ANNUAL REPORT 2006

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.

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Company Information

BOARD OF DIRECTORS

Executive Directors
Dr. Wu Jian-zhong *(Chairman)*
Dr. Meng Jin-xian *(Vice President)*

Non-executive Director
Mr. Wang Jian-ping *(Vice Chairman)*

Independent Non-executive Directors
Mr. Han Ying
Mr. Li Lu-an
Mr. Lv Jiang

SUPERVISORS
Mr. Fan Kui-jie
Ms. Xu Ning-chun
Ms. Yan Li-xia

SENIOR MANAGEMENT
Dr. Li Feng-jiang
Dr. Yu Jian-bo
Mr. Xu Shao-chuan
Mr. Pei Yan-peng
Ms. Li Dong-nv
Mr. Li Jing
Mr. Zhang Jian-chong
Mr. Dong Gang
Mr. Guo Tu-wei
Ms. Xu Ying
Ms. Xie Dong
Mr. Chan Wai Lok

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. Lv Jiang

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

COMPLIANCE OFFICER
Dr. Wu Jian-zhong

AUTHORIZED REPRESENTATIVES
Dr. Wu Jian-zhong
Ms. Xie Dong

AUDITORS
Deloitte Touche Tohmatsu

LEGAL ADVISERS
As to Hong Kong Law:
Coudert Brothers in association with
Orrick, Herrington & Sutchiffe LLP

As to P.R.C. Law:
Haiwen & Partners

PRINCIPAL BANKERS
Agriculture Bank of China
Industrial and Commercial Bank of China
China Merchants Bank

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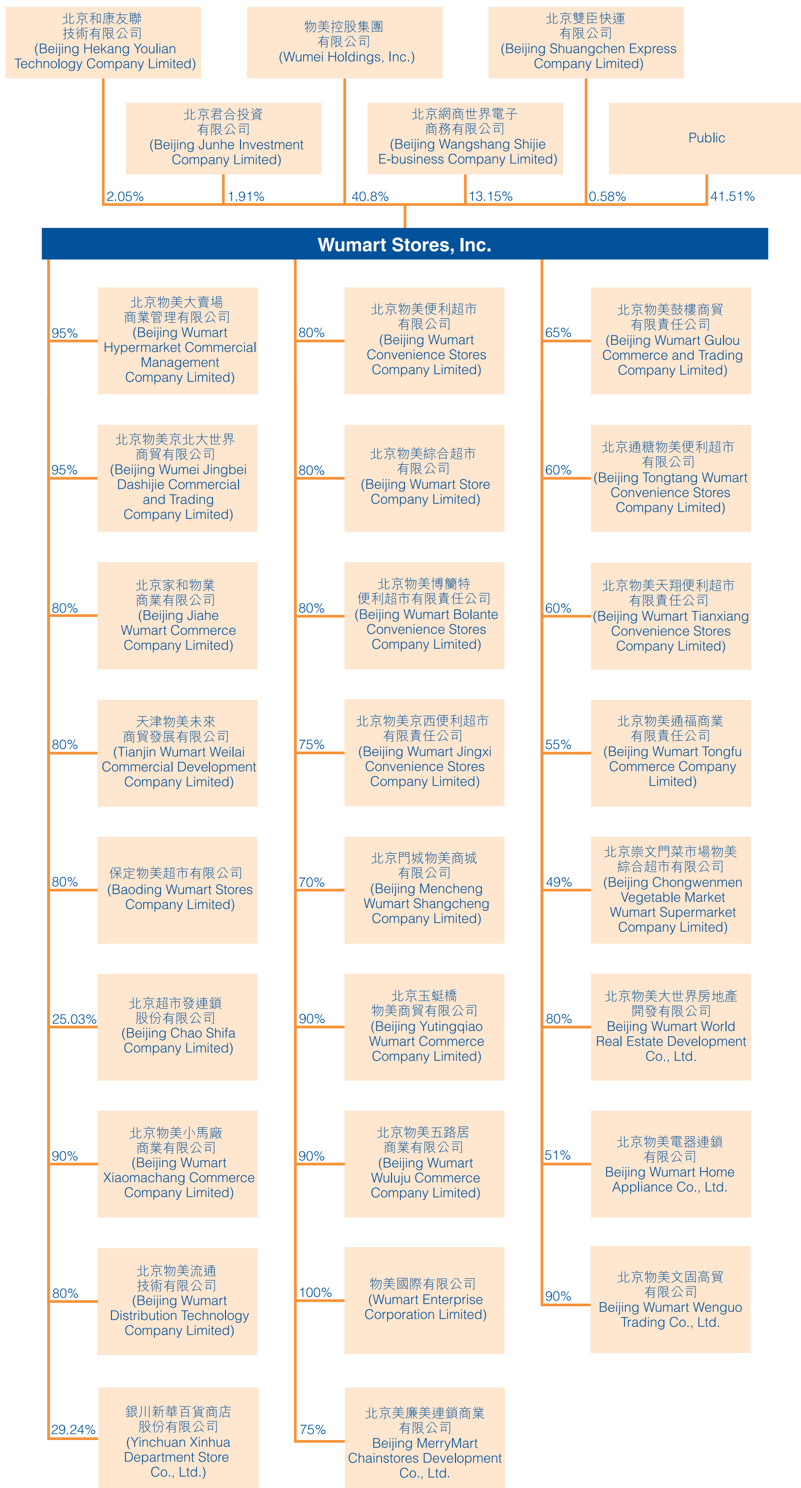
WEBSITE
www.wumart.com

STOCK CODE
8277

Shareholding and Group Structure

As at 31st December, 2006, 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:



Chairman's Statement

Dear Shareholders:

I am pleased to present the report on the audited results of Wumart Group for the year ended 31st December, 2006 (the "Reporting Period").

ACKNOWLEDGEMENT

During the Reporting Period, the Group maintained steady growth of its results, achieving excellent performance in dramatic improvement of turnover and net profit as well as maintaining its lead among chain retailers in Beijing. I would like, on behalf of the board of Directors (the "Board"), to express my sincere gratitude to the Company's shareholders, loyal customers, suppliers and the general public for their unfailing support.

REVIEW OF RESULTS

- Our retail network comprised 502 outlets;
- Total revenue(Note 1) amounted to approximately RMB5,693,349,000, representing a growth of 45.3% as compared with 2005;
- Consolidated gross profit(Note 2) amounted to approximately RMB881,047,000, representing a growth of 40.0% as compared with 2005;
- Net profit reached approximately RMB212,308,000, representing a growth of 29.0% as compared with 2005;
- Consolidated gross profit margin was approximately 15.5%;
- Net profit margin(Note 3) was approximately 3.7%; and
- Comparable store sales (turnover recognized by a particular store in respect of different periods of time) increased by approximately 8.56% as compared with 2005.

Note 1: Total revenue includes turnover and other revenues.

Note 2: Consolidated gross profit is the difference between the total revenue and the cost of sales.

Note 3: Net profit margin is the ratio between net profit and total revenue.

During the Reporting Period, the Group adhered to the strategy of regional development, and aggressively expanded its retail network through merger and acquisition and establishment of new stores. Alongside with continuous expansion in scale of operation, the Company is committed to the improvement of operational capability and maintenance of steady profitability. Coupled with increasingly integrated procurement system, and regulated and standardized management of store operation, as well as the growing sale capability of the Group, which were attributable to increasing number of stores, the Group increased its turnover while sustaining satisfactory profitability.

During the Reporting Period, the Company acquired 68% interests in Beijing MerryMart Chain Stores Development Co.,Ltd. ("MerryMart"), and acquired an additional 7% of equity interests in MerryMart by additional capital contribution. Upon the completion of this acquisition and capital increase, the Company owned 75% equity interests in MerryMart. Meanwhile, the Group's integration of the procurement systems, information systems and logistics systems of both parties has brought about synergy effect, greatly enhanced the competitiveness of the Group. The strategic cooperation significantly reinforced the Group's leading position in the retail markets in Beijing and Northern China.

The Company acquired 27.7% equity interests in Yinchuan Xinhua Department Store Co., Ltd ("Xinhua Co.") during the Reporting Period. Following the implementation of the share reform proposal by Xinhua Co., the Company in aggregate held 29.24% equity interests in Xinhua Co. The acquisition of equity interests in Xinhua Co. which is in a dominant position in the Northwestern China, set the scene for the Group's further expansion across the country, and laid a foundation for its development in this region.

In February 2006, the Company, pursuant to the general mandate granted to the Board in the annual general meeting, had the 21,100,000 H shares successfully placed at HK$21.40 per share (after the share subdivision, the number of shares corresponds to 84,400,000 H shares with par value of RMB0.25 each). Upon the completion of the placement, the H shares accounted for 41.51% of the total share capital of the Company. The successful placement is a good sign that the Group has achieved excellent performance, winning from investors their confidence in the Group.

The Company's share subdivision was effective from October 2006, with each share divided into four shares and the per value of the shares was reduced from RMB1.00 each to RMB0.25 each. After the share subdivision, each board lot size traded in the Stock Exchange remains at 1,000 shares and the share capital of the Company comprised 1,220,348,000 shares, divided into 713,780,000 domestic shares and 506,568,000 H shares.

To reward our shareholders for their continuous support, the Board recommended the distribution of an dividend of RMB0.07 per share (corresponding to RMB0.28 per share before the share subdivision; 2005: RMB0.18 per share).

PROSPECTS

The Group will bring into full play the advantage of its professional management team, consistently adhering to the strategy of regional development. Following the completion of acquiring MerryMart and Xinhua Co., the Group made efforts to go ahead steadily and with determination in regions such as Beijing, Northern China and Northwestern China and maintaining wholeheartedly the operation and the integration for the completed merger and acquisition projects in those regions, implementing promptly the shared center of such resources as purchase, supply chain management, logistics, human resources and information technology among all enterprises in all regions in order to achieve synergy effects, which would reduce operation and management cost of each group enterprise, and fully enhance core competence of the Group for sustaining steady performance growth and profitability, in turn gaining more market share presence.

I would like to express my gratitude to all members of the Board, and the Group's management team for their persistent efforts in the past year as well as all employees' hard work. We are fully confident that our management team and all employees are ready to meet the challenge in 2007.

Dr. Wu Jian-zhong
Chairman

Beijing, the P.R.C.
24th March, 2007

Management Discussion and Analysis

MESSAGE FROM CEO

The Chinese retail industry is entering a critical and important phase of the emergence of large international retailers.

On the one hand, a period of expansion and adaptation has lifted the curtain of development at a fast speed for the Chinese retail industry. The gross retail consumables in China, with a growth rate higher than that of the Chinese GDP in 2006, was RMB7.6 trillion in 2006, up by 13.7% compared with 2005. Under the directives of government policy on strongly spurring domestic demands, in several coming years, the Chinese retail industry will remain growing at a fast speed. Its scale and capacity will be further enhanced. With such a trend, it is or will be possible and realistic that large international companies will emerge in the Chinese retail industry.

On the other hand, the Chinese retail industry is also facing unprecedented competitions and challenges. Since the end of 2004 when the Chinese government has lifted its restrictions on retailing business of foreign-funded enterprises, most of the large leading global retailers have entered China, and have successfully formulated and are implementing development strategies of expansion at an accelerated speed, thus hastening the pace of, and intensifying the competition in Chinese retail industry.

Against this background, the first challenge that Chinese retail industry will face is the expansion of scale. Researches show that the Chinese retail industry is further concentrated, and that there are unceasing mergers and acquisitions. It is proved with facts that post-acquisition integration are more challenging than such acquisitions themselves and to expand and then well manage the scale gives a new challenge to retail enterprises.

The second challenge that the Chinese retail industry faces is the precision management and synergetic efficiency coexisting with competition on scale. It is noticed that there is a decelerated growth of the store net work expansion; however, excellent retailers demonstrate increasingly strong performance indicators such as single-store profitability, sales per unit area and productivity of staff. In the most competitive market, best retailers are presenting an even harmonic relationship with suppliers. Production efficiency in regards of each article, supplier, store and shelf are becoming the challenge and competition focus. In short, challenges between scale and growth, efficiency and management, actually indicate two weakness of local retailers, that is, weakness on system and weakness on management.

Confronting the competitions, doing our own homework on a firm rooting, making up the weakness are the only ways for putting us in an invincible position during the ever more intense competition.

Dr. Li Feng-jiang
CEO

Beijing, the P.R.C.
24th March, 2007

FINANCIAL REVIEW

Financial Highlights

	Year ended 31st December, 2006 RMB'000	2005 RMB'000	Percentage of year-on- year increase (%)
Total revenue	**5,693,349**	3,918,598	45.3
Consolidated gross profit	**881,047**	629,382	40.0
Net profit	**212,308**	164,533	29.0
Net profit (excluding the impairment of deposit paid for acquisition of an associate and the related deferred tax credit)[Note 1]	**224,595**	164,533	36.5
Basic earnings per share (RMB)[Note 2]	**0.18**	0.14	28.6

Note 1: It refers to be impairment of RMB18,336,000 made for the deposit paid in the acquisition of Times Supermarket Limited ("Times") and the related deferred tax credit of RMB6,049,000.

Note 2: The basic earnings per share is based on the profit for the year 2006 attributable to equity holders of the Company of approximately RMB212,308,000 (2005: approximately RMB164,533,000), and on the weighted average number of 1,206,137,000 shares (2005: 283,987,000 shares, corresponding to 1,135,948,000 shares after adjustment pursuant to the share subdivision completed) in 2006.

Turnover by activities

	Year ended 31st December, 2006 RMB'000	**Percentage of total revenue (%)**	Year ended 31st December, 2005 RMB'000	Percentage of total revenue (%)
Turnover	**5,165,677**	**90.1**	3,542,133	89.8
Income from suppliers	**398,940**	**7.0**	273,769	6.9
Rental income from leasing of store premises	**165,804**	**2.9**	127,584	3.3
	5,730,421	**100**	3,943,486	100
Business tax	**(37,072)**		(24,888)	
Total revenue	**5,693,349**		3,918,598	

Total revenue

During the Reporting Period, the Group maintained a rapid growth in its sales, with a total revenue of approximately RMB5,693,349,000 in 2006, up by 45.3% compared with 2005. The comparable store sales growth is 8.56%. The growth in turnover was derived from the sales of newly opened stores, growth in comparable store sales and turnover contributions by MerryMart reflect since September of 2006. The turnover and income from suppliers in 2006 respectively accounted for 90.1% and 7.0% of the Group's total revenue, and the income from suppliers continued to reflect the negotiation power of the Group on the basis of its regional advantages and concentrated procurement. Rental income was derived from the lease of store

Management Discussion and Analysis

premises by the Group's business partners and increased mainly because of the increase in the number of newly opened stores, in the lease-out area and in the increase of rental rate charged on lease-out areas of some of the stores upon the renewal of lease agreements.

Cost of Sales and Consolidated Gross Profit Margin

For 2006 and 2005, the cost of sales of the Group were respectively approximately RMB4,812,302,000 and RMB3,289,216,000, with consolidated gross profit margin for these two years of 15.5% and 16.1%, respectively. Taking out the effect on sales at cost to managed and franchised stores and related companies, the Group obtained a consolidated gross profit margin of approximately 18.7% in 2006. During the Reporting Period, the Group's centralised procurement and optimization of suppliers were under progress and there was prominent advantages in certain categories and merchandises, but there is still room for overall increase in gross profit. The growth of the Group's income from suppliers in proportion for the fourth quarter was lower than that over the same period of previous year. Albeit slightly lower than the overall level of the Group, the gross profit margin of merchandise sales and the consolidated gross profit of MerryMart presented an upward growing trend.

During the Reporting Period, other income of the Group were approximately RMB107,113,000, accounting for approximately 1.9% of the total revenue, and approximately 1.7% of the total revenue in 2005.

Operating Costs and Net Profit

During the Reporting Period, the administrative expenses of the Group were approximately RMB185,836,000, accounting for 3.3% of the total revenue and accounting for about 3.7% in 2005. Administrative expenses included staff cost of approximately RMB65,718,000 and the rental expenses of approximately RMB4,181,000.

During the Reporting Period, the Group had a selling and distribution cost of about RMB473,118,000, making up about 8.3% of the total revenue and accounting for about 8.3% for the year 2005. The selling and distribution cost included staff cost of approximately RMB96,550,000 and the rental expenses of approximately RMB143,443,000.

During the Reporting Period, the Group had finance cost of approximately RMB5,654,000, compared with RMB5,895,000 for the year 2005.

During the Reporting Period, the Group's net profit was approximately RMB212,308,000, up by 29.0%, or RMB47,775,000, compared with 2005. During the Reporting Period, the Group's net profit margin is about 3.7%, compared with 4.2% in 2005, mainly because of the decrease in the consolidated gross profit for the fourth quarter, and the decrease in share of profits of associates compared with last year, and of other factors. Taking out the effect on the sales at cost to managed and franchised stores and related companies, the Group's net profit margin was about 4.5%.

Liquidity and Financial Resources

During the Reporting Period, the Group's funds were approximately sourced from cash income from operations. As at 31st December, 2006, the Group had non-current assets in an amount of approximately RMB2,138,330,000, which mainly included property, plant and equipment, totaling approximately RMB1,272,079,000, interests in associates of approximately RMB330,285,000 and the goodwill of approximately RMB404,711,000.

As at 31st December, 2006, the Group recorded net current liabilities of approximately RMB144,183,000. Its current assets mainly comprised cash and bank balances of approximately RMB725,093,000, inventory of approximately RMB367,564,000, trade receivables and other receivables of approximately RMB514,001,000, and receivables from related parties of approximately RMB547,516,000. The current liabilities was approximately RMB2,496,910,000, mainly comprising trade payables and other payables of approximately RMB2,260,544,000, taxes payables of approximately RMB39,826,000 and bank loan of approximately RMB175,460,000.

During the Reporting Period, the Group had an average account payable turnover of 86 days, compared with 82 days in 2005; inventory turnover was 19 days, compared with 21 days in 2005; gearing ratio of 9.3%, compared with 6.2% in 2005.

BUSINESS REVIEW

Expansion of Retail Network: Exploration and Takeover

The Company always insists on the regional development strategy, by adopting the methods of independent exploration and mergers and acquisitions, to expand its retail network. During the Reporting Period, through the acquisition of 75% equity interests in MerryMart and 29.24% equity interests in Xinhua Co., on the one hand, the Company continuously expands its markets coverage in Beijing region and on the other hand, it makes a momentous leap towards nationwise exploration.

As at 31st December, 2006, the Group and its associates directly owned, and by entering into franchise agreements or management agreements, operated and managed a retail networks of 502 stores, including 82 superstores and 420 mini-marts.

For the fourth quarter of the Reporting Period, the Group opened two superstores, two directly owned mini-marts and three franchised mini-marts. In the fourth quarter of the Reporting Period, the Group assessed a number of mini-marts incurring losses according to the close-down procedure of the Group and the closed 12 mini-marts in consideration of surrounding competition environment and other factors. As planned, there is no schedule to re-open for the closed 21 subway mini-marts for the time being. Meanwhile, the Group also terminated the cooperation with 25 managed stores which are, or intended to be, closed down as a results of serious losses.

Stores, which are directly owned by the Group and its associated companies or operated by them through franchise agreements are as follows:

	As at 31st December, 2006 Number of Stores	Geographical Distribution
Superstores		
Direct ownership	**66**	Beijing, Hebei, Tianjin, Yinchuan
Franchised Stores	**1**	Yinchuan
Mini-marts		
Direct ownership	**126**	Beijing, Yinchuan
Franchised	**246**	Beijing, Yinchuan
Total (Note)	**439**	

Management Discussion and Analysis

The Group's stores which are operated and managed by the Group through various management agreements (the "Managed Stores") are as follows:

	As at 31st December, 2006 Number of Stores	Geographical Distribution
Superstores	15	Hebei, Tianjin
Mini-marts	48	Beijing, Tianjin
Total	63	

Note: The total number includes MerryMart's stores and stores of Xinhua Co., but excludes those of Beijing Chao Shifa Company Limited ("Chao Shifa").

Centralized Procurement and Category Management

One of the basic principles of the Group's operating strategies is to establish centralised procurement, carry out category management of merchandise and enhance the economies of scales.

In 2005, the Group established a merchandise center and realized a centralised management of merchandise purchase in various formats. In 2006, the Group integrated the original 3 sets of merchandise management systems, and set up a merchandise center information platform. By uniformly classifying the merchandise category, unifying merchandise code and information maintenance processes and effectively monitoring the purchase, sales and storage of merchandises, the Group is now able to realize at one platform to increase, eliminate and replace merchandise through selection, change and promotion of merchandise. During the integration, the Group not only maintained a stable staff turnover, smoothly reformed its system, but also kept stable growth of its performance.

Upon the integration of purchase resources, the Group strengthened the category management. With an aim at forming a category mode adaptable to development of formats, systematizing and modularizing merchandise configuration, and optimizing category profitability mode, and in combination of requirements of SAP retail system, the Group adjusted categories of existing merchandises, planned new merchandise organization table, and initiated category optimization of model stores.

During the Reporting Period, the Group made great efforts in developing its private labels. In May, 2006, the merchandises, bearing the original brand "Wumart" initially self-owned by Wumart were fully withdrawn from the market, making a leap forward into a new development stage of the Wumart's private labels. Following the debut of Wumart "Sheng" series (meaning Save, save for you) and an intensive promotion and advertising of "Sheng" Brand, in August, the private label of "DongFangXiZhi" was launched in the market; In October, another merchandise bearing the private label of "LiangShiji" of Wumart are momentously launched in the market; Also in October, the brand "UNID" emerged on the market; notebook PCs, bearing this brand, are well recognized by consumers. So far the Group has established its professional and subdivided system of private labels, including one value line and five quality lines, that is, "Sheng", "LiangShiJi", "DongFangXiZhi", "Prime of Nature", "NaShiHou" and "UNID".

Optimization of Suppliers

The category optimization is gradually realized through the optimization of suppliers. During the Reporting Period, the Group adopted supplier entry system and reinforced the quality control. The important rule for the Group to optimize suppliers in 2006 is to integrate suppliers, reduce middlemen, boost strategic purchase, conduct joint procurement, and create a win-win situation.

During the Reporting Period, the Group held a strategic cooperation meeting in Beijing, to which a dozen of foreign and domestic large suppliers attended so as to jointly negotiate on a mechanism of effective cooperation between retailers and suppliers.

The Group, with cooperation from Beijing Pinggu District People's Government and District Committee of CPC, held the first "Wumart-Pinggu Festival of Fresh Peaches", thus promoting and selling on an exclusive basis the brand of "Big Pinggu Peach", which has the proprietary mark and is protected by the national geological mark, through large retail channel, such as that of Wumart Group, under auspices of the government organization.

During the Reporting Period, the Group controlled the quality among all of its staff members, during the entire process and in all dimension. The standing merchandise quality center is responsible for closed-loop management, including preventions in advance, control in the midway and handling afterwards. In the course of quality management, the Group further improved the process for management of qualifications of suppliers, and set up a system of suppliers' quality archives and rating assessment, highlighted the creation of a "system of veto according to quality problems". Specific measures comprised: to establish a distribution quality inspection station, and to conduct acceptance, inspection and verification of distributed merchandise, so as to hold the first pass; to strictly conduct the merchandise inspection and control in outlets, and immediately refuse to accept merchandise with quality defects; to strengthen the self-inspection, submission for inspection purpose and on-site examination, so as to wipe out quality problems in the bud; to be in strict compliance with the system of "Merchandise with quality defects must be withdraw shelves within 2 hours". This all reflects the high sense of responsibility of the Group towards the health and safety of consumers.

Optimization of Stores

During the Reporting Period, the Group concentrated on the precision management and synergy of store ends, by increasing the sales volume per unit area, turnover created by each staff member, based on single store and single category; endeavouring to raise the core competitiveness of the Group; reinforcing the comprehensive competitive power of superstores; improving the principle of optimizing facilities rendered by mini-marts in terms of merchandises and services; orientating the Group towards different groups of customers according to centralising market; carrying out diversified business operation; simplifying the operation of store ends, and guiding stores to put their energy and efforts mainly on four aspects management: over commodities, over assets, over staff and over customers; integrating corporate organizational structure based on supply chains; rendering services to outlets and customers; establishing a team responsible for space management and shaping the framework and foundation; forming operation team, developing procedures for merchandises information, and maintaining the information, analysis tools and so on; fully utilizing the resources of existing shop; the management and control over shop VI; the utilization of measurement instruments in shops, display of check stands and goods shelves in shops, exploration of resources in shop space for advertisement, the optimization of the image of, and routes of the scheduled buses at shops. Measures above realize the good interactions concerning shop optimization and performance enhancement.

Management Discussion and Analysis

Marketing Optimization

During the Reporting Period, the Group's marketing function had an overall objective on strengthening the marketing systematization and planning, optimizing and integrating the promotion system, boosting the effective promotion, setting up a unified VI and DM systems, and enhancing the efficiency and quality of communications with customers. To this end, the Group reinforced the formation of marketing team, and organised a professional marketing team; strengthened the membership operation, and increased the number of effective membership by 10% over the previous year; carried out the strategy of "brand + well-known brand", supported association between strong enterprises, and propelling the marketing of well-known brands; conducted business operation in business cycle and abundant community marketing, theme marketing, and gradually enlarged the permeability of business cycle and brand of Wumart. The Group held an exhibition of Taiwan Food on the theme of "ShiShang BaoDao", carefully selected more than 500 kinds of food staples, which garnered most of the popular food products in Taiwan region, the scale and variety is the biggest and the most complete appearing in Beijing.

Logistics Optimization

In 2006, the Group focused its business operation on optimizing logistics system in the principle of "demand driven forecasting supply chain". Major measures included: to broaden sources of income and reduce expenditure in respect of existing logistics resources, and enhance the distribution rate and distribution income of the distribution centers. To strengthen the management and control over ordering and inventory. We commenced the fruit and vegetable PC project of Wumart, and uniformly distribute to superstores, to effectively reduce procurement and also at the same time enhance the merchandise quality. Operations of the distribution center of Wumart was cooperated and supported by different strategic suppliers, actively participated in and greatly supported by several suppliers with famous brands. At the same time, in combination of SAP project, the group is planning its business blueprint of logistics supply chains, so as to fundamentally boost the construction of supply chains and enhance Wumart's core competitiveness in terms of logistics.

WINBOX

As a presently-leading domestic retail enterprise in China, the Group has, in relatively early time, identified and analyzed opportunities and challenges that the Chinese retail industry will be and are facing, and always been regarding the completion of its own homework as the top priority.

Based on the principles of learning and fitting in with the best business practice of global leading retail enterprises, overcoming two short boards of the entire system and management of Chinese retail industry, making itself comparable with the better design and motive of world-class retail enterprises, the Company formally initiated the WINBOX (WUMART IN A BOX) Project in 2006, determined and carried out the principle and objective of "3+5". The "3" Principles represent that the company must follow the "best business practice", "standard flow" and the standards of "prototype of successful enterprises" in the course of implementation. The "5" key points represent that the implementation must center on five key points, i.e., "accuracy and effectiveness of demand forecasting, professional purchase division and push-pull cooperation, category management and space management optimization, high efficient supply chain driven by demand forecasting and simplified store sales mode". As the first important project of SAP retail software in the daily necessities retail industry in China, SAP invested on the WINBOX Project a Consultant Group which was composed of overseas consultants and local consultants of more than 30 people, strictly carrying out by the methodology of SAP, i.e., "preparation of project — business blueprint — systematic realization — preparation for go-live — go-live and roll out". At the preparatory stage, for WINBOX Project, the learning and training of SAP retail standard subjects for the Wumart staff of the Project Group were finished; all discussions on business consultancy were finished, and the flow documents of business consultancy from Grade 1 to Grade 3 were formed. At present, WINBOX Project entered the stage of business blueprint, i.e., the entire flows of the business blueprint would be allocated, designed, developed and realized in the SAP System. The Group is confident in the successful implementation of this Project, and believe that it would eventually realize the centralized, unified and effective objective of the Group through the WINBOX's successful go-live and roll out to improve the business performance of the Group.

Process Optimization

The process is important for the Company, and process optimization is an eternal subject of an enterprise, process reengineering is the way that process optimization must go through, the objective of which is to achieve the transformation from multi-level and multifarious business organizational structure to flat organizational structure, overcoming business management short board and meet the demands of the customers at the fastest speed.

In the course of BPR, the Group formed the presently operating WM-ABC: 2006 Wumart Group Process Manual. However, some processes still bore its critical painful drawbacks, which were the important causes for Wumart to embark on the WINBOX Project, and would surely be resolved fundamentally through the WINBOX Project which is being carried out.

Financial Shared Center

During the Reporting Period, the Group has been building a financial shared center, based on learning the share service center and best business practice of famous international enterprises. Construction of financial shared center involves a great number of business processes, system and organization optimization efforts, especially in the cancellation of financial posts at outlet ends, collection to the maximum extent, optimization of the financial work of stores, the Group achieved the centralized disposal and process optimization of expenses audit and reimbursement, suppliers settlement, budget statements as well as general ledger business in Beijing region, professional post division, flat financial organizational structure, groomed and optimized 70 financial key business flows, and laid firm foundation for the SAP-ERP System in the next stage. Through the financial shared service, the Group improved the working efficiency, reduced the costs, facilitated the transformation of financial management, the financial personnel making further comparison, analysis of the financial data, giving financial suggestions, and providing better financial supports for the front line business management.

Development of Human Resources

During the Reporting Period, the Group continued to carry out the concept of "People-first" and improve trainings of talents and enhance the extent of cultivation and introduction.

The Wumart Development Institute of the Group developed 199 training courses, with trained personnel up to 6,482 people, and established training curriculum.

The Group developed the Contest of May Sunshine Skills Contest to inspire the staff's enthusiasm in the improvements of skills; and improved the basic skills of the storing staff through such series of training activities as "Weekly Operation Mannual" and "Staff Post Training", etc.

The Group continued the development of the training and cultivation of the internal talents of the Group, developed 100 Growing Soar Program plan in the Group, through such stages as theoretical tests, qualification screening and off-the-job training, etc., 15 people were promoted or obtained the competence as store managers.

The Group continued the recruitment and cultivation of university graduates to make them become the junior managers through strict systematic training, post practice and assessment.

During the Reporting Period, the Group cooperated with Xingtai Finance & Economics School and Langfang Polytechnic Institute and enrolled 170 students; in addition, the Company cooperated with Beijing Technology and Business University for the development of cooperation between enterprises and universities, and Wumart became one of the practice bases of this University.

While centering on and improving internal training, the Group also introduced senior management professionals. During the Reporting Period, the Group introduced nearly 30 senior talents and professionals totally through integration of recruitment channels and carrying out recommendation of talents.

During the Reporting Period, the Group improved the construction of the fundamentals of human resources and completed the grooming and optimization of HR management process which laid firm foundation for the SAP-ERP Project of the Company.

Future Outlook and Strategies

China's economy has entered the early stage of urbanized and industrialized development, the forthcoming 10-15 years will be the important period of development opportunity for China's economy. In this stage, the whole gross amount of economy and scale will grow to a new step. And also the golden age for the development of Chinese retail industry is coming. In the meantime, the competition of Chinese retail market will be further intensified to such competition on scale, precision management together with synergy.

We are aware of the problems we are facing, such as slow improvements with category management and space management optimization, urgent need to build up internal supply chain, improvements and acceleration of private labels development as well as the quality improvement etc; therefore, the way onward will be more far-reaching, more difficult and more challenging, but more rewarding. In the meantime, externally we face the huge challenge and development opportunity of retail industry. Therefore, the Group will insist on the regional development strategy, expand the scale of operation and enhance the market share through mergers and acquisitions, together with organic growth. In the areas where the Group's business has currently engaged in, the Group will centralize the resources, giving full play to the cooperative efficiency, improving the competitive power, subtaining and boosting the leading position and advantages of the Group in such areas.

Looking ahead onto the year of 2007, the Group will exert every effort to construct the ERP System to support the future scaling of the Group, and achieve the integration and business process reengineering of the Company; persistently streamline the logistics planning and supply chain construction, facilitate the professional division of work in purchase, support fresh PC construction and improvements; establish unified modern distribution center covering the Northern China.

Management Discussion and Analysis

We must optimize the category management, supplier and space management, improve the demand forecasting, energise the internal and external supply chains, and achieve the joint purchase from the major suppliers for Wumart, MerryMart and Chao Shifa.

We must improve store positioning, establish model store and operating standards to be implemented; establish innovated marketing programs, improve brand marketing and implement "theme marketing".

We must carry out the overall shared services and supports with finance, HR functions, and implement the concrete measures embodying "People-first", "professional team", "overall implementation of budget, performance assessment, process management", "simplified administration, effective authorization, improvement of efficiency".

We must grow the new stores, utilize the matured stores, integrate the acquired business units. We are not only striving for scale, but will be also well managing the scale, to achieve the sustainable development of the Company and create value for the shareholders.

Profile of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Dr. Wu Jian-zhong, aged 49, serves as Chairman of the Company and Chairman of Beijing Wangshang Shijie E-business Co.,Ltd (the "Wangshang Shijie E-business"). Dr. Wu obtained his Ph.D. degree in system engineering at Institute of Automation, Chinese Academy of Sciences. He pursued postdoctoral research at University of Michigan, USA during 1993 to 1994. From 1994 to 2000, Dr. Wu held the position as the Vice President of Wumei Holdings, Inc. (the "Wumei Holdings"). From 2000 to 2002, he served as President of Wumei Holdings. The Company was established in August 2000, when he was appointed as Director. In November 2002, he was appointed as Vice Chairman of the Company. Since July 2003, Dr. Wu served as a Vice President of the Company. Since November 2006, he has acted as Chairman of the Company.

Dr. Meng Jin-xian, aged 50, serves as executive Director and Vice President of the Company. Dr. Meng earned his doctorate at the University of Science & Technology. He joined Wumei Holdings as Vice President in 1997 till 2000, mainly responsible for business development and operations. He has served as Vice President of the Company from August 2000 and was appointed as chief operating officer of the Company in February 2001, with the major responsibilities for in charging the operation management, and procurement and logistics management. Since November 2002, he acted as Director and Vice President of the Company.

Non-executive Director

Mr. Wang Jian-ping, aged 43, serves as non-executive Director, and Vice Chairman of the Company and executive director of Wumei Holdings. Mr. Wang received his master's degree in law from China University of Political Science and Law. He acted as Vice President of the Company during August 2000 to May 2002. He was elected as non-executive Director in November 2002. He was elected as Vice Chairman of the Company since November 2006.

Independent Non-executive Directors

Mr. Han-ying, aged 71, serves as independent non-executive Director. Mr. Han holds a bachelor's degree from the Beijing Institute of Mines. During 1991 to 1995, he acted as vice minister of the Ministry of Coal Mining of the P.R.C. and vice general manager of China Tongpei Coal Mine Headquarters Company. During 1996 to 2000, he worked as Vice Chairman and general manager of Shenhua Group Company. He has also been appointed to a number of positions such as member of the 5th Standing Committee of the Chinese People's Political Consultative Conference, a member of the 8th and 9th Chinese People's Political Consultative Conference and representative of the 10th, 11th and 12th National Congress of Communist Party of China. In July 2003, he was appointed as independent non-executive Director by the Company.

Mr. Li Lu-an, aged 63, serves as independent non-executive Director. From 1998 to the beginning of 2002, he acted as director of Huaxia Travel, a subsidiary of TOM Group Limited, a company listed in Stock Exchange of Hong Kong Limited. And he also served as Chairman with several companies, Vice President with China Travel Association, and adviser for economic development of China's Central-Western Region and Strategy Development Commission of World Travel Organization. In September 2004, he was appointed as independent non-executive Director.

Mr. Lv Jiang, aged 50, serves as independent non-executive Director, Chairman of Beijing Yongtuo Engineering Co.,Ltd, Chairman and general manager of Beijing Yongtuo Accountants Co.,Ltd, a committee member of Beijing Registered Accountants Association, and a committee member of Beijing Assets Valuation Association. Mr. Lv, a P.R.C. certified public accountant, has years of experience in accounting, auditing, assets valuation and management. In September 2004, he was appointed by the Company as independent non-executive Director.

SUPERVISORS

Supervisor Nominated by Shareholders or Employees

Ms. Yan Li-xia, aged 41, graduated from Beijing University of Technology. Before she joined the Company, she worked with Human Resource Department of Beijing Kraft Food Company Limited as supervisor. She served as customer service supervisor at the Company's supermarkets from 1994 to July 2000. She served as manager of Staff Administration Department under supermarket department of the Company from August 2000 to August 2004. In September 2004, she served as director assistant with Staff Administration Department under convenience store department of the Company. In November 2005, she was appointed as supervisor of the Company.

Independent Supervisors

Mr. Fan Kui-jie, aged 43, is the Chairman of the Supervisory Committees. He obtained his master's degree in engineering from Business Management School of Xi'an Jiaotong University. Before he joined Wumart Group, he worked as managerial staff with Yanzhou Mining Business Group from 1982 to 1988, and from 1991 to 1999. Since 1999, Mr. Fan has been a chief supervisor of China International Futures Brokerage Co., Ltd. In November 2002, he joined the Group as an independent supervisor.

Ms. Xu Ning-chun, aged 43, serves as independent supervisor. She received her bachelor's degree in economics from the College of Commerce, Beijing, and is a P.R.C. certified public accountant and a registered assets valuer in the P.R.C.. She has been general manager and Chairman of Beijing Dingge Capital Assessment Co., Ltd since 1998. She served as finance evaluation expert by Beijing Municipal Science & Technology Commission from 2003 to 2005. In July 2003, she was appointed as an independent supervisor of the Company.

SENIOR MANAGEMENT

Dr. Li Feng-jiang, aged 40, President & CEO of the Company. Dr. Li holds his doctorate degree in Economics from University of Cologne. He joined the Headquarters of Germany-based OBI as Project Manager after graduating from University of Cologne in 1995. In 1998, he served as general manager of OBI China Management System Co.,Ltd (Shanghai), leading OBI China Team in exploring decorative material retail market in China. Owning to his outstanding performance, he was promoted as CEO of OBI Asia Co.,Ltd. and President of OBI Asia Region in 2000, and became a member of the executive committee of OBI's Headquarters in Germany in 2002. He joined the Group in June 2005, taking positions of vice President, senior vice President of the Group.

Profile of Directors, Supervisors and Senior Management

Dr. Yu Jian-bo, aged 42, Senior Director, Vice Head of SAP-ERP Winbox Project of the Company and director of Xinhua Co.. Dr. Yu received his doctoral degree from Chinese Academy of Sciences and is a Senior Researcher. From 1991 to 1998, Dr. Yu served in Institute of Contemporary China Studies (當代中國研究所), being specialized in conducting research on contemporary significant economical issues. From 1998 to May 2005, Dr. Yu served as director and Executive President of Jin-Ri Investment (今日投資), Vice President of OBI in China region, and independent director of Shanda Wit Science and Technology Co. Ltd. (山大華特科技股份有限公司). Dr Yu joined the Company in May 2005.

Mr. Xu Shao-chuan, aged 35, General Manager of the Finance Department of the Company. He holds his bachelor's Degree in Statistics from Shenyang Institute of Finance & Economics. Before joining the Company, he served as finance manager of Shenyang North-American Products Trade Co.,Ltd from 1995 to 1999. He served as manager and vice general manager of the Finance Department of Wumei Holdings, Inc. from 1999 to 2000. In August 2000, he took up the position as general manager of the Finance Department of the Company.

Mr. Pei Yan-peng, aged 37, Senior Director of Procurement of the Company. Mr. Pei obtained his MBA degree in Guanghua School of Management of Peking University. From 1992 to 1997, Mr. Pei served as subject member (科員), vice lead subject member and vice principal at the P.R.C. Ministry of Commerce. From 2000 to June 2001, Mr. Pei served as marketing controller, sales controller and vice President of Beijing Wangshang Shijie Electory Technology Company Limited. From June 2001 to May 2005, Mr. Pei served as member of the executive Committee, general manager of Southern China region and senior operation controller in China Resources Vanguard Co., Ltd. Mr. Pei joined the Company in June 2005.

Ms. Li Dong-nv, aged 53, General Manager of Logistics Department of the Company. She holds a diploma from Graduate School of Chinese Academy of Social Sciences. She took the post as general manager of Commodity Department of Wumei Holdings in 1998, executive general manager of Beijing Wumart Tianxiang Convenience Stores Co., Ltd. and Beijing Wumart Bolante Convenience Stores Co., Ltd. from 1999 to 2001, general manager of Procurement Department of the Company and vice President of the Company from 2001 to 2002, general manager of supermarket division of headquarters of the Company from 2002 to 2005, and general manager of Logistics Department of the Company in 2006.

Mr. Li Jing, aged 36, Director of Human Resources and Administration of the Company. Mr. Li obtained his MBA from Beijing Jiaotong University (北京交通大學) and was an Expert Member of Quality Certification Training for Store Manager organized by China General Chamber of Commerce (中國業聯合商會). From 1994 to 1999, Mr. Li served as Secretary to the Group Committee and Bureau Office Secretary of Changchun Railway Bureau (長春鐵路分局). From 2001 to 2004, Mr. Li served as Personnel and Administration Controller of Pricemart. Mr. Li joined the Company in 2004.

Mr. Zhang Jian-chong, aged 45, Deputy General Manager of the superstore operation of the Company. Mr. Zhang graduated from Feng Chia University majoring in Economics. From 1998 to 1999, Mr. Zhang was Store General Manager of Carrefour. From 1999 to 2001, Mr. Zhang was General Store Manager of RT-Mart International Ltd. From 2001 to 2006, Mr. Zhang was General Manager for the Northern Region of RT-Mart International Ltd. Mr. Zhang joined the Group as Deputy General Manager of the superstore operation in January 2006.

Mr. Dong Gang, aged 39, Deputy General Manager of Beijing Wumart Convenience Stores Company Limited. Mr. Dong graduated from Jiang-xi Finance & Economy College (江西財經學校) majoring in Business Management. From 1994 to June 1996, Mr. Dong served as manager assistant of Jiang-xi Agricultural

Development Supply & Wholesale Company (江西省農業開發供銷公司). From July 1996 to July 1997, Mr. Dong served as a manager in the Sale Division of Nanchang Chinese Science Industrial Company (南昌中科實業公司). From August 1997 to June 1999, and from July 2001 to October 2002, Mr. Dong served as a Store Manager of Beijing Wumart Store Company Limited. From November 2002 to January 2006, Mr. Dong served as manager and controller and assistant to General Manager in Operation Division and assistant general manager of Beijing Wumart Convenience Stores Company Limited. Mr. Dong serves as Deputy General manager of Beijing Wumart Convenience Stores Company Limited since January, 2006.

Mr. Guo Tu-wei, aged 39, IT Controller of Information Technology Department of the Company. He holds a bachelor degree in Economics from Nanjing Foodstuff Economy College. He took the post as accountant, vice manager, manager and assistant finance controller of Wumei Holdings Inc. from 1996 to 2000, and has been serving as IT controller of Information Technology Department of the Company since August 2000.

Ms. Xu Ying, aged 42, Director of Finance of the Company. She holds a MBA from Meinders School of Business of Oklahoma City University. Before joining the Company, she worked with Tianjin International Trust and Investment Corporation as investment manager from 1987 to 2001, and served as director and vice President of LG Company, a joint venture co-established by the Tianjin International Trust and Investment Corporation from 1996 to 2000. In 2001, she was recruited as associate professor with Tianjin University of Finance & Economics, conducting teaching and research on business logistics and supply chain management. In 2004, she joined the Company serving as Associate Director of Finance. Since January 2006, she acts as the Director of Finance of the Company.

Ms. Xie Dong, aged 38, serves as Secretary to the Board of the Company, one of joint Company Secretaries and authorized representatives. In 1991, she graduated from Capital University of Economics and Trade, obtaining her bachelor degree in Law. She took the post as secretary and legal adviser to the Chairman of Wumei Holdings, Inc. from December 1999 to November 2002, and has been serving as secretary to the Board and legal councel of the Company since November 2002.

Mr. Chan Wai-lok, aged 35, serves as Qualified Accountant and one of joint Company Secretaries. He graduated from Hong Kong Polytechnic in 1993 (now Hong Kong Polytechnic University), receiving bachelor degree of Arts in Accountancy. And he is an associate member of Hong Kong Institute of Certified Public Accountants and he joined the Company in March 2005.

Report of the Board

The Board is pleased to present the annual report as of 31st December, 2006 for shareholders' perusal.

PRINCIPAL ACTIVITIES AND RESULTS

The Group aims at "Development of China's retail industry, improvement of the public's living quality'' (發展民族零售企業，提升大眾生活品質). It adheres to the strategy of regional development which focuses chain retail business on such major areas as Beijing, Tianjin, Hebei and the Northwestern region. It is engaged with the operation and management of superstores and mini-mart. Major businesses of its subsidiaries are set out in note 39 to Financial Statements.

Annual results and financial information of the Group for the Reporting Period is prepared pursuant to the generally accepted accounting principles in Hong Kong and set out in the Financial Statements.

MAJOR SUPPLIERS AND CUSTOMERS

During the Reporting Period, the Group's purchases from its 5 largest suppliers accounted for less than 30% of its total purchase, and the Group's sales to its Top 5 customers also accounted for less than 30% of its total revenue.

During the Reporting Period, none of the Directors, their associate, or any shareholder which, to the best knowledge of the Directors own more than 5% of the Company's share capital, had any interest in the Company's major customers and suppliers.

SHARE CAPITAL

Name of Shareholders	Nature of Shares	Number of Shares	Percentage of Total Share Capital (%)
Wumei Holdings	Domestic shares	497,932,928	40.80
Beijing Hekang Youlian Technology Co., Ltd ("Hekang Youlian'')	Domestic shares	24,982,300	2.05
Beijing Junhe Investment Co., Ltd ("Junhe Investment'')	Domestic shares	23,269,228	1.91
Wangshang Shijie E-Business	Domestic shares	160,457,744	13.15
Beijing Shuangcheng Express Co., Ltd	Domestic shares	7,137,800	0.58
General Public	H shares	506,568,000	41.51
Total Share Capital		1,220,348,000	100

Detailed information about change in share capital of the Company during the Reporting Period is set out in the note 30 to Financial Statements.

FIXED ASSETS

Detailed information about change in fixed assets of the Group during the Period is set out in the note 16 to Financial Statements.

DISTRIBUTABLE RESERVE

In accordance with Company's Law of the People's Republic of China, the distributable reserve of the Company as of 31st December, 2006 amounted to approximately RMB270,659,000 (2005: approximately RMB206,226,000).

DISTRIBUTION OF DIVIDEND

The Board have proposed a dividend of RMB0.07 per share (including tax) which will be payable to those shareholders listed in the register of shareholders on the date of the 2006 annual general meeting ("AGM'') upon the distribution of dividend is approved as ordinary resolution at the AGM. Process of share registration will be suspended for 30 days prior to the AGM of the Company (including beginning and ending date) , and any matters in relation to the transfer of the Company's shares will be not effected. RMB-denominated dividend will be distributed to the shareholders of domestic shares of the Company, and HK Dollar — denominated dividend will be distributed to the shareholders of H shares of the Company.

SUBSIDIARIES

During the Reporting Period, the information about subsidiaries of the Company is set out in the note 39 to the Financial Statements.

PLEDGE OF THE GROUP'S ASSETS

During the Reporting Period, the Company made a pledged deposit for granting a loan of RMB100,000,000 to Chao Shifa to support its operation, and deposit approximately RMB64,772,000 as guarantee to the bank designated by China Security Registration and Settlement Co.,Ltd (Shanghai Branch) for the exercise of put options by the tradable shareholders of Xinhua Co. The Company has secured a deposit amounted to RMB28,295,000 to the bank for the granted performance guarantee letters, which was applied to satisfy the obligations incurred upon the exercise of all the put options by the tradable shareholders of Xinhua Co. On 31st December, 2006, a bank loan of RMB75,460,000 was secured by the pledge of leasehold land and buildings in carrying amount of RMB107,821,000.

EXCHANGE RATE RISK

The majority of the income and expenses of the Group are denominated in RMB. Most of the proceeds from the placing in Hong Kong dollars have been converted into RMB. During the Reporting Period, the Group did not encounter any significant difficulties caused by fluctuations in exchange rates and neither its working capital nor liquidity was affected as a result.

CONTINGENT LIABILITY

The Group did not have any material contingent liability as at 31st December, 2006.

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

As of 31st December, 2006, 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 the domestic shares of the Company

Name	Number of domestic shares held	Approximate percentage of total issued domestic share capital (%)	Type of interest
Dr. Wu Jian-zhong (吳堅忠博士) (Note 1)	497,932,928	69.76	Interests of controlled corporation
Dr. Wu Jian-zhong (吳堅忠博士) (Note 2)	24,982,300	3.50	Interests of controlled corporation
Dr. Wu Jian-zhong (吳堅忠博士) (Note 3)	160,457,744	22.48	Interests of controlled corporation
Dr. Meng Jin-xian (蒙進暹博士) (Note 4)	23,269,228	3.26	Interests of controlled corporation
Dr. Meng Jin-xian (蒙進暹博士) (Note 4)	24,982,300	3.50	Interests of controlled corporation
Mr. Wang Jian-ping (王堅平先生) (Note 5)	497,932,928	69.76	Interests of controlled corporation
Mr. Wang Jian-ping (王堅平先生) (Note 6)	24,982,300	3.50	Interests of controlled corporation
Mr. Wang Jian-ping (王堅平先生) (Note 6)	23,269,228	3.26	Interests of controlled corporation

Notes:

1. The 497,932,928 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. Wu Jian-zhong holds 25% of the share capital of Zhongsheng Huate, which has an indirect interest in the 497,932,928 domestic shares directly held by Wumei Holding.

2. The 24,982,300 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. Dr. Wu holds 25% of the share capital of Zhongsheng Huate, which has an indirect interest in the 24,982,300 domestic shares directly held by Hekang Youlian.

3. Dr. Wu Jian-zhong holds 70% of the share capital of Wangshang Shijie E-business, one of the promoters of the Company, which has a direct interest in 160,457,744 domestic shares of the Company.

4. Dr. Meng Jin-xian holds 40% of the share capital of Junhe Investment, one of the promoters of the Company, which has a direct interest in the 23,269,228 domestic shares. Junhe Investment also holds 50% of the share capital of Hekang Youlian, which has a direct interest in the 24,982,300 domestic shares of the Company.

5. Mr. Wang Jian-ping holds 5% of the share capital of Jingxi Guigu, which has an indirect interest in the 497,932,928 domestic shares directly held by Wumei Holdings. For details, please refer to note 1.

6. Mr. Wang Jian-ping holds 30% of the share capital of Junhe Investment, one of the promoters of the Company, which has a direct interest in the 23,269,228 domestic shares. Junhe Investment also holds 50% of the share capital of Hekang Youlian, which has a direct interest in the 24,982,300 domestic shares of the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 31st December, 2006, none of the Directors or supervisors or chief executives of the Company or their respective associates had any interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are 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, 2006, 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, 2006, 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)	497,932,928	69.76
Dr. Wu Jian-zhong (吳堅忠博士) (note 2)	160,457,744	22.48
Jingxi Guigu (note 1)	497,932,928	69.76
CAST Technology Investment (note 1)	497,932,928	69.76
Wumei Holdings (note 1)	497,932,928	69.76
Wangshang Shijie E-business (note 2)	160,457,744	22.48
Dr. Meng Jin-xian (蒙進暹博士) (note 3)	48,251,528	6.76

Report of the Board

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 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 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. 23,269,228 domestic shares of the Company 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. 24,982,300 domestic shares of the Company 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 the Company's H shares

Name	Number of H shares held (share)	Approximate percentage of total issued H shares (%)
Julius Baer Investment Management LLC (Note 1)	50,154,274	9.90
The Capital Group Companies, Inc. (Note 2)	47,676,000	9.41
Oppenheimerfunds, Inc. (Note 3)	37,388,000	7.38
JPMorgan Chase & Co. (Note 4)	33,503,872	6.61
Julius Baer International Equity Fund (Note 5)	27,342,132	5.40

Notes:

1. These 50,154,274 H shares are held by Julius Baer Investment Management LLC as an investment manager.

2. These 47,676,000 H shares are held by The Capital Group Companies, Inc. as an investment manager.

3. These 37,388,000 H shares are held by Oppenheimerfunds, Inc. as an investment manager.

4. 21,388,000 H shares are held by JP Morgan Chase & Co. as an investment manager, while 12,115,872 H shares are held by it as a trustee company/approved lending agent.

5. These 27,342,132 H shares are held by Julius Baer International Equity Fund as an investment manager.

Save as disclosed above, no other persons have registered any interests or short positions in any of the Company's shares or underlying shares which shall be disclosed in accordance with Section 2 and 3 of Part XV of SFO.

DETAILS 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 Directors of the Company have 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 didnot 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 of 31st December, 2006, the Group employed 10,142 full-time employees (excluding employees in Chao Shifa, MerryMart and Xinhua Co.). The remunerations received by the employees are in line with the market level. During the Reporting Period, the Group has not implemented any employees' share option scheme.

To continuously upgrade the expertise and professional level of the Group's management, and to upgrade the service quality of staff in the stores, and to provide sufficient resources for the Group's rapid development in order to upgrade its core competitiveness, the Group conducted several training sessions through Wumart Development and Training Institute during the Reporting Period, and thus improving the overall qualification and professional expertise of the management and staff of the Group.

AUDIT COMMITTEE

The audit committee of the Company comprises the three independent non-executive Directors, Mr. Han Ying, Mr. Li Lu-an and Mr. Lv Jiang with Mr. Han Ying being the Chairman of the audit committee. Within the Reporting Period, the Company held four audit committee meeting sessions. The members of the audit committee had reviewed with the senior management of the Group the accounting principles and practices adopted by the Group, and discussed issues like internal control and financial reporting, including the review of the Company's financial statements for the year ended 31st December, 2006 prepared in compliance with the generally accepted accounting principles in Hong Kong.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

Regarding the securities transactions by Directors, the Company has adopted a set of code of conduct on terms no less exacting than the required standard. In accordance with the code of conduct, the Company had made specific enquiries of all Directors and is ensured that the Directors comply with the code of conduct regarding securities transactions by Directors.

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

During the Reporting 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 associates 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) entered into 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) on terms that are fair and reasonable in accordance with the relevant management agreements governing the transactions 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''); and (b) a management agreement with Wumei Holdings and the Tianjin subsidiaries (note) for (1) the supply of merchandise by the Company to Beijing Pujinda 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 and the Tianjin subsidiaries.

Wumei Holdings, one of the promoters of the Company and a controlling shareholder, holds 497,932,928 domestic shares, representing 40.80% of the registered capital of the Company. Accordingly, pursuant to the GEM Listing Rules, Wumei Holdings is a connected party of the Company. Beijing Pujinda is a 60% owned subsidiary of Wumei Holdings and is therefore an associate (as defined in the GEM Listing Rules) of the controlling shareholder of the Company and hence a connected party of the Company under the GEM Listing Rules. The interest in Tianjin subsidiaries are directly and indirectly held by Wumei Holdings who is able to exercise more than 30% of vote in the general meeting of each of the Tianjin subsidiaries. Therefore, each of the Tianjin subsidiaries is an associate (as defined in the GEM Listing Rules) of the controlling shareholding of the Company, hence a connected party of the Company under the GEM Listing Rules. The two 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.

The terms of the above continuing connected transactions are negotiated on arm's length basis. The Board (including non-executive directors) considers that each continuing connected transactions are entered into based on normal commercial terms during the ordinary course of the business of the Company, and the terms of the continuing connected transactions and related maximum caps of the year are fair and reasonable, and in the interests of the Company and its shareholders as a whole.

Note: Tianjin subsidiaries include: Tianjin Hedong Wumart Trading Co., Ltd., Tianjin Hebei Wumart Convenience Stores Co., Ltd., Tianjin Hezuo Wumart Trading Co., Ltd., Tianjin Nankai Shidai Wumart Commerce Co., Ltd., Tianjin Hongqiao Wumart Convenience Stores Co., Ltd. and Tianjin Wumart Huaxu Commerce Development Co., Ltd.

COMPETITING INTERESTS

Wumart 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 peripheral areas, then the northern region and followed by the eastern region of the P.R.C. and ultimately across the other regions of the P.R.C.. The Group entered into the non-competition agreement, the trademark licensing agreement and the letter of undertaking with Wumei Holdings on 29th October, 2003 and entered into a management agreement with Wumei Holdings and (a) Beijing Pujinda, (b) Tianjin Subsidiaries respectively on 12th November, 2004, with a view to avoiding business competition with Wumei Holdings. Since then, Wumei Holdings has operated in strict compliance with the agreements in order to avoid business competition with the Group to the fullest extent. Wumei Holdings did not engage in any direct or indirect competition against the Group, nor did it have any interests in any of such businesses.

On 29th December, 2006, the Company signed the termination agreement with Wumei Holdings and Beijing Pujinda, terminating the Company's acquisition of Beijing Pujinda's interest (or its assets and business) which is held by Wumei Holdings.

SUSPENSION OF SHARE TRADINGS

The trading of the Company's H shares on the Stock Exchange has been suspended since 13th November, 2006. The suspension was related to the provision of assistance by Dr. Zhang Wen-zhong, the former Chairman and executive Director of the Company in the investigation conducted by relevant authority in the P.R.C.. Dr. Zhang resigned from the positions of the Chairman and executive Director of the Company on 17th and 27th November, 2006, respectively.

Based on the enquiries and internal investigation performed by the Board, to the best knowledge of the Directors so far, the said investigation does not relate to Dr. Zhang in respect of his senior management positions with the Group and is not directed at the business of the Group or its assets.

On 9th November, 2006, the Company signed the Placement Agreement with Citigroup Global Markets Asia Limited (the "Citigroup''), entrusting Citigroup for the placement of not more than 101,313,000 of the Company's H shares at the price of HK$6.60 per share. Because the trading of the Company's H shares on the Stock Exchange has been suspended since 13th November, 2006, and because of the sensitivity of related information about the share price, the Company signed the Termination Agreement with Citigroup on 15th November, and it was effective on that date. The Board believes that, the termination of placement is in favor of the best interests of the investors and the Company, and it will not produce significant unfavorable influences on the Company's business operation and financial position.

On 29th August, 2006, the Company signed a Share Acquisition Agreement to acquire 50% interests in Times which has not been completed by 31st December 2006. The Company will make disclosure in a timely manner upon further information is obtained.

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 (the "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 requirements relating to the transfer of staff shares in joint stock limited companies under the laws of the P.R.C. 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 Share Purchase Agreement, (c) an order to restore the shareholding structure of Chao Shifa to that immediately preceding the execution of the Share Purchase Agreement and (d) an order requiring the Company and the Vendor (a general designation "defendants'') 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 CSSAM, pursuant to which, CSSAM appointed the Company as trustee to hold 34.77% of the issued share capital of Chao Shifa in trust for CSSAM for a term of one year starting from 22nd April, 2004. In the Second Claim, in addition to the allegations in the First Claim, Chao Shifa Shareholder also alleges that the Trust Agreement and the transactions contemplated thereunder are in breach of the requirements relating to the transfer of control in listed companies under the laws of the P.R.C., the asset reorganization agreement between Chao Shifa and Chao Shifa Shareholder and the articles of association of Chao Shifa. Apart from the remedies mentioned 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 Chao Shifa and the right to operate Chao Shifa to those immediately preceding the execution of the Trust Agreement and (d) an order requiring the defendants 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 the withdrawal of the First Claim was approved by First Intermediate Court. On 20th May, 2004, the Company received notification of the Second Claim.

On 6th September, 2004, Chao Shifa received notification from the Beijing High Court that Chao Shifa Shareholder has instituted civil proceedings (the "Third Claim'') against Chao Shifa. In the Third Claim, Chao Shifa Shareholder alleges that Chao Shifa is in breach of various provisions of the asset reorganization agreement and the capital increase agreement (collectively, 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 to Chao Shifa Shareholder all the assets contributed by him 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, the Beijing High Court ordered that the trial of the Second Claim be suspended because the Court's interpretation of the provisions of the Chao Shifa Agreements shall depend on the judgment in the trial of the Third Claim, which has not yet been concluded. On 5th June, 2006, the Chao Shifa Shareholder submitted to the Beijing High Court a withdrawal application. On 8th June, 2006, this application for the withdrawal of the Third Claim was approved by the Beijing High Court. As at 31st December, 2006, the Second Claim is yet to be tried.

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

SIGNIFICANT ADVERSE CHANGE

As of 31st December, 2006, the Board confirmed that there is no significant adverse change in the Group's financial or operational position.

AUDITORS

The attached Financial Statements are audited by Deloitte Touche Tohmatsu. The Company will submit a resolution in the forthcoming AGM to re-appoint Deloitte Touche Tohmatsu as auditors of the Company. The Company has not changed auditors in the past three years.

By order of the Board
Dr. Wu Jian-zhong
Chairman

Beijing, The P.R.C.
24th March, 2007

Report of the Supervisory Committee

Dear all shareholders:

In compliance with the relevant laws and regulations such as Company Law of the P.R.C. and the GEM Listing Rules and the requirements of the articles of association of the Company, the Supervisory Committee (the "Supervisory Committee'') of the Company complies with the code of integrity and performs the responsibility of supervising the Board senior management and the state of affair of the Company, in order to protect the interests of the shareholders as well as the Company.

The Supervisory Committee considers the Board and the management team of the Company continue to perfect the corporate governance of the Group, and has established sound internal control system pursuant to requirements of the Company Law of the P.R.C. and GEM Listing Rules, which play a positive role in preventing against risks.

The Supervisory Committee carefully reviews the work report by the Board and the audited financial statements to be submitted in annual general meeting, and considers the contents in the Group's financial statements and annual report to be true and accountable, and the auditors' report to be objective and impartial.

The Supervisory Committee considers the continuing connected transactions of the Company have been performed in strict compliance with regulations of GEM Listing Rules, not exceeding the waiver cap amount granted by Stock Exchange. The transaction prices of the Company's mergers and acquisitions in the year of 2006 are fair and reasonable. No insider dealings or cases where the interests of the Company and the shareholders were harmed were identified.

The Supervisory Committee maintains that, the Board of formulated clear development strategies and operational objectives, and has accomplished good performances, keeping the Company at stable growth continuously. In the operation management of the Company, members of the Board and other senior managers strictly adhere to the principle of honesty, duly perform the endowed rights and responsibilities. They work diligently, and stay faithful to the best interests of the Company when performing their duties. They are able to carry out the work pursuant to the Company's articles of association in a regulated manner. There are no cases of significantly abusing the authorities, damaging the interests of the Company or breaching the interests of the shareholders and employees.

The Supervisory Committee is satisfied with each major work and achievements in the year of 2006, and is fully confident in the development prospect of the Company in the future.

In the new year, the Supervisory Committee shall continue to carry out its duties in a diligent manner to protect the interests of the Company and shareholders, to maximize the shareholders' interests, and to contribute to the continuous sound development of the Company.

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

Beijing, The P.R.C.
24th March, 2007

The Company has applied the principles of the Code on Corporate Governance Practices set out in the Appendix 15 to the GEM Listing Rules to comply with the corporate governance principles, in order to establish sound corporate governance practices and perfect the management of the Company.

THE BOARD

The Board is responsible for leading and monitoring the Company, as well as for managing and supervising its overall business. The primary functions of the Board include:

(i) formulating the overall strategies, goals and plans of the Group;

(ii) discussing and overseeing material operational management and financial performance, approving significant investment and formulating appropriate policies to manage the risk exposure undertaken for realizing the strategies and goals of the Group;

(iii) to be ultimately responsible for the preparation of accounts of the Company and to assess the Company's performance, financial position and prospects in a balanced, clear and comprehensible way in respect of the quarterly, interim and annual reports of the Company, other price-sensitive announcements and disclosure of financial information pursuant to the Listing Rules, reports submitted to the regulatory authorities and information disclosures pursuant to legal requirements;

(iv) the Board is responsible for setting and handling policies, financial and shareholders' affairs affecting the overall strategy of the Company, which includes material changes to accounting policies, annual operating budget, material contracts, key finance arrangements, major investments and risk management policies; and

(v) to review the responsibilities and authorities delegated to the executive Directors/management on a regular basis and to ensure that such arrangements are appropriate.

In November 2006, Dr. Zhang Wen-zhong, the ex-Chairman resigned as the Chairman and executive Director and thereafter, the Board comprised 6 Directors.

The Board including two executive Directors and four non-executive Directors, and three of whom being independent non-executive Directors. Executive Directors possess extensive industrial management experience and technical expertise. Non-executive Directors possess extensive expertise, experience and judging capability in various fields, in particular the appropriate accounting qualifications possessed by Mr. Lv Jiang.

The terms of office of each Director commenced on 25 October 2005 and shall be ended upon the conclusion of the 2007 Annual General Meeting of the Company.

None of the independent non-executive Directors holds any other offices in the Company or any of its subsidiaries. None of them is interested in any shares of the Group. The Company has received from each of the independent non-executive Directors a written confirmation of his independence under Rule 5.09 of the GEM Listing Rules.

Corporate Governance Report

A general meeting of the Company was held in October 2005 for the election of the Directors of the second session of the Board. During their terms of office, all of the Directors carried out their work in a dedicated, diligent and proactive manner with reasonable prudence. Meanwhile, they promoted the continuous and healthy development of the Company's operation, pressed for the improvement of the standard of governance of the Company and played a role in the decision-making of the Board.

During the Reporting Period, the Board held 22 meetings. In addition to the approval of quarterly, interim and annual reports of the Group, most of the meetings were held mainly for making strategic decisions, such as material acquisition and capital expenditures.

Details of the Directors' attendance at Board meetings and the committee meetings are as follows:

	Meeting attended/held in 2006		
	Board	Audit Committee	Remuneration Committee
Meetings held during the year	22	4	1
Executive Directors			
Wu Jian-zhong	22/22	N/A	1/1
Meng Jin-xian	22/22	N/A	N/A
Non-executive Director			
Wang Jian-ping	22/22	N/A	N/A
Independent non-executive Directors			
Han ying	22/22	4/4	1/1
Li Lu-an	21/22	4/4	1/1
Lv Jiang	21/22	4/4	N/A
Average attendance	98%	100%	100%

DIRECTORS

Responsibilities of Directors

Each Director shall from time to time have a thorough understanding of his responsibilities, and the operations, business activities and developments of the Company:

(i) each Director shall be given a copy of the Rules of Procedures for Board of Directors containing the duties to be performed by the Directors;

(ii) a "Professional Development Scheme for Directors'' shall be formulated so as to ensure that the Directors are acting in a dedicated and prudent manner with their professional expertise, while enhancing his expertise, knowledge and experience for their directorship; and

(iii) the management shall provide the Directors with appropriate and adequate information in due course to update the Directors with the latest development of the Group and to facilitate the performance of their duties.

Securities Dealings by Directors

Details of Directors' interests in securities of the Company have been 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 Reporting Period.

Provision and Application of Information

For the purpose of enabling the Directors to duly perform their duties and responsibilities, the Company shall deliver documents in relation to meetings of Board and its sub-committees to all Directors before the meeting is being held to allow the Directors to make informed decision with reference to such documents.

All the Directors are entitled to inspect the documents of the Board meeting and the relevant information.

THE BOARD COMMITTEES

Audit Committee

During the Reporting Period, the audit committee held 4 meetings, in which members of the audit committee had 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, with the management and the external auditor of the Company, and provided recommendations thereon.

Major Role and Functions (Details of the term of reference are published on the website of the Company)	Composition	Mode of operation
• To review the appointment of the external auditor, and confirm its independence • To review the financial information of the Company • To oversee the financial reporting system and the internal control system of the Company	Independent Non-executive Directors: Mr. Han Ying *(Chairman)* Mr. Li Lu-an Mr. Lv Jiang	A minimum of four meetings shall be held per annum

Remuneration Committee

During the Reporting Period, the remuneration committee held one meeting, in which members of the remuneration committee discussed, *inter alia*, the 2007 incentive policy of the senior management of the Company, and the assessment scheme.

Major Role and Functions (Details of the term of reference are published on the website of the Company)	Composition	Mode of operation
• To recommend the Board on the remuneration policy of the Directors and senior management	Executive Director: Dr. Wu Jian-zhong	A minimum of one meetings shall be held per annum
• To assist the Board in the execution of overall management of the remuneration structure of the Company	Independent Non-executive Directors: Mr. Han Ying Mr. Li Lu-an	

Chairman and Chief Executive Officer

The Chairman is principally responsible for leading the Board to have effective operation and ensuring that the Board duly executes its duties.

During the Reporting Period, the Board appointed Dr. Li Feng-jiang as the new Chief Executive Officer and the biography of Dr. Li is set out in page 17 of this annual report. The Board believes that the Group will have a greater development in a faster pace under the leadership of Dr. Li and our management team.

The Chief Executive Officer is principally responsible for the day-to-day management of the Group and the full implementation of the resolutions of the Board in order to materialize the business objectives of the Group as a whole.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee assisted the Board to implement overall management over the remuneration structure of the Company, in particular determine and review the remuneration packages of the Directors and senior management.

Under the service contract between each of the Directors and the Company, remuneration of the executive Directors (exact amounts are set out on page 57 of this annual report) 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).

ACCOUNTABILITY AND AUDIT

Financial Reports

The Board is responsible for the preparation of the accounts for respective financial periods and reviews the performance of the Company in a balanced, clear and informed manner in the reports. The reporting responsibility of the independent auditor is set out in page 37 of this annual report.

Internal Control

The Board is responsible for maintaining a comprehensive and scientific in internal control system for the Company, as well as establishing the following major procedures:

(i) the review for the effectiveness of the internal control of the Group shall be conducted at least once a year;

(ii) the accountability structure of the Group shall be clearly defined;

(iii) independent Directors shall discuss with the auditors of the Company in regard of the internal control affairs and formulate the solutions for internal risk control; and

(iv) the Board and the audit committee shall formulate special solutions for the internal risk control of contingencies based on the actual circumstance and conduct internal examination, review or audit based on the solutions.

An audit department is specifically set up by the Company, to be responsible for internal control. The audit department reports to the Board, so as to ensure its independence. A security department, is set up at the operational level of the Company. It conducts daily control over critical areas on the operational management of the stores of the Group and forms two levels (the Board and the operational level) of control system for the Company.

Relevant system of internal control is established for the Company to ensure clear positioning, defined tasks and standardized procedures for the internal control function. The core functions of the audit department are to assess, monitor and audit the business activities of the Company over investments, procurement, operation, finance and administration. With an aim of preventing risk, rectifying errors, perfecting the internal control systems and monitoring the process, as well as facilitating an innovated process and enhancing the operational efficiency of the business, the audit department strives to enhance the overall performance of the Group.

The internal control department launches the audit on the bases of the annual plan approved by the Board. This helps develop a system which combines the regular audit and project-based investigation.

The Directors confirmed that, the Company has established, and shall unremittingly perfect, the internal control system, so as to acknowledge, assess, prevent and manage the potential material risks to which the Group exposes. The Directors are responsible for reviewing the internal control, financial management, and operational and risk management systems regularly, to ensure effectiveness and efficiency of the systems. During the reporting period, the Board has conducted a review for the effectiveness of the internal control system of the Group, which covers financial, operational, risk controls and compliance matters, and has made adjustments to some of the systems to allow the Company to adopt more exacting corporate governance practice. Meanwhile, internal review has been conducted in respect of the involvement of former Chairman of the Company, Dr. Zhang Wen-zhong, in the investigation during the year.

Auditor's Remuneration

During the Reporting Period, the Company has reviewed the performance of external auditor and the fees for the external auditor. The remuneration payable by the Company to the external auditor amounted to approximately HK$9,200,000, which included the annual auditing fee of HK$4,800,000, reviewing fee of the interim report of HK$1,000,000 and reporting accountant's fee for the acquisition of MerryMart of HK$3,400,000. The fees for non-audit services amounted to HK$600,000, including the fee for the pro forma financial information for the acquisition of equity interest in Xinhua Co. and reviewing fee for working capital and debt positions in the amount of HK$300,000, and pro forma financial information for the acquisition of equity interest in Times and reviewing fee for working capital and debt positions in the amount of HK$300,000.

ASSIGNMENT OF THE AUTHORITY OF THE BOARD

The division of the responsibilities and authorities between the Board and the management is clearly defined. The Board is responsible for the matters such as the strategic development of the Company, formulation of risk policy, internal review, connected transactions control, and determination of management remuneration, while the management team is responsible for the daily operation of the Company. The division of responsibilities between the Board and the management enables the Board to devote more time and effort on the long-term development strategies of the Company. The Board, through the selection and appointment of senior management, as well as the establishment of a rational result assessment system to examine and evaluate the performance of the management, allows the Company to operate and develop in a sustainable manner.

COMMUNICATIONS WITH SHAREHOLDERS

The Company endeavours in maintaining effective communications with shareholders and public disclosure to shareholders and investors will be made in a timely manner.

- The information of the Company will be timely published on the websites of GEM and the Company.
- Different channels of communications with shareholders are established and maintained by publishing annual reports, interim reports and quarterly reports as well as press releases.
- The general meeting serves as an effective platform for exchanging views between the Board and shareholders.
- The Chairman of the general meeting proposes resolution with respect to individual matter.
- The Chairman, the Chairman of the audit committee and the Chairman of the remuneration committee (in case of absence, the member of such committee) will attend the general meeting and answer the questions raised by shareholders.
- Prior notice will be given to shareholders to inform that the vote on the general meeting will be conducted by poll and such procedures are in compliance with the requirements of the GEM Listing rules with respect to the vote by poll and the articles of association of the Company.

Deloitte.
德勤

TO THE MEMBERS 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. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 82, which comprise the consolidated balance sheet as at 31st December, 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

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, 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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

24th March, 2007

Consolidated Income Statement

For the year ended 31st December, 2006

	NOTES	2006 RMB'000	2005 RMB'000
Turnover	6	**5,159,666**	3,539,319
Cost of sales		**(4,812,302)**	(3,289,216)
Gross profit		**347,364**	250,103
Other revenues	6	**533,683**	379,279
Other income	8	**107,113**	67,281
Selling and distribution costs		**(473,118)**	(325,770)
Administrative expenses		**(185,836)**	(144,039)
Finance costs	9	**(5,654)**	(5,895)
Share of profit of associates		**7,148**	11,883
Profit before tax	10	**330,700**	232,842
Income tax expense	13	**(104,748)**	(63,179)
Profit for the year		**225,952**	169,663
Attributable to:			
Equity holders of the Company		**212,308**	164,533
Minority interests		**13,644**	5,130
		225,952	169,663
Dividend	14		
— proposed		**85,424**	54,916
— paid		**54,916**	51,118
Earnings per share — basic	15	**RMB0.18**	RMB0.14

Consolidated Balance Sheet

At 31st December, 2006

	NOTES	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment	16	**1,272,079**	878,023
Interests in associates	17	**330,285**	120,765
Deposit paid for acquisition of property, plant and equipment		**64,019**	—
Goodwill	18	**404,711**	144,564
Land use rights	19	**29,088**	29,961
Prepaid lease payments	20	**23,491**	26,255
Deferred tax assets	31	**14,657**	1,997
		2,138,330	1,201,565
Current assets			
Inventories	21	**367,564**	238,813
Investments held-for-trading	22	**5,486**	31,546
Trade and other receivables	23	**514,001**	384,760
Amounts due from related parties	24	**547,516**	375,956
Pledged deposits	25	**193,067**	100,000
Cash and bank balances	26	**725,093**	415,998
		2,352,727	1,547,073
Current liabilities			
Trade and other payables	27	**2,260,544**	1,302,660
Amounts due to related parties	24	**1,039**	49,691
Derivative financial liabilities	28	**20,041**	—
Tax liabilities		**39,826**	13,555
Bank loans	29	**175,460**	79,960
		2,496,910	1,445,866
Net current (liabilities) assets		**(144,183)**	101,207
Total assets less current liabilities		**1,994,147**	1,302,772

Consolidated Balance Sheet

At 31st December, 2006

	NOTES	**2006 RMB'000**	2005 RMB'000
Capital and reserves			
Share capital	30	**305,087**	283,987
Reserves		**1,590,464**	996,028
Equity attributable to equity holders of the Company		**1,895,551**	1,280,015
Minority interests		**93,360**	22,757
Total equity		**1,988,911**	1,302,772
Non-current liability			
Deferred tax liabilities	31	**5,236**	—
		1,994,147	1,302,772

The consolidated financial statements on pages 39 to 82 were approved by the Board of Directors and authorised for issue on 24th March, 2007 and are signed on its behalf by:

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

Consolidated Statement Of Changes In Equity

For the year ended 31st December, 2006

	Attributable to equity holders of the Company							
	Share capital RMB'000	**Share premium** RMB'000	**Statutory common reserve fund** RMB'000 *(Note)*	**Statutory common welfare fund** RMB'000 *(Note)*	**Retained profits** RMB'000	**Total** RMB'000	**Minority interests** RMB'000	**Total** RMB'000
At 1st January, 2005	283,987	695,018	25,399	12,558	149,638	1,166,600	18,101	1,184,701
Dividend paid by the Company	—	—	—	—	(51,118)	(51,118)	—	(51,118)
Dividend paid by subsidiaries	—	—	—	—	—	—	(474)	(474)
Profit for the year and total recognised earning	—	—	—	—	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
Placing of shares	21,100	444,667	—	—	—	465,767	—	465,767
Share issue expense	—	(7,623)	—	—	—	(7,623)	—	(7,623)
Incorporation of a subsidiary	—	—	—	—	—	—	9,800	9,800
Dividend paid by the Company	—	—	—	—	(54,916)	(54,916)	—	(54,916)
Dividend paid by subsidiaries	—	—	—	—	—	—	(427)	(427)
Acquisition of subsidiaries	—	—	—	—	—	—	47,586	47,586
Profit for the year and total recognised earning	—	—	—	—	212,308	212,308	13,644	225,952
Profit appropriations	—	—	59,355	(24,084)	(35,271)	—	—	—
At 31st December, 2006	305,087	1,132,062	107,806	—	350,596	1,895,551	93,360	1,988,911

Note: Pursuant to the relevant People's Republic of China ("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 changes of the relevant PRC regulations, starting from the year ended 31st December, 2006, the Group has been exempted from transferring 5% to 10% of its profit, as determined under the PRC accounting regulations, to the statutory common welfare fund which was required in prior years. The balance of the statutory common welfare fund was required to be transferred to the statutory common reserve fund.

Consolidated Cash Flow Statement

For the year ended 31st December, 2006

	2006	2005
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit for the year	**225,952**	169,663
Adjustments for:		
Income tax expense	**104,748**	63,179
Finance costs	**5,654**	5,895
Share of profit of associates	**(7,148)**	(11,883)
Depreciation for property, plant and equipment	**80,504**	54,242
Amortisation of prepaid lease payments	**5,688**	481
Amortisation for land use right	**873**	873
Gain on disposal of an associate	**(784)**	—
Loss (gain) on disposal of property, plant and equipment	**125**	(2,687)
Gain on disposal of investments held-for-trading	**(22,839)**	(3,844)
Fair value changes on derivative financial liabilities	**(12,635)**	—
Discount on acquisition of a subsidiary	**—**	(9,577)
(Increase) decrease in fair value of investments held-for-trading	**(2,621)**	624
Impairment of deposit paid for acquisition of an associate	**18,336**	—
Interest income	**(11,928)**	(17,895)
Operating cash flows before movements in working capital	**383,925**	249,071
Increase in inventories	**(31,828)**	(91,403)
Increase in trade and other receivables	**(45,621)**	(214,843)
Increase in amounts due from related parties	**(171,560)**	(242,345)
Increase in trade and other payables	**455,309**	602,639
(Decrease) increase in amounts due to related parties	**(12,872)**	1,018
Cash generated from operations	**577,353**	304,137
Dividend paid	**(54,916)**	(51,121)
Income tax paid	**(91,715)**	(71,724)
NET CASH FROM OPERATING ACTIVITIES	**430,722**	181,292

Consolidated Cash Flow Statement

For the year ended 31st December, 2006

	NOTES	2006 RMB'000	2005 RMB'000
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(138,718)**	(417,667)
Deposit paid for acquisition of property, plant equipment		**(64,019)**	—
Proceeds from disposal of property, plant and equipment		**1,680**	10,391
Purchases of investments held-for-trading		**(1,215,000)**	(438,176)
Proceeds from disposal of investments held-for-trading		**1,266,520**	421,975
Deposit paid for acquisition of an associate		**(23,336)**	—
Acquisition of subsidiaries	32	**(200,494)**	(103,168)
Acquisition of an associate	17	**(177,290)**	—
Proceeds from disposal of an associate		**4,850**	—
Increase in pledged deposits		**(93,067)**	—
Interest received		**11,928**	17,895
Dividend received from associates		**3,528**	5,218
Dividend paid to minority shareholders of subsidiaries		**(427)**	(474)
NET CASH USED IN INVESTING ACTIVITIES		**(623,845)**	(504,006)
FINANCING ACTIVITIES			
Advance from a related party		**—**	35,780
Repayment to a related party		**(35,780)**	—
New bank loan raised		**100,000**	—
Repayments of bank loans		**(24,292)**	(15,430)
Interest paid		**(5,654)**	(5,895)
Proceeds from issue of shares		**465,767**	—
Expenses on issue of shares		**(7,623)**	—
Contribution by a minority shareholder upon incorporation of a subsidiary		**9,800**	—
NET CASH FROM FINANCING ACTIVITIES		**502,218**	14,455
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**309,095**	(308,259)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**415,998**	724,257
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by cash and bank balances		**725,093**	415,998

1. GENERAL

The Company is registered in 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 addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior year adjustment has been required.

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 results and the financial position of the Group are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[2]
HK (IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-INT 8	Scope of HKFRS 2[4]
HK(IFRIC)-INT 9	Reassessment of embedded derivatives[5]
HK(IFRIC)-INT 10	Interim financial reporting and impairment[6]
HK(IFRIC)-INT 11	HKFRS 2-Group and treasury share transactions[7]
HK(IFRIC)-INT 12	Service concession arrangements[8]

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

2 Effective for annual periods beginning on or after 1st January, 2009.

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

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

5 Effective for annual periods beginning on or after 1st June, 2006.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

6 Effective for annual periods beginning on or after 1st November, 2006.

7 Effective for annual periods beginning on or after 1st March, 2007.

8 Effective for annual periods beginning on or after 1st January, 2008.

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 HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the SEHK and by the 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). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

Where necessary, adjustments are made to financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from 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.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

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

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition 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.

On subsequent disposal of a subsidiary, the attributable account of goodwill capitalised is included in the determination of the account of profit or loss on disposal.

Investments in associates

The results and assets and liabilities of associates are incorporated in these consolidated 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 net assets 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)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment is recognised immediately in profit or loss.

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 is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

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.

Income from suppliers is recognised when services are rendered.

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

Interest income from a financial asset 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 the 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 consolidate 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 prepaid lease payments of leasehold interest in land in the PRC arising at the acquisition date of business combination. Such land use right is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for land use right 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. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss including financial assets held for trading.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including trade and other receivables, amounts due from related parties, pledged deposits and bank balances are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity 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 in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to related parties and bank loans are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet when, and only when they are extinguished (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

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 consolidated 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

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.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss 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 consolidated 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 when employees have rendered service entitling them to the contributions.

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:

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

The Group's major financial instruments include trade and other receivables, amounts due from related parties, pledged deposits, bank balances, trade and other payables, bank loans and derivative financial liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed-rate pledged deposits and bank loans (see notes 25 and 29 for details) due to fluctuation of prevailing market rates. The directors of the Company consider the Group's exposure to fair value interest rate risk is not significant as the pledged deposits and the bank loans have short maturity.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to floating-rate bank balances (see note 26 for details).

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

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, 2006 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 debtors. In addition, the Group reviews the recoverable amount of each individual trade debtor at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. As at 31st December, 2006, amounts due from related parties was RMB547,516,000 (2005: RMB375,956,000) comprised over 20% of the Group's current assets. The management closely monitors the subsequent settlement of the amount due from related parties. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's pledged deposits and bank balances are deposited with banks with high credit-ratings and the Group has limited exposure to any single financial institution.

The Group's credit risk is concentrated with a few related parties.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

At 31st December, 2006, the Group had net current liabilities of RMB144,183,000. The Group relies on cash generated from operating activities as a significant source of liquidity. For the year ended 31st December, 2006, the Group have cash generated from operating activities of approximately RMB430,722,000. Other than the cash generated from operating activities, the Group's management is responsible to maintain continuing of funding from bank loans and the management also ensures the availability of banking facilities to satisfy short-term liquidity requirements. The directors believe that the Group will have sufficient funds available to meet its financial obligations in the foreseeable future based on management working capital forecast.

6. TURNOVER AND OTHER REVENUES

The Group is principally engaged in the operation of large scale supermarkets and convenience stores. Revenues recognised during the year are as follows:

	2006 RMB'000	2005 RMB'000
Turnover		
Sales of merchandise	**5,159,666**	3,539,319
Other revenues		
Rental income from leasing of shop premises	**156,685**	120,567
Income from suppliers, including store display income and promotion income	**376,998**	258,712
	533,683	379,279
Total revenue	**5,693,349**	3,918,598

Note: Comparative figures in respect of the income from suppliers and rental income from leasing of shop premises are reclassified from turnover to other revenues in the current year.

7. SEGMENT INFORMATION

The Group is principally engaged in the operations of large scale 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

	2006 RMB'000	2005 RMB'000
Government subsidies (Note i)	**4,981**	8,707
Interest income	**11,928**	17,895
Delivery service income	**29,269**	10,021
Discount on acquisition of a subsidiary	**—**	9,577
Gain on disposal of an associate	**784**	—
Gain on disposal of investments held-for-trading (Note ii)	**22,839**	3,844
Fair value changes on derivative financial liabilities	**12,635**	—
Others	**24,677**	17,237
	107,113	67,281

Notes:

(i) The amount represents government subsidies from local finance bureau in accordance with the rules and regulations issued by Beijing local government. The amount is calculated by reference to the amount of tax paid and conditions which the Beijing local government considered necessary.

(ii) Included in the gain on disposal of investments held-for-trading, RMB1,892,000 (2005: RMB3,844,000) represents bonus unit obtained as dividend distribution of the investment in unlisted investment funds quoted in the PRC.

9. FINANCE COSTS

	2006 RMB'000	2005 RMB'000
Interests on bank borrowings wholly repayable within five years	**5,654**	5,895

10. PROFIT BEFORE TAX

	2006 RMB'000	2005 RMB'000
Profit before tax has been arrived at after charging (crediting):		
Impairment of deposit paid for acquisition of an associate	**18,336**	—
Auditors' remuneration	**4,800**	1,800
Depreciation for property, plant and equipment	**80,504**	54,242
Amortisation for prepaid lease payments	**5,688**	481
Amortisation for land use right	**873**	873
(Increase) decrease in fair value of investments held-for-trading	**(2,621)**	624
Operating lease rentals in respect of rented land and premises	**147,624**	90,522
Staff costs:		
Directors' and supervisors' remuneration	**1,820**	1,814
Other staff costs		
— Salaries and other benefits	**138,468**	119,737
— Retirement benefits scheme contributions	**21,980**	17,400
	162,268	138,951
Share of tax of associates (included in share of profit of associates)	**4,821**	6,578
Loss (gain) on disposal of property, plant and equipment	**125**	(2,687)

11. DIRECTORS' AND SUPERVISORS' REMUNERATION

	2006 RMB'000	2005 RMB'000
Directors and supervisors:		
Fees	**180**	156
Salaries and other benefits	**1,537**	1,565
Retirement benefits scheme contributions	**103**	93
	1,820	1,814

11. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

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

	2006 RMB'000	2005 RMB'000
Directors:		
Dr. Wu Jian-zhong	**391**	387
Dr. Zhang Wen-zhong (Note a)	**500**	541
Dr. Meng Jin-xian	**581**	561
Mr. Wang Jian-ping	**—**	—
Mr. Han Ying	**60**	52
Mr. Li Lu-an	**60**	52
Mr. Lu Jiang	**60**	52
Supervisors:		
Mr. Fan Kui-jie	**36**	36
Ms. Xu Ning-chun	**36**	36
Mr. Wang Jin-yue (Note b)	**—**	89
Ms. Yan Li-xia	**96**	8
	1,820	1,814

Notes:

(a) Dr. Zhang Wen-zhong resigned during the year ended 31st December, 2006.

(b) Mr. Wang Jin-yue resigned during the year ended 31st December, 2005.

The amounts disclosed above included directors' fees of RMB180,000 (2005: RMB192,000) 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 (2005: 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 (2005: two) highest paid individuals for the year were as follows:

	2006 RMB'000	2005 RMB'000
Salaries and other benefits	**523**	629
Retirement benefits scheme contributions	**31**	26
	554	655

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

	2006 RMB'000	2005 RMB'000
The charge (credit) comprises:		
PRC income tax	**117,212**	65,176
Deferred tax credit (note 31)	**(12,464)**	(1,997)
	104,748	63,179

PRC income tax is calculated at 33% of the estimated assessable profit of the Group for both years. For the year ended 31st December, 2005, Beijing Wumart Hypermarket Commercial Management Company Limited ("Beijing Wumart Hypermarket") a subsidiary of the Group was exempted from the PRC income tax 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:

	2006 RMB'000	2005 RMB'000
Profit before tax	**330,700**	232,842
Taxation at the PRC income tax rate of 33%	**109,131**	76,838
Tax effect of share of profit of associates	**(2,359)**	(3,921)
Effect of government subsidies that are not assessable in determining taxable profit	**(1,644)**	(2,873)
Tax effect of income that are not taxable in determining taxable profit	**(4,170)**	—
Tax effect of expenses that are not deductible in determining taxable profit	**2,079**	1,178
Tax effect of unrecognised tax losses	**1,871**	—
Tax effect of utilisation of tax losses not previously recognised	**(160)**	—
Effect of tax exemption granted to a subsidiary	**—**	(8,043)
Income tax for the year	**104,748**	63,179

14. DIVIDEND

	2006 RMB'000	2005 RMB'000
Domestic shares and H Shares:		
Proposed final dividends of RMB0.07 (2005: RMB0.045) per share	**85,424**	54,916
Dividends paid of RMB0.045 (2005: RMB0.045) per share	**54,916**	51,118

The number of shares used in calculating the dividend per share for the year ended 31st December, 2005 has been adjusted for the share subdivision completed during the year.

15. EARNINGS PER SHARE

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

	2006 RMB'000	2005 RMB'000
Profit for the year attributable to equity holders of the Company	**212,308**	164,533
	'000	'000
Number of shares:		
Weighted average number of shares for the purposes of basic earning per share	**1,206,137**	1,135,948

The weighted average number of ordinary shares for the year ended 31st December, 2005 for the purpose of basic earnings per share has been adjusted for the share subdivision completed during the year.

No diluted earnings per share is presented as the Company did not have any potential ordinary shares outstanding during both years.

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, 2005	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
Additions	28,674	1,159	68,088	29,899	10,278	620	138,718
Additions upon acquisition of subsidiaries	1,922	142,122	75,595	97,589	10,370	10,049	337,647
Transfer	(14,769)	9,767	3,171	1,831	—	—	—
Disposals	—	—	—	(2,504)	(406)	(112)	(3,022)
At 31st December, 2006	20,663	761,811	331,432	289,068	50,169	13,488	1,466,631
DEPRECIATION							
At 1st January, 2005	—	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
Provided for the year	—	16,938	24,654	30,192	8,092	628	80,504
Eliminated on disposals	—	—	—	(717)	(406)	(94)	(1,217)
At 31st December, 2006	—	30,501	68,739	73,619	20,491	1,202	194,552
CARRYING VALUES							
At 31st December, 2006	20,663	731,310	262,693	215,449	29,678	12,286	1,272,079
At 31st December, 2005	4,836	595,200	140,493	118,109	17,122	2,263	878,023

The above items of property, plant and equipment are depreciated on a straight-line basis 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%

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

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17. INTERESTS IN ASSOCIATES

	2006 **RMB'000**	2005 RMB'000
Cost of investments in associates		
Listed in the PRC	**209,966**	—
Unlisted	**103,189**	107,525
Share of post-acquisition profits, net of dividend received	**17,130**	13,240
	330,285	120,765
Market value of listed shares	**356,307**	—

Included in the cost of investment in associates at 31st December, 2006 is goodwill of RMB92,024,000 (2005: RMB57,525,000). The carrying amount of the goodwill represents goodwill arising from acquisition of Beijing Chao Shifa Company Limited ("Chao Shifa") and Yinchuan Xinhua Department Store Co., Ltd. ("Xinhua Co") of RMB57,525,000 (2005: RMB57,525,000) and RMB34,499,000 (2005: nil) respectively.

The cost for the acquisition (net of direct acquisition cost) of Xinhua Co was RMB209,966,000. Included in this cost, RMB177,290,000 represents cash consideration and RMB32,676,000 represents the fair value of the put options issued in relation to this acquisition. Details of the put options are set out in note 28.

The movement of goodwill is set out below:

	RMB'000
At 1st January, 2005 and 31st December, 2005	57,525
Acquisition of an associate	34,499
At 31st December, 2006	92,024

17. INTERESTS IN ASSOCIATES (Continued)

As at 31st December, 2006, the Group had interests in the following associates:

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Class of share held	Proportion of nominal value of issued capital/registered capital held by the Group 2006	2005	Principal activities
Chao Shifa	Incorporated	PRC	PRC Beijing	Ordinary	**25.03%**	25.03%	Supermarket
Xinhua Co	Incorporated	PRC	PRC Ningxia	Ordinary	**29.24% (Note 1)**	—	Department stores and supermarket
Beijing Chongwenmen Vegetable Market Supermarket Company Limited	Incorporated	PRC	PRC Beijing	Ordinary	**49%**	49%	Supermarket and convenience stores
Beijing Meiyijia Marketing Limited	Incorporated	PRC	PRC Beijing	Ordinary	**25%**	25%	Design, production agency and distribution of advertisements in the PRC
Beijing Wumart Shanhe Medicine Company Limited	Incorporated	PRC	PRC Beijing	Ordinary	**— (Note 2)**	50%	Drug stores

Notes:

(1) On 9th April, 2006, the Group acquired 29.24% equity interest of Xinhua Co for a total consideration (net of direct acquisition cost) of RMB209,966,000. As at 31st December, 2006, approximate 62.83% equity shares of Xinhua Co are listed on the Shanghai Stock Exchange ("Shanghai Exchange") in form of A shares, and the shares held by the Group represent shares that are listed shares with lock up period of 12 months from the date of resumption of the A Shares after the implementation of the share reform proposal.

(2) During the year ended 31st December, 2006, the Group disposed of its entire interest in Beijing Wumart Shanhe Medicine Company Limited to independent third parties for a consideration of RMB4,850,000. The disposal resulted in gain of RMB784,000 to the Group.

17. INTERESTS IN ASSOCIATES (Continued)

The following details have been extracted from the management accounts of the Group's associates for the year prepared in accordance with HKFRS:

	2006 **RMB'000**	2005 RMB'000
Result for the year		
Total revenue	**2,799,803**	1,760,871
Profit for the year	**18,067**	38,203
Attributable profit to the Group	**7,148**	11,883
Financial position		
Non-current assets	**1,005,128**	235,459
Current assets	**1,340,599**	610,491
Current liabilities	**(1,318,942)**	(528,479)
Non-current liabilities	**(250,729)**	(125,021)
Net assets	**776,056**	192,450
Net assets attributable to the Group	**238,261**	63,240

18. GOODWILL

	RMB'000
COST	
At 1st January, 2005	1,004
Additions on acquisition of subsidiaries (note 32)	143,560
At 31st December, 2005	144,564
Additions on acquisition of subsidiaries (note 32)	260,147
At 31st December, 2006	404,711
CARRYING VALUES	
At 31st December, 2006	404,711
At 31st December, 2005	144,564

The directors of the Company considered that each subsidiary represents a separate cash generating unit ("CGU") for the purpose of goodwill impairment testing. These CGUs include two (2005: one) subsidiaries in large scale supermarkets and two (2005: two) subsidiaries in convenience stores. The carrying amounts of goodwill as at 31st December, 2006 allocated to these units are as follows:

	2006 RMB'000	2005 RMB'000
Large scale supermarkets	**403,707**	143,560
Convenience stores	**1,004**	1,004
	404,711	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 one year financial budgets and extrapolates cash flows for the following nine 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.

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19. LAND USE RIGHT

	RMB'000
COST	
At 1st January, 2005	—
Addition on acquisition of subsidiaries	30,834
At 31st December, 2005 and 2006	30,834
AMORTISATION	
At 1st January, 2005	—
Provided for the year	873
At 31st December, 2005	873
Provided for the year	873
At 31st December, 2006	1,746
CARRYING VALUES	
At 31st December, 2006	29,088
At 31st December, 2005	29,961

The land use right of the Group is held under medium-term lease in the PRC and amortised over the term of the lease of 40 years.

20. PREPAID LEASE PAYMENTS

	2006 RMB'000	2005 RMB'000
Prepaid lease payments comprise:		
Medium-term leasehold land in the PRC	**7,214**	7,433
Prepaid lease rentals	**42,157**	44,901
	49,371	52,334
Analysed for reporting purposes as:		
Current assets (included in trade and other receivables)	**25,880**	26,079
Non-current assets	**23,491**	26,255
	49,371	52,334

21. INVENTORIES

	2006 RMB'000	2005 RMB'000
At cost:		
Merchandise for resale	**364,255**	236,160
Consumables	**3,309**	2,653
	367,564	238,813

22. INVESTMENTS HELD-FOR-TRADING

	2006 RMB'000	2005 RMB'000
Unlisted investment funds quoted in the PRC	**—**	31,546
Listed equity securities in the PRC	**5,486**	—
	5,486	31,546

The fair values of the unlisted investment funds and listed equity securities were determined based on the quoted market bid prices and published bid prices respectively available in the relevant markets.

23. TRADE AND OTHER RECEIVABLES

	2006 RMB'000	2005 RMB'000
Trade receivables	**105,167**	74,483
Prepayments, deposits and other receivables	**408,834**	310,277
	514,001	384,760

Trade receivables represent receivables from supply of merchandise to franchised stores, stores managed by the Group and retail sales customers. The average credit period is 30 to 60 days for receivables from supply of merchandise to franchised stores and stores managed by the Group. The Group's retail sales to customers are mainly conducted on cash basis, including payments by cash and credit cards.

23. TRADE AND OTHER RECEIVABLES (Continued)

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

	2006 RMB'000	2005 RMB'000
0–30 days	**65,820**	47,165
31–60 days	**39,347**	27,318
	105,167	74,483

The fair value of the Group's trade and other receivables at 31st December, 2006 was approximate to the corresponding carrying amount.

24. AMOUNTS DUE FROM/TO RELATED PARTIES

	2006 RMB'000	2005 RMB'000
Amounts due from associates	**109,837**	41,950
Amounts due from subsidiaries of a Company's shareholder which has significant influence over the Company ("Company's Controlling Shareholder")	**411,806**	307,109
Amounts due from minority shareholders of subsidiaries	**25,873**	26,897
	547,516	375,956
Amount due to an associate	**—**	9,515
Amount due to a subsidiary of the Company's Controlling Shareholder	**1,039**	40,176
	1,039	49,691

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

The amounts are unsecured and non-interest bearing. The amounts due from associates and subsidiaries of the Company's Controlling Shareholder are trading in nature. The average credit periods is 30 to 60 days. The age analysis of these balances is as follows:

	2006 RMB'000	2005 RMB'000
0–30 days	**203,881**	229,332
31–60 days	**163,434**	119,727
61–90 days	**154,328**	—
	521,643	349,059

For the amounts that are not trading in nature have no fixed repayment terms.

The fair value of the amounts due from/to related parties at 31st December, 2006 was approximate to the corresponding carrying amount.

25. PLEDGED DEPOSITS

At 31st December, 2006, included in the balance, RMB100,000,000 (2005: RMB100,000,000) represents deposit pledged to a bank in respect of a bank loan granted to an associate. RMB64,772,000 (2005: nil) represents fund deposited to a bank designated by China Securities Depository and Clearing Corporation Limited, Shanghai Branch, which has issued the certification document in respect of funds under custody to the Company, as deposit for the full exercise of all derivative financial liabilities granted by the Company during the year ended 31st December, 2006. Remaining RMB28,295,000 represents deposit pledged to a bank in respect of a bank facility granted to satisfy the obligation under the derivative financial liabilities if exercised. Details of the derivative financial liabilities are set out in note 28.

The amount matures within one year and carries at fixed interest and the interest ranged from 0.72% to 5.85% (2005: 5.60%) per annum.

The fair value of the pledged deposit at 31st December, 2006 was approximate to the corresponding carrying amount.

26. CASH AND BANK BALANCES

Bank balances and cash comprised short-term bank deposits with an original maturity of three months or less and cash held by the Group. The bank deposits bear floating interest rates of 0.72% to 1.44% (2005: 0.72% to 1.44%) per annum. The directors consider that the carrying amounts of bank balances approximate their fair value.

27. TRADE AND OTHER PAYABLES

	2006 RMB'000	2005 RMB'000
Trade payables	**1,776,731**	1,013,320
Other payables, deposits and accruals	**483,813**	289,340
	2,260,544	1,302,660

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

	2006 RMB'000	2005 RMB'000
0–30 days	**772,472**	243,197
31–60 days	**830,308**	557,326
61–90 days	**122,191**	202,664
Over 90 days	**51,760**	10,133
	1,776,731	1,013,320

The fair value of the Group's trade and other payables at 31st December, 2006 was approximate to the corresponding carrying amount.

28. DERIVATIVE FINANCIAL LIABILITIES

	2006 RMB'000	2005 RMB'000
Put options	**20,041**	—

On 9th April, 2006, the Company entered into the share transfer contract with Yinchuan Xinhua Department Store ("Share Transfer Contract") for the acquisition of Xinhua Co. The shares of Xinhua Co are listed on the Shanghai Exchange. Pursuant to the relevant regulations of the PRC, Xinhua Co as a PRC listed company is obligated to perform share reform as a result of this transaction as one of the terms of the Share Transfer Contract, the Company agreed to participate in the share reform of Xinhua Co.

On 9th August, 2006, the share reform proposal of Xinhua Co ("Share Reform Proposal") was approved by the shareholders of Xinhua Co. Pursuant to the Share Reform Proposal, on 31st August, 2006, the Company granted the irrevocable rights ("Put Options") to the shareholders of Xinhua Co who are holding shares of Xinhua Co which are listed and traded on the Shanghai Exchange ("Tradable Shareholders" and the shares held by Tradable Shareholders are referred to as "Tradable Shares") whereby the Tradable Shareholders are entitled to demand the Company to acquire part or all Tradable Shares at a consideration of RMB10.02 (or RMB8.35 after taken into account the new shares issued by Xinhua Co pursuant to the right issue under the Share Reform Proposal ("Adjusted Exercise Price")) per Tradable Share on 31st May, 2007. The fair value of the Put Options of RMB32,676,000 at the grant date was regarded as part of the consideration for the acquisition of Xinhua Co (see note 17).

28. DERIVATIVE FINANCIAL LIABILITIES (Continued)

The fair value of the Put Options is calculated using the Black-Scholes-Marton Option Pricing Model. The inputs into the model were as follows:

	At 31st December, 2006	At grant date
Spot price (note a)	RMB9.87 per share	RMB10.22 per share
Exercise price (note b)	RMB8.35 per share	RMB8.35 per share
Expected volatility (note c)	35%	37%
Expected life (note d)	5 months	9 months
Risk free rate (note e)	2.52%	2.52%

Notes:

(a) Being the respective closing market price at the dates of valuation after taken into account for the new shares issued by Xinhua Co pursuant to the right issue under the Share Reform Proposal.

(b) Being Adjusted Exercise Price.

(c) Expected volatility was determined by calculating the historical volatility of Xinhua Co's share price over 250 trading days.

(d) Expected life was the expected remaining life of the options.

(e) The risk free rate is determined by reference to the People's Bank of China interest rate.

Change in fair value between the date of grant and the balance sheet date of RMB12,635,000 was recognised in the consolidated income statement.

29. BANK LOANS

	2006 RMB'000	2005 RMB'000
Secured	**75,460**	75,460
Unsecured	**100,000**	4,500
	175,460	79,960

The loans are repayable within one year and carry interests at fixed rates ranging from 6.21% to 6.48% (2005: 5.60% to 6.10%) per annum.

As at 31st December, 2006, the secured bank loan is secured by the pledge of leasehold land and building with carrying amount of RMB107,821,000 (2005: RMB77,040,000). The unsecured bank loan is guaranteed by a subsidiary of the Company's Controlling Shareholder (2005: an independent third party).

The fair value of the Group's bank loans at 31st December, 2006 was approximate to the corresponding carrying amount.

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30. SHARE CAPITAL

	Number of Domestic Shares '000	Number of H Shares '000	Value RMB'000
Authorised, issued and fully paid:			
Ordinary shares of RMB1 each at 1st January, 2005, 31st December, 2005	178,445	105,542	283,987
Issue of H Shares (Note a)	—	21,100	21,100
Share subdivision (Note b)	535,335	379,926	—
Ordinary shares of RMB0.25 each at 31st December, 2006	713,780	506,568	305,087

Notes:

(a) On 7th February, 2006, an aggregate of 21,100,000 H Shares of HK$21.4 per share were placed. The net proceeds of approximately RMB465,767,000 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) Pursuant to an ordinary resolution passed on 25th October, 2005 and the approval of the China Securities Regulatory Commission on 28th August, 2006, the Company's issued shares (both Domestic Shares and H Shares) of RMB1 each were subdivided into 4 new shares of RMB0.25 each ("Share Subdivision"). The Share Subdivision took effect on 26th October, 2006.

(c) 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.

(d) As at 31st December, 2006 and 2005, the Company's authorised and issued share capital of Domestic Shares and H Shares was RMB305,087,000 (2005: RMB283,987,000), divided into 1,220,348,000 (2005: 283,987,000) ordinary shares of RMB0.25 each (2005: RMB1 each).

31. DEFERRED TAX ASSETS/LIABILITIES

The following is the major deferred tax assets/liabilities recognised by the Group and movements thereon during the current reporting year:

	Impairment for deposit paid for acquisition of an associate	Effective rent	Fair value adjustments of properties	Fair value change of investments held-for-trading	Tax losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January, 2005	—	—	—	—	—	—
Credited to income statement for the year	—	—	—	—	1,997	1,997
At 1st January, 2006	—	—	—	—	1,997	1,997
Acquisition of a subsidiary	—	10,959	(15,999)	—	—	(5,040)
Credited (charged) to income statement for the year	6,049	4,839	133	(865)	2,308	12,464
At 31st December, 2006	6,049	15,798	(15,866)	(865)	4,305	9,421

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2006	2005
	RMB'000	RMB'000
Deferred tax assets	**14,657**	1,997
Deferred tax liabilities	**(5,236)**	—
	9,421	1,997

At 31st December, 2006, the Group had unused tax losses of RMB21,473,000 (2005: RMB9,294,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB13,045,000 (2005: RMB6,052,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB8,428,000 (2005: RMB3,242,000) due to unpredictability of future profit stream.

32. ACQUISITION OF SUBSIDIARIES

Acquisition in 2006

On 1st February, 2006, the Group entered into a strategic cooperation agreement with the shareholders of Beijing Merry Mart Chainstores Development Co., Ltd. ("Mei Lian Mei") to acquire a total 75% equity interests for a total consideration of RMB402,905,000 satisfied by cash. RMB282,905,000 represents consideration and direct attributable cost for the acquisition of 68% equity interests in Mei Lian Mei and the remaining RMB120,000,000 represents the acquisition of additional 7% equity interests in Mei Lian Mei by means of capital contribution. The acquisition was completed in August 2006. This acquisition has been accounted for using the purchase method of accounting. The amount of goodwill arising as a result of the acquisition was RMB260,147,000.

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

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	289,164	48,483	337,647
Cash and bank balances (Note)	202,411	—	202,411
Prepaid lease payments	2,725	—	2,725
Deferred tax assets (liabilities)	10,959	(15,999)	(5,040)
Inventories	96,923	—	96,923
Trade and other receivables	78,819	—	78,819
Trade and other payables	(502,575)	—	(502,575)
Tax liabilities	(774)	—	(774)
Bank loans	(19,792)	—	(19,792)
	157,860	32,484	190,344
Minority interests			(47,586)
			142,758
Goodwill			260,147
Total consideration satisfied by cash			402,905
CASH OUTFLOW ARISING ON ACQUISITION			
Cash consideration and cash contributed to Mei Lian Mei			(402,905)
Cash and bank balances and cash acquired			202,411
			(200,494)

Note: RMB120,000,000 cash from capital contribution by the Group was included in cash and bank balances acquired.

32. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition in 2006 (Continued)

The goodwill arising on the acquisition is attributable to the anticipated profit of Mei Lian Mei and the anticipated future operating synergies from the combination. In the opinion of the directors, upon the completion of this acquisition, the Group has immediate benefit from the consolidated purchasing and the integration processes, the combined volume of purchasing will become the largest scale in many categories of products. The increasing bargaining power will further improve the Group's gross profit margin. As the integration intensifies, Mei Lian Mei will show an increasing trend of margin improvement towards the Group's level.

The business acquired during the year contributed RMB764,952,000 to the Group's revenue, and a profit of RMB36,254,000 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, 2006, total group revenue for the year would have been RMB7,005,681,000, and profit for the year would have been RMB241,615,000. 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, 2006, nor is it intended to be a projection of future results.

32. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition in 2005

(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.

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.

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.

32. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition in 2005 (Continued)

Had the acquisition been completed on 1st January, 2005, total group revenue for the year would have been RMB4,126,722,000, and profit for the year would have been RMB180,270,000. 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	**Fair value adjustments**	**Fair value**
	RMB'000	RMB'000	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 assets	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	(9,143)	18,720	9,577
Discount on acquisition			(9,577)
Consideration			—

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. MAJOR NON CASH TRANSACTIONS

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

During the year ended 31st December, 2005, 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.

34. OPERATING LEASE 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:

	2006 RMB'000	2005 RMB'000
Within one year	**220,186**	99,758
In the second to fifth year inclusive	**824,256**	391,337
Over five years	**1,404,266**	1,157,442
	2,448,708	1,648,537

Leases are negotiated for an average term of 10 years and rentals are fixed throughout the lease period.

The Group as lessor

At the balance sheet date, the Group had contracted with tenants in respect of leasing of retail booths for the following future minimum lease payments:

	2006 RMB'000	2005 RMB'000
Within one year	**110,536**	—

35. COMMITMENTS

	2006 **RMB'000**	2005 RMB'000
Capital commitments		
Capital expenditure in respect of property, plant and equipment	**200,074**	70,000

Other commitment

If the Put Options granted by the Company are fully exercised on the exercise date, subject to adjustment if Xinhua Co make any dividend distribution, bonus issue and/or share capital transfer before the exercise date, total consideration to be paid to Tradable Shareholder will be RMB647,718,000.

36. 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.

37. INVESTIGATION AGAINST THE FORMER CHAIRMAN

Base on the enquiries and internal investigation performed by the Board, to the best knowledge of the directors so far, the investigation against Dr. Zhang Wen-zhong, the former chairman and executive director of the Company, conducted by relevant authority in the PRC does not relate to Dr. Zhang Wen-zhong in respect of his senior management positions with the Group and is not directed at the business of the Group or its assets.

38. RELATED PARTY TRANSACTIONS

(a) Apart from the amounts due from and to related companies as disclosed in note 24, during the year, the Group had the following related party transactions:

	2006 **RMB'000**	2005 RMB'000
Sales to an associate	**196,717**	223,363
Sales to subsidiaries of the Company's Controlling Shareholder	**706,770**	389,351
Purchase from a subsidiary of the Company's Controlling Shareholder	**5,257**	—
Purchase from associates	**23,539**	15,178
Service fee income from a subsidiary of the Company's Controlling Shareholder in respect of merchandise delivery services	**18,295**	2,074
Service fee income from an associate in respect of merchandise delivery services	**2,532**	2,682
Management fee income from subsidiaries of the Company's Controlling Shareholder	**649**	725
Rental expense to a subsidiary of the Company's Controlling Shareholder	**1,039**	—

(b) During the year ended 31st December, 2006, the Company entered into a termination agreement with the Company's Controlling Shareholder and Beijing Wumart Pujinda Convenience Stores Company Limited ("Beijing Pujinda"), an associate of the Company's Controlling Shareholder on 29th December, 2006 ("Termination Agreement"). Pursuant to the Termination Agreement, the Company will terminate the acquisition agreement entered into among the Company, the Company's Controlling Shareholder and Beijing Pujinda on 29th October, 2003 for the acquisition of the equity interests (or its assets and business) in Beijing Pujinda held by the Company's Controlling Shareholder.

(c) 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.

38. RELATED PARTY TRANSACTIONS (Continued)

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2006 RMB'000	2005 RMB'000
Short-term benefits	**2,854**	2,802
Post-employment benefits	**184**	181
	3,038	2,983

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

39. PARTICULARS OF THE COMPANY'S SUBSIDIARIES

The following table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the result or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name	Registered and fully paid capital RMB	Proportion of nominal value of registered capital held by the Company Directly %	Indirectly %	Principal activities
Beijing Wumart Bolante Convenience Stores Company Limited	10,000,000	80	—	Convenience stores
Beijing Wumart Stores Company Limited	10,000,000	80	16	Large scale supermarket
Beijing Mencheng Wumart Shangcheng Company Limited	1,000,000	70	—	Large scale supermarket
Beijing Wumart Tongfu Commerce Company Limited	1,000,000	55	—	Large scale supermarket

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For the year ended 31st December, 2006

39. PARTICULARS OF THE COMPANY'S SUBSIDIARIES (Continued)

Name	Registered and fully paid capital RMB	Proportion of nominal value of registered capital held by the Company Directly %	Indirectly %	Principal activities
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	—	Large scale supermarket
Beijing Wumart Convenience Stores Company Limited	50,000,000	80	—	Convenience stores
Beijing Jiahe Wumart Commerce Company Limited	10,000,000	80	14.4	Large scale supermarket
Tianjin Wumart WeiLai Commercial Development Company Limited	1,000,000	80	19.2	Large scale supermarket
Baoding Wumart Stores Company Limited	1,000,000	80	19.2	Large scale supermarket
Beijing Wumart Hypermarket Commercial Management Company Limited	10,000,000	95	4.8	Large scale supermarket
Beijing Wumart Jingbei Dashijie Commercial and Trading	20,000,000	95	4.8	Large scale supermarket
Beijing Wumart Distribution Technology Company Limited	8,000,000	80	20	Large scale supermarket
Mei Lian Mei	52,480,000	75	—	Large scale supermarket

FINANCIAL SUMMARY

	For the year ended 31st December,				
	2006	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Turnover	**5,159,666**	3,539,319	2,380,203	1,439,320	1,026,266
Cost of sales	**(4,812,302)**	(3,289,216)	(2,212,956)	(1,312,774)	(919,774)
Gross profit	**347,364**	250,103	167,247	126,546	106,492
Other revenues	**533,683**	379,279	217,080	135,542	71,260
Other income	**107,113**	67,281	58,842	21,873	14,895
Selling and distribution costs	**(473,118)**	(325,770)	(191,872)	(117,801)	(103,537)
Administrative expenses	**(185,836)**	(144,039)	(86,319)	(64,184)	(50,531)
Finance costs	**(5,654)**	(5,895)	(692)	(1,384)	(3,256)
Loss on disposal of subsidiaries	**—**	—	—	(74)	—
Share of profit of associates	**7,148**	11,883	5,633	7,931	6,963
Profit before tax	**330,700**	232,842	169,919	108,449	42,286
Income tax expense	**(104,748)**	(63,179)	(57,529)	(35,097)	(14,438)
Profit for the year	**225,952**	169,663	112,390	73,352	27,848
Attributable to:					
Equity holders of the Company	**212,308**	164,533	107,937	71,596	27,436
Minority interests	**13,644**	5,130	4,453	1,756	412
	225,952	169,663	112,390	73,352	27,848

FINANCIAL SUMMARY

	As at 31st December,				
	2006	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	**4,491,057**	2,748,638	1,843,814	1,146,964	427,455
Total liabilities	**(2,502,146)**	(1,445,866)	(659,113)	(336,641)	(229,229)
Minority interests	**(93,360)**	(22,757)	(18,101)	(14,813)	(11,830)
Equity attributable to equity holders of the Company	**1,895,551**	1,280,015	1,166,600	795,510	186,396

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