changes in fair values of investments held-for-trading are recognised in profit or loss as they arise while changes in fair values of available-for-sale investments are generally recognised in equity. The Group has applied the transitional rules in HKAS 39. At 1st January, 2005, the Group reclassified its trading securities with a carrying amount of RMB12,125,000 to investments held-for-trading. The adoption of the requirements of HKAS 39 has had no impact to the Group at 1st January, 2005 nor has it had an impact on the current year.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are classified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. Alternatively, where the allocation between land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. This change in accounting policy has had no material effect on results for the current or prior year.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the consolidated financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC) — Int 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC) — Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK (IFRIC) — Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment[3]
HK (IFRIC) — Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1st January, 2007

2 Effective for annual periods beginning on or after 1st January, 2006

3 Effective for annual periods beginning on or after 1st December, 2005

4 Effective for annual periods beginning on or after 1st March, 2006

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong, which include HKFRSs issued by the HKICPA and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the SEHK and of the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (i.e. its subsidiaries).

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 intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately form the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising in an acquisition of a subsidiary or an associate represents the excess of the cost of acquisition over the Group's interest in the fair value of the net identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate is included in the cost of the investment in the associate. On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Goodwill arising from an acquisition for the purpose of impairment testing is allocated to each of the relevant cash-generating units, or group of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on acquisitions in a financial year, the cash-generating unit to which the goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary represents the excess of the acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

Investments in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

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.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

Depreciation is provided to write off the cost of items 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	2.5% – 4%
Leasehold improvements	10% – 20%
Furniture, fixtures and equipment	6.47% – 19.4%
Electronic equipment	19.4%
Motor vehicles	9.7%

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

Land use right

Land use right represents the excess of the fair value over the carrying amount of the leasehold interest in land in the PRC arising from business combination. Such land use right is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for land use right with finite useful life is provided on a straight-line basis over the lease term of 40 years.

Gain or loss arising from derecognition of the land use right is measured at the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the income statement when the asset is derecognised.

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 the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Trade and other receivables, amounts due from related parties and pledged deposit

Trade and other receivables, amounts due from related parties and pledged deposit are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Investments held-for-trading

Investments held-for trading are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

Investments held-for-trading are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the year.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Bank loans

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of bank loans is recognised over the term of the bank loans in accordance with the Group's policy for borrowing costs (see below).

Trade and other payables and amounts due to related parties

Trade and other payables and amounts due to related parties are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

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 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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

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 to 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.

Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the income statement in the year in which they are incurred.

Retirement benefit costs

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the assets are discussed below.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year the estimate is changed and the future period.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the recoverable amount calculation are disclosed in Note 18.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

6. REVENUE

Revenue represents the net amounts received and receivable for merchandise sold by the Group to outside customers, and the rental and service income for the year. An analysis of the Group's revenue for the year is as follows:

	2005	2004
	RMB'000	RMB'000
Sales of merchandise	**3,542,133**	2,382,777
Rental income from leasing of shop premises	**127,584**	71,351
Service income, including store display income and promotion income	**273,769**	158,363
	3,943,486	2,612,491
Business tax and other governmental charges	**(24,888)**	(15,208)
	3,918,598	2,597,283

7. SEGMENT INFORMATION

The Group is principally 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.

8. OTHER INCOME

	2005	2004
	RMB'000	RMB'000
Government subsidies	**8,707**	7,249
Interest income	**17,895**	22,507
Delivery service income	**10,021**	17,231
Discount on acquisition of a subsidiary	**9,577**	—
Others	**21,081**	11,855
	67,281	58,842

9. FINANCE COSTS

	2005	2004
	RMB'000	RMB'000
Interests on bank borrowings wholly repayable within five years	**5,895**	692

10. PROFIT BEFORE TAX

	2005	2004
	RMB'000	RMB'000
Profit before tax has been arrived at after charging (crediting):		
Auditors' remuneration	**1,800**	1,696
Depreciation for property, plant and equipment	**54,242**	25,912
Amortisation for land use right	**873**	—
Decrease in fair value of investments held-for-trading	**624**	—
Unrealised loss on trading securities	**—**	2,876
Operating lease rentals in respect of rented land and premises	**90,522**	51,298
Staff costs:		
Directors' and supervisors' remuneration	**1,813**	1,561
Other staff costs		
— Salaries and other benefits	**119,738**	76,726
— Retirement benefits scheme contributions	**17,400**	10,531
	138,951	88,818
Share of tax of associates (included in share of profit of associates)	**6,578**	4,692
Gain on disposal of property, plant and equipment	**(2,687)**	—
Gain on disposal of investments held-for-trading	**(3,844)**	—
Gain on disposal of trading securities	**—**	(124)

11. DIRECTORS' AND SUPERVISORS' REMUNERATION

	2005 **RMB'000**	2004 RMB'000
Directors and supervisors:		
Fees	**156**	85
Salaries and other benefits	**1,565**	1,396
Retirement benefits scheme contributions	**93**	80
	1,814	1,561

The emoluments of directors and supervisors during the year are analysed as follows:

	2005 **RMB'000**	2004 RMB'000
Directors:		
Dr. Wu Jian-zhong	**387**	349
Dr. Zhang Wen-zhong	**541**	515
Dr. Meng Jin-xian	**561**	465
Mr. Han Ying	**52**	36
Mr. Robert E. Larson	**—**	27
Mr. Li Lu-an	**52**	11
Mr. Lu Jiang	**52**	11
Supervisors:		
Mr. Fan Kui-jie	**36**	36
Ms. Xu Ning-chun	**36**	36
Mr. Wang Jin-yue	**89**	75
Ms. Yan Li-xia	**8**	—
	1,814	1,561

The amounts disclosed above included directors' fees of RMB192,000 (2004: RMB85,000) payable to independent non-executive directors. No other emoluments were paid to the independent non-executive directors during the year.

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

No directors and supervisors waived any emoluments during the year.

12. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals included three (2004: three) directors of the Company for the year (details of whose remuneration are set out in Note 11 above), the emoluments of the remaining two (2004: two) highest paid individuals for the year were as follows:

	2005 **RMB'000**	2004 RMB'000
Salaries and other benefits	**629**	1,095
Retirement benefits scheme contributions	**26**	34
	655	1,129

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.

13. INCOME TAX EXPENSE

	2005 **RMB'000**	2004 RMB'000
The charge comprises:		
PRC income tax	**65,176**	57,529
Deferred tax (Note 31)	**(1,997)**	—
	63,179	57,529

PRC income tax is calculated at 33% of the estimated assessable profit of the Group for the year, except for Beijing Wumart Hypermarket Commercial Management Company Limited ("Beijing Wumart Hypermarket") which is exempted from the PRC income tax for the year ended 31st December 2005 in accordance with the relevant tax laws and regulations in the PRC.

13. INCOME TAX EXPENSE (Continued)

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

	2005 **RMB'000**	2004 RMB'000
Profit before tax	**232,842**	169,919
Taxation at the PRC income tax rate of 33%	**76,838**	56,073
Tax effect of share of profit of associates	**(3,921)**	(1,631)
Effect of government subsidies that are not assessable in determining taxable profit	**(2,873)**	(2,392)
Tax effect of expenses that are not deductible in determining taxable profit	**1,178**	5,479
Effect of tax exemption granted to a subsidiary	**(8,043)**	—
Income tax for the year	**63,179**	57,529

14. DIVIDEND

	2005 **RMB'000**	2004 RMB'000
Domestic shares and H Shares:		
Proposed final dividends of RMB0.18 (2004: RMB0.18) per share	**54,916**	51,118

The final dividend of RMB0.18 (tax inclusive) per share (2004: RMB0.18 (tax inclusive) per share) has been proposed by the directors and is subject to approval by shareholders in the forthcoming annual general meeting.

15. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the equity holders of the Company is based on the profit for the year attributable to equity holders of the Company of RMB164,533,000 (2004: RMB107,937,000) and on the number of 283,987,000 (2004: weighted average number of 276,201,000) shares.

No diluted earnings per share is presented as the Company did not have any potential shares for the year or at each of the balance sheet dates.

16. 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
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
Additions	41,275	264,451	55,419	46,779	9,743	—	417,667
Additions upon acquisition of subsidiaries	—	76,185	9,016	9,161	4,647	2,220	101,229
Transfer	(94,143)	88,785	5,358	—	—	—	—
Disposals	—	—	(1,495)	(5,015)	(2,064)	—	(8,574)
At 31st December, 2005	4,836	608,763	184,578	162,253	29,927	2,931	993,288
DEPRECIATION							
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
Provided for the year	—	12,114	16,005	20,185	5,562	376	54,242
Eliminated on disposals	—	—	(12)	(551)	(307)	—	(870)
At 31st December, 2005	—	13,563	44,085	44,144	12,805	668	115,265
NET BOOK VALUES							
At 31st December, 2005	4,836	595,200	140,493	118,109	17,122	2,263	878,023
At 31st December, 2004	57,704	177,893	88,188	86,818	10,051	419	421,073

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

17. INTERESTS IN ASSOCIATES

	2005 **RMB'000**	2004 RMB'000
Cost of investments in associates	**50,000**	50,000
Share of post-acquisition profits, net of dividend received	**13,240**	6,575
Goodwill (Note)	**57,525**	57,525
	120,765	114,100

Note: The amount was initially determined based on the fair value of the Group's share of net identifiable assets of Beijing Chao Shifa Company Limited ("Chao Shifa") at the date of acquisition. Chao Shifa is suing one of its shareholders in relation to the ownership of and the right to operate certain supermarkets. Adjustment may have to be made to the goodwill amount based on the outcome of such litigation.

Details of the Group's associates as at 31st December, 2005, 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	60,000,000	49	Supermarket and convenience stores
Chao Shifa	91,980,000	25.03	Supermarkets
Beijing Wumart Shanhe Medicine Company Limited	8,627,200	50	Drug stores
Beijing Meiyijia Marketing Limited	500,000	25	Design, production, agency and distribution of advertisements in the PRC

17. INTERESTS IN ASSOCIATES (Continued)

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

	2005 RMB'000	2004 RMB'000
Result for the year		
Revenue	1,760,871	910,877
Profit for the year	38,203	13,882
Attributable profit to the Group	11,883	5,633
Financial position		
Non-current assets	235,459	288,172
Current assets	610,491	516,032
Current liabilities	(528,479)	(642,877)
Non-current liabilities	(125,021)	—
Net assets	192,450	161,327
Net assets attributable to the Group	63,240	56,575

18. GOODWILL

	RMB'000
CARRYING AMOUNT	
At 1st January, 2005	1,004
Additions on acquisition of subsidiaries	143,560
At 31st December, 2005	144,564

18. GOODWILL (Continued)

For the purpose of impairment testing, goodwill has been allocated to two individual cash-generating units, including one store in hypermarket and two subsidiaries in convenience stores. The carrying amounts of goodwill as at 31st December, 2005 allocated to these units are as follows:

	RMB'000
Hypermarket	**143,560**
Convenience stores	**1,004**
	144,564

The recoverable amounts of the cash-generating units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate and growth rate. The Group prepared cash flow forecasts derived from the 2-year financial budgets and extrapolates cash flows for the following eight years based on an estimated growth rate of 5% and a discount rate of 6%. The growth rate used does not exceed the average long-term growth rate for the relevant markets.

19. LAND USE RIGHT

	RMB'000
COST	
Addition during the year upon acquisition of a subsidiary and balance at 31st December, 2005	**30,834**
AMORTISATION	
Provided for the year and balance at 31st December, 2005	**873**
CARRYING VALUE	
At 31st December, 2005	**29,961**

20. PREPAID LEASE PAYMENTS

	2005 RMB'000	2004 RMB'000
Prepaid lease payments comprise:		
Medium-term leasehold land in the PRC	**7,433**	—
Prepaid lease rentals	**44,901**	48,468
	52,334	48,468
Analysed for reporting purposes as:		
Current asset (included in trade and other receivables)	**26,079**	28,151
Non-current assets	**26,255**	20,317
	52,334	48,468

21. INVENTORIES

	2005 RMB'000	2004 RMB'000
At cost:		
Merchandise for resale	**236,160**	145,060
Consumables	**2,653**	2,350
	238,813	147,410

22. INVESTMENTS HELD-FOR-TRADING

	2005 **RMB'000**	2004 RMB'000
Investment funds quoted in the PRC	**31,546**	—

The fair values of the above investments held-for-trading are determined based on the quoted market bid prices available in the relevant markets.

23. TRADING SECURITIES

	2005 **RMB'000**	2004 RMB'000
Investment funds quoted in the PRC	**—**	12,125

24. TRADE AND OTHER RECEIVABLES

	2005 **RMB'000**	2004 RMB'000
Trade receivables	**74,483**	3,878
Prepayments, deposits and other receivables	**310,277**	166,039
	384,760	169,917

Trade receivables represent receivables from supply of merchandise to franchised stores and stores managed by the Group, and from credit card sales which allows an average credit period of 30 to 60 days.

24. TRADE AND OTHER RECEIVABLES (Continued)

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

	2005 RMB'000	2004 RMB'000
0–30 days	**47,165**	3,852
31–60 days	**27,318**	26
	74,483	3,878

The fair value of the Group's trade and other receivables at 31st December, 2005 was approximate to the corresponding carrying amount.

25. AMOUNTS DUE FROM/TO RELATED PARTIES

	2005 RMB'000	2004 RMB'000
Amounts due from associates	**41,950**	29,956
Amounts due from subsidiaries of a Company's shareholder which has significant influence over the Company ("Company's Controlling Shareholder")	**307,109**	81,887
Amounts due from minority shareholders of subsidiaries	**26,897**	21,768
	375,956	133,611
Amount due to an associate	**9,515**	—
Amount due to a subsidiary of the Company's Controlling Shareholder	**40,176**	12,893
	49,691	12,893

The amounts due from and to associates and amounts due from subsidiaries of the Company's Controlling Shareholder are trading in nature, the age of these balances is within 30 days.

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

25. AMOUNTS DUE FROM/TO RELATED PARTIES (Continued)

The fair value of the amounts due from and to related parties at 31st December, 2005 was approximate to the corresponding carrying amount.

26. PLEDGED DEPOSIT

The amount represents deposit pledged to a bank in respect of a bank loan granted to an associate. The amount matures within one year and carries at fixed interest at 5.6% per annum.

The fair value of the pledged deposit at 31st December, 2005 was approximate to the corresponding carrying amount.

27. TRUST MONIES PLACED WITH A FINANCIAL INSTITUTION

The amount represented trust monies placed with a company incorporated in the PRC that is engaged in the business of assets management. Interest income was determined at a mutually agreed interest rate.

The fair value of the trust monies placed with a financial institution at 31st December, 2005 was approximate to the corresponding carrying amount.

28. TRADE AND OTHER PAYABLES

	2005 **RMB'000**	2004 RMB'000
Trade payables	**1,013,320**	464,252
Other payables, deposits and accruals	**289,340**	161,862
	1,302,660	626,114

28. TRADE AND OTHER PAYABLES (Continued)

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

	2005	2004
	RMB'000	RMB'000
0–30 days	**243,197**	168,876
31–60 days	**557,326**	284,472
61–90 days	**202,664**	5,670
Over 90 days	**10,133**	5,234
	1,013,320	464,252

The fair value of the Group's trade and other payables at 31st December, 2005 was approximate to the corresponding carrying amount.

29. SECURED BANK LOANS

The loans are repayable within one year and carry interests at fixed rates ranging from 5.6% to 6.1% per annum.

As at 31st December, 2005, the bank loan of RMB75,460,000 is secured by the pledge-of-leasehold land and building with carrying amount of RMB77,040,000. The bank loan of RMB4,500,000 is guaranteed by an independent third party.

The fair value of the Group's secured bank loans at 31st December, 2005 was approximate to the corresponding carrying amount.

30. SHARE CAPITAL

	Number of Domestic Shares of RMB1 each	Number of H Shares of RMB1 each	Value
			RMB'000
Issued and fully paid:			
At 1st January, 2004	178,445,000	87,952,000	266,397
Issue of H Shares (Note a)	—	17,590,000	17,590
At 31st December, 2004 and 31st December, 2005	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 Administrative 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 expired 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, 2005 and 2004, the Company's authorised and issued share capital of Domestic Shares and H Shares was RMB283,987,000, divided into 283,987,000 ordinary shares of RMB1 each.

31. DEFERRED TAX ASSET

The following is the major deferred tax asset recognised by the Group and movements thereon during the current reporting period:

	Tax losses
	RMB'000
At 1st January, 2005	—
Credited to income for the year	1,997
At 31st December, 2005	1,997

At 31st December, 2005, the Group had unused tax losses of RMB9,294,000 (2004: RMB13,400,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB6,052,000 (2004: Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB3,242,000 (2004: RMB13,400,000) due to unpredictability of future profit stream.

32. ACQUISITION OF SUBSIDIARIES

(a) On 1st May, 2005, the Group acquired the entire business operation and related assets and liabilities of Beijing Wumart Hypermarket Commerce Company Limited's Huixin store ("Huixin Hypermarket") from a subsidiary of the Company's Controlling Shareholder for a total consideration of RMB143,560,000. This acquisition has been accounted for using purchase method of accounting.

32. ACQUISITION OF SUBSIDIARIES (Continued)

(a) (Continued)

The assets and liabilities acquired in the transaction, and the goodwill arising, are as follows:

	Carrying amount before acquisition and fair value RMB'000
Property, plant and equipment	15,900
Inventories	9,812
Trade and other receivables	16,451
Amount due from a related party	1,531
Cash and bank balances	4,612
Trade and other payables	(48,306)
	—
Goodwill	143,560
Total consideration, satisfied by	143,560
Cash paid	107,780
Amount due to a subsidiary of the Company's Controlling Shareholder	35,780
	143,560
Net cash outflow arising on acquisition	
Cash consideration paid	(107,780)
Cash and bank balances acquired	4,612
	(103,168)

The goodwill arising on the acquisition is attributable to the anticipated profit of Huixin Hypermarket and the anticipated future operating synergies from the combination.

32. ACQUISITION OF SUBSIDIARIES (Continued)

(a) (Continued)

The business acquired during the year contributed RMB130,769,000 to the Group's revenue, and a profit of RMB8,173,000 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

Had the acquisition been completed on 1st January, 2005, total revenue contributed to the Group for the year would have been RMB208,124,000, and profit contributed to the Group for the year would have been RMB10,607,000. The proforma information is for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2005, nor is it intended to be a projection of future results.

(b) On 1st January, 2005, the Group acquired the entire business operation and related assets and liabilities of Beijing Jingbei Dashijie Commercial and Trading Group from a third party at nil consideration. This acquisition has been accounted for using purchase method of accounting.

The net assets acquired in the transaction, and the discount arising, are as follows:

	Acquiree's carrying amount before combination RMB'000	**Fair value adjustments** RMB'000	**Fair value** RMB'000
Property, plant and equipment	86,981	(1,652)	85,329
Land use rights	—	30,834	30,834
Prepaid lease payments	7,914	—	7,914
Deferred tax asset	10,175	(10,175)	—
Inventories	24,435	(287)	24,148
Trade and other receivables	10,143	—	10,143
Trade and other payables	(53,401)	—	(53,401)
Bank loans	(95,390)	—	(95,390)
Net assets acquired			9,577
Discount on acquisition			(9,577)
Consideration			—

32. ACQUISITION OF SUBSIDIARIES (Continued)

(b) (Continued)

The discount on acquisition arising on the acquisition is attributable to the excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

The business acquired during the year contributed RMB141,645,000 to the Group's revenue, and incurred a loss of RMB4,197,000 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

33. DISPOSAL OF SUBSIDIARIES

	2004
	RMB'000
Prepayments, deposits and other receivables	5,000
Satisfied by:	
Other receivables	5,000

The subsidiary disposed of for the year ended 31st December, 2004 did not have any contribution to the Group's revenue for that year.

34. MAJOR NON CASH TRANSACTIONS

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

(1) During the year, the Group acquired the entire business operation and related assets and liabilities of Huixin Hypermarket from a subsidiary of the Company's Controlling Shareholder for a total consideration of RMB143,560,000, which was satisfied by an increase in amount due to a subsidiary of the Company's Controlling Shareholder of RMB35,780,000 and the remaining balance, in cash.

(2) For the year ended 31st December, 2004, the Group disposed of a subsidiary at a consideration of RMB5,000,000 which was satisfied by an increase in other receivables.

35. COMMITMENTS

The Group as lessee

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

	2005 RMB'000	2004 RMB'000
Within one year	**99,758**	79,701
In the second to fifth year inclusive	**391,337**	318,046
Over five years	**1,157,442**	604,631
	1,648,537	1,002,378

Leases are negotiated for an average term of 10 years.

36. CAPITAL COMMITMENTS

	2005 RMB'000	2004 RMB'000
Capital expenditure in respect of		
— property, plant and equipment	**70,000**	96,991
— investments in subsidiaries	**—**	145,420
	70,000	242,411

37. 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. Details of the claim are set out in 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, including the Company, to bear all costs relating to the Claim.

Based on the PRC legal opinions, the directors of the Company 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.

38. RELATED PARTY TRANSACTIONS

(a) Apart from the amounts due from and to related companies as disclosed in Note 25, during the year, the Group had the following related party transactions:

	2005 **RMB'000**	2004 RMB'000
Sales to an associate	**223,363**	212,139
Sales to subsidiaries of the Company's Controlling Shareholder	**389,351**	299,159
Service fee income from a subsidiary of the Company's Controlling Shareholder in respect of merchandise delivery services	**2,074**	1,003
Service fee income from an associate in respect of merchandise delivery services	**2,682**	2,899
Service fee income from subsidiaries of the Company's Controlling Shareholder in respect of providing market materials	**—**	582
Service fee to a subsidiary of the Company's Controlling Shareholder in respect of computer software application and support services	**—**	1,200
Management fee income from subsidiaries of the Company's Controlling Shareholder	**725**	603

(b) Pursuant to an acquisition agreement entered into between the Company and a subsidiary of the Company's Controlling Shareholder on 31st December, 2004, the Company acquired the entire business operations and related assets and liabilities of Huixin Hypermarket from the subsidiary of the Company's Controlling Shareholder for a total consideration of RMB143,560,000. The transaction was completed on 1st May, 2005.

(c) Compensation of key management personnel

The short term benefits paid or payable by the Group to directors of the Company and other members of key management during the year is RMB2,983,000 (2004: RMB2,095,000).

39. SUBSEQUENT EVENTS

The follow events took place after 31st December, 2005:

(a) Pursuant to a strategic cooperation agreement entered into among Beijing MerryMart Chainstores Development Co., Ltd. ("Mei Lian Mei"), Mr. Zhu Younong, Mr. Cao Jianmin, Mr. Cao Liying, Mr. Cao Ming, Mr. Zhang Junyi, Mr. Tian Zhili and Mr. Qi Jingkun, the existing ultimate shareholders of Mei Lian Mei, (collectively "Transferors") and the Company dated 1st February, 2006, the Company agreed to acquire 68% equity interests in Mei Lian Mei held by the Transferors for a cash consideration of RMB253,500,000. In addition, the Company agreed to a capital increase of Mei Lian Mei by contributing RMB120,000,000 subsequent to the completion of the acquisition, through which the Company would acquire an additional 7% equity interests in Mei Lian Mei.

(b) On 7th February, 2006, arrangements were made for a private placement to independent investors of 21,100,000 shares of the Company at HK$21.4 per H Share, representing (a) a discount of approximately 1.38% to the closing price of HK$21.7 per H Share as quoted on the GEM of the SEHK on 6th February, 2006, being the trading day immediately preceding the signing of the placing underwriting agreement and (b) a premium of approximately 13.17% to the average closing of HK$18.91 per H Share for the 5 trading days as quoted on the GEM of the SEHK immediately preceding the signing of the placing underwriting agreement. The net proceeds is intended to be used for expanding its retail network and for satisfying its needs for general working capital.

40. PARTICULARS OF THE COMPANY'S SUBSIDIARIES

Details of the Company's subsidiaries as at 31st December, 2005, all of which are private limited liability companies registered and operated in the PRC, are as follows:

Name	Registered and fully paid capital	Proportion of nominal value of registered capital held by the Company Directly	Indirectly	Principal activities
	RMB	%	%	
Beijing Wumart Bolante Convenience Stores Company Limited	10,000,000	80	—	Convenience stores
Beijing Wumart Stores Company Limited	10,000,000	80	16	Supermarkets
Beijing Mencheng Wumart Shangcheng Company Limited	1,000,000	70	—	Supermarkets
Beijing Wumart Tongfu Commerce Company Limited	1,000,000	55	—	Supermarket
Beijing Wumart Tianxiang Convenience Stores Company Limited	1,000,000	60	—	Convenience stores
Beijing Tongtang Wumart Convenience Stores Company Limited	1,000,000	60	—	Convenience stores
Beijing Wumart Jingxi Convenience Stores Company Limited	1,000,000	75	—	Convenience stores
Beijing Wumart Gulou Commerce and Trading Company Limited	1,000,000	65	—	Hypermarkets
Beijing Wumart Convenience Stores Company Limited	50,000,000	80	—	Convenience stores
Beijing Jiahe Wumart Commerce Company Limited	10,000,000	80	14.4	Hypermarket
Tianjin Wumart WeiLai Commercial Development Company Limited	1,000,000	80	19.2	Hypermarket
Baoding Wumart Stores Company Limited	1,000,000	80	19.2	Supermarket
Beijing Wumart Hypermarket Commercial Management Company Limited	10,000,000	95	4.8	Hypermarket
Beijing Wumart Jingbei Dashijie Commercial and Trading	20,000,000	95	4.8	Hypermarket
Beijing Wumart Logistic Technology Company Limited	8,000,000	80	20	Hypermarket
Beijing Yutingqiao Wumart Commercial and Trading Company Limited	10,000,000	90	9.6	Inactive
Beijing Wumart Xiaomachang Commercial Company Limited	10,000,000	90	9.6	Inactive
Beijing Majiapu Wumart Commercial and Trading Company Limited	10,000,000	90	9.6	Inactive
Beijing Wumart Wuluju Commercial Company Limited	10,000,000	90	9.6	Inactive

	For the year ended 31st December,				
	2005	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Revenue	**3,918,598**	2,597,283	1,574,862	1,097,526	689,772
Cost of sales	**(3,289,216)**	(2,212,956)	(1,312,774)	(919,774)	(590,222)
Gross profit	**629,382**	384,327	262,088	177,752	99,550
Other income	**67,281**	58,842	21,873	14,895	4,359
Selling and distribution costs	**(325,770)**	(191,872)	(117,801)	(103,537)	(26,046)
Administrative expenses	**(144,039)**	(86,319)	(64,184)	(50,531)	(51,208)
Finance costs	**(5,895)**	(692)	(1,384)	(3,256)	(3,497)
Loss on disposal of subsidiaries	**—**	—	(74)	—	800
Share of profit of associates	**11,883**	5,633	7,931	6,963	—
Profit before tax	**232,842**	169,919	108,449	42,286	23,958
Income tax expense	**(63,179)**	(57,529)	(35,097)	(14,438)	(9,456)
Profit for the year	**169,663**	112,390	73,352	27,848	14,502
Attributable to:					
Equity holders of the Company	**164,533**	107,937	71,596	27,436	15,613
Minority interests	**5,130**	4,453	1,756	412	(1,111)
	169,663	112,390	73,352	27,848	14,502

	As at 31st December,				
	2005	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	**2,748,638**	1,843,814	1,146,964	427,455	518,566
Total liabilities	**(1,445,866)**	(659,113)	(336,641)	(229,229)	(388,915)
Minority interests	**(22,757)**	(18,101)	(14,813)	(11,830)	(10,418)
Equity attributable to equity holders of the Company	**1,280,015**	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.