



## INTERIM REPORT 2007



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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## CHAIRMAN'S STATEMENT

Dear Shareholders:

I am pleased to present the unaudited interim results of Wumart Stores, Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") for the six months ended 30th June, 2007 (the "Reporting Period").

### Review of Results

- Total revenue <sup>(note)</sup> amounted to approximately RMB3,757,316,000, representing a growth of 43.6% as compared with the corresponding period in 2006;
- Consolidated gross profit amounted to approximately RMB611,725,000, representing a growth of 61.3% as compared with the corresponding period in 2006;
- Net Profit reached approximately RMB160,269,000, representing a growth of 47.2% as compared with the corresponding period in 2006;
- Retail network comprised 504 stores; and
- Comparable store sales (turnover recognized by a particular store in respect of different periods) increased by approximately 10.6% as compared with the corresponding period in 2006.

Note: Total revenue includes turnover and other revenue.

During the Reporting Period, the Group maintained a substantial increase in both total revenue and profit and reported a satisfactory result. Total revenue grew by 43.6%, mainly attributable to the growth in comparable store sales, supplier income and rental income; together with the contribution from Beijing MerryMart Chainstores Development Co., Ltd. ("Merrymart") during the Reporting Period. The continuous growth in net profit signified a rise in gross profit margin and the Group's effective cost control amid rapid expansion, and a raise in efficiency.

The Group adhered to its regional development strategy and maintained its absolute leading position in Beijing and Ningxia markets. During the Reporting Period, the Group opened sixteen new stores, of which seven were superstores, four were mini-marts and five were franchised stores. Net saleable area added was approximately 31,832 square metres (excluding the area of franchised stores).

During the Reporting Period, the Company entered into a cooperation agreement with Beijing Aoshikai Assets Management Company Ltd. (北京奧士凱資產經營公司) ("Beijing Aoshikai"), pursuant to which a joint venture named Beijing Aoshikai Wumart Company Ltd. (北京奧士凱物美商業有限公司) ("Aoshikai Wumart") will be established, with each of the parties holding 50% equity. Beijing Aoshikai is a state-owned retail enterprise which possesses three supermarket stores located in central areas of Beijing, and owns two renowned deli product brand names "Quansuzhai" (全素齋) and "Puwufang" (浦五房) that have over hundred year of history. Aoshikai Wumart plans to adopt modern retail management skills to expand and upgrade its cooperative stores in all aspects. Meanwhile, Aoshikai Wumart will introduce new operational mechanism and sales channels to its existing renowned brand names. Such cooperation will expand the Group's retail network into the center of Beijing, establish a strong foothold for further development and further strengthen the Group's advantages in the Beijing market.

During the Reporting Period, standardization of stores was the most important task for the Group. By formulating standards for store operation such as store layout, environment, merchandise categorization, products display, operational process and service standards, the Group aimed at standardizing, formalizing and systematizing every single task of the operation process. Such strategies can fully implement the standardization of chain stores and realize the "simplified store operation model" as designed in the ERP system.

During the Reporting Period, the Group continued to proceed with the WINBOX@SAP Project. The project team finished establishing the major process document system based on the best business practices of SAP and planned to launch this system at sample stores and distribution centers in the second half of the year.

During the Reporting Period, the Group further proceeded with merchandise category analysis and category planning, with an aim to fully utilize the limited display spaces of the stores and meet the needs of customers in its fullest extent. The Group also commenced its trial on category management at prototype stores of each format.

The Group has entered into a new phase for its optimization of supply chains. While the Group was planning to launch its large-scale distribution center, it also fully utilized the existing distribution centers; therefore, the volume of products through centralized distribution increased significantly and the efficiency of supply chains also improved.

## Prospect

During the Reporting Period, China's economy continued to grow in a steady and rapid pace. GDP jumped by 11.5% on a year-on-year basis. Gross retail sales in China increased by 15.4% on a year-on-year basis which attained the new high after 1997. The operational environment of the retail industry is still favorable.

In the future, the Group will continue to implement its regional development strategies and uphold the principles of opening up more new stores, good stores and profitable stores. Capitalizing on its network and brand advantages in its present network, the Group will accelerate the opening of new stores and the merger and acquisition of various retail network. In the meantime, the Group will actively look for opportunities of merger and acquisition in other areas for enhancing its overall scale and profitability. Adopting the successful experience in acquiring Merrymart and Yinchuan Xinhua Department Store Company Limited ("Xinhua Co"), the Group's future acquisition targets would continue to be regional chain supermarkets with leading market position, growth and profitability potentials and a qualified management team.

During the second half of the year and next year, the Group's focus will be placed on establishing and refining the enterprise management system. The Group will proceed with the BPR and ERP projects and prepare the go-live while implementing the system into business functions.

In the second half of the year, Merchandise Category and Procurement Department will set its objective at further categorizing merchandise so as to further analyse and enhance the competitiveness of merchandise mix. Meanwhile, the Group will actively explore new business opportunities which can provide customers with more value-added services, and create new profit drivers for the Group.

Looking forward, the Group will establish and perfect the compensation and incentive systems, and view human resources as the core elements of productivity. The Group aims to build up an energetic, passionate, ambitious and practical executive and staff team, for the future development of the Group.

Members of the Board and I are confident that the Group's result will experience a continuous and steady growth, and the development objective of the Group will be achieved. On behalf of the Board, I would like to express my gratitude to all employees' hard work and devoted efforts.

**Dr. Wu Jian-zhong**

*Chairman*

Beijing, the PRC  
8th August, 2007

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

#### *Total Revenue*

During the Reporting Period, the Group maintained a rapid growth in its sales, with a total revenue of approximately RMB3,757,316,000 as at 30th June, 2007, up by 43.6% as compared with the corresponding period in 2006. The comparable store sales growth was 10.6%. The growth in turnover was derived from the growth in comparable store sales and turnover contributed by MerryMart during the Reporting Period. Turnover and income from suppliers as at 30th June, 2007 accounted for 91.1% and 6.6% of the Group's total revenue respectively, and the income from suppliers continued to reflect the negotiation advantages of the Group as a result of its regional dominance and concentrated procurement. Rental income was derived from the lease of store premises to its business partners by the Group. The increase in rental income was mainly attributable to the increase in number of newly opened stores since the second half of 2006, thereby leading to an increase in lease-out area. Another reason was that rental rate charged on lease-out areas of some of the stores rose upon the renewal of lease agreements.

#### *Cost of Sales and Gross Profit Margin*

As at 30th June, 2007 and 30th June, 2006, the cost of sales of the Group were approximately RMB3,145,591,000 and RMB2,236,977,000 respectively, with consolidated gross profit margin for these two periods of 16.3% and 14.5% respectively. Increase in gross profit margin was attributable to a more reasonable pricing strategy, the decline in unit cost due to the economies of scale attained through centralized procurement, and a decrease in sales at cost to related companies. Taking out the effect on sales at cost to managed and franchised stores and related companies, the Group recorded an increase in consolidated gross profit margin to approximately 18.1%.

During the Reporting Period, other income of the Group was approximately RMB52,148,000, accounting for approximately 1.4% of the total revenue, as compared with approximately 1.5% in the corresponding year of 2006.

#### *Operating Costs and Net Profit*

During the Reporting Period, the administrative expenses of the Group were approximately RMB98,459,000, accounting for 2.6% of the total revenue. For the corresponding period of 2006, administrative expenses as a percentage of total revenue was also approximately 2.6%. Administration expenses mainly included staff related cost of approximately RMB35,445,000 and rental expenses of RMB2,067,000.

During the Reporting Period, the Group's sales and distribution costs were approximately RMB345,656,000, accounting for approximately 9.2% of the total revenue, as compared with approximately 6.9% in the corresponding period of 2006. The sales and distribution costs mainly included staff related costs of approximately RMB55,467,000 and rental expenses of approximately RMB110,400,000.

During the Reporting Period, the Group's finance cost was approximately RMB5,922,000, as compared with approximately RMB2,292,000 in the corresponding period of 2006.

During the Reporting Period, the Group's net profit was approximately RMB160,269,000, up by RMB51,376,000 or 47.2% as compared with RMB108,893,000 in the corresponding period of 2006. The Group's net profit margin increased to approximately 4.3% in the Reporting Period from approximately 4.2% in the corresponding period of 2006. The Group maintained its satisfactory profitability because of an improved gross profit margin, an increase of other income over the corresponding period of 2006 due to the fair value changes on derivative financial liabilities in relation with the Put Option of Xinhua Co, and a significant increase of shares of results from associates. Taking out the effect on the sales at cost to managed and franchised stores and related companies, the Group's net profit margin was around 4.7%.

#### ***Liquidity and Financial Resources***

During the Reporting Period, the Group's funds were principally sourced from cash income from operations. As at 30th June, 2007, the Group had non-current assets amounting to approximately RMB2,325,444,000. Non-current assets mainly included property, plant and equipment of approximately RMB1,465,405,000, interests in associated companies of approximately RMB342,742,000 and goodwill of approximately RMB404,711,000.

As at 30th June, 2007, the Group recorded net current liabilities of approximately RMB153,245,000. Its current assets mainly comprised cash and bank balances of approximately RMB671,854,000, inventory of approximately RMB334,975,000, trade receivables and other receivables of approximately RMB580,638,000, and amount due from related parties of approximately RMB235,292,000. The current liabilities were approximately RMB2,086,004,000, mainly comprised trade payables of approximately RMB1,877,607,000, other payables, advances and receipts in advance of approximately RMB1,857,000, taxes payables of approximately RMB31,080,000 and secured bank loan of approximately RMB175,460,000.

During the Reporting Period, the Group had an average account payable turnover of 91 days, as compared with 96 days in the corresponding period of 2006; inventory turnover was 20 days, as compared with 18 days in the corresponding period of 2006; gearing ratio was 8.6%, as compared with 4.5% in the corresponding period of 2006.



## Business Review

### *Expansion of Retail Network*

As at 30th June, 2007, the Group and its associated companies directly owned, and by entering into franchise agreements or management agreements, operated and managed a retail network of 504 stores, including 86 superstores and 418 mini-marts.

During the Reporting Period, the Group opened 7 directly owned superstores, 5 mini-markets and 4 newly-contracted stores. The Group closed down 2 directly owned mini-marts which were loss-making and terminated the cooperation with 12 managed stores which incurred material loss or franchise stores that failed to meet franchise standards.

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

	As at 30th June, 2007	
	Number of Stores	Geographical Distribution
<b>Superstores</b>		
Direct ownership	73	Beijing, Hebei, Tianjin, Yinchuan
Franchised Stores	1	Yinchuan
<b>Mini-marts</b>		
Direct ownership	128	Beijing, Yinchuan
Franchised	242	Beijing, Yinchuan
<b>Total</b> <sup>(Note)</sup>	444	

Stores operated and managed by the Group through various management agreements (the “Managed Stores”) were as follows:

	As at 30th June, 2007	
	Number of Stores	Geographical Distribution
Superstores	12	Hebei, Tianjin
Mini-marts	48	Beijing, Tianjin
Total <sup>(Note)</sup>	60	

Note: The total number excluded those of Beijing Chao Shifa Company Limited (“Chao Shifa”) and those of Aoshikai Wumart.

#### ***Standardization and Optimization of Stores***

During the Reporting Period, the Group launched the following operational measures for the optimization of stores: out-stock management, zero out-stock for promotional merchandise, inspection on standardization of stores (the execution and implementation of 8 fundamentals and 7 standards of stores), training on standardization; and establishing renovation teams for key problems solving.

Mini-marts started to implement the Zero-Inventory strategy in order to better utilize the central distribution and improve inventory turnover of mini-marts. The Group formulated the “Zero Inventory at Mini-Marts” (便利店零庫存) plan and implemented the plan step by step. The plan includes measures to improve the commodities examination process at stores and test “receiving goods with no examination” (免驗貨作業) which aimed to display merchandise on the shelves directly after the merchandise was delivered from distribution centres. These two measures attained preliminary results and the Group would further execute them to enhance operational efficiencies.

### **Marketing Optimization**

During the Reporting Period, the Group continued to carry out a marketing strategy named "brand (retailer) + brand (producer)" (品牌(零售商)+名牌(生產商)), and collaborated with several well-known enterprises in launching a food fair with a theme of "Natural and Healthy" (自然全健康). There was also an activity named "Distribution of One Million Environmental-Friendly Bags" (百萬環保購物袋大派送). These activities helped enhancing the environmental awareness of the public and boosting the social image of Wumart. At the same time, the Group organized large-scale promotional activities with particular themes and local features such as "Yinchuan Food Fair" (銀川食品節) and "Wumart Daxing Water Melon Festival Green Promotion" (物美大興西瓜節綠色營銷活動), to promote water melons from Panggezhuang, Daxing (大興龐各莊) which were awarded with national geographical label.

### **WINBOX@SAP**

During the Reporting Period, the Group continued to proceed with WINBOX@SAP project in full extent and completed 15 L3 high-level process documents of 5 business sections of procurement, category management, logistics, stores and finance for BPR (business process reengineering) stages. In April, the Group conducted 4 cycle discussion sections on the blueprint of 5 business sections of procurement, category management, logistics, stores and finance. In May, the Group completed 74 drafts on L4 blueprint of core business processes and solved 3,079 different problems in documents, formulating the L4 business blueprint process documents. In June, WINBOX@SAP project successfully commenced its system realization and all works of SAP baseline installation were completed by the end of June. According to the L4 business blueprint documents, the Group commenced SAP system configuration and provided training for different departments on SAP basic concepts. The Group entered into a contract with an Israeli company Retalix, a professional retail POS software, provider, and started to implement new POS software in stores. Leveraging on the combined advantages of SAP and Retalix, the Group could simplify the operation of stores, increase its promotional efforts and accelerate the unification of loyalty programs. Based on the methodology of ASAP of SAP, it was expected that the Group would successfully complete realization phase and enter into the final preparation phase of go-live.

**Process Optimization**

During the Reporting Period, the Group continued with process reengineering by adopting the design of WINBOX system solutions, with an aim to attain simplified and effective three-focus business management process of "centralized procurement/category optimization + demand forecasting driven supply chain/simplified store operation model". During the Reporting Period, WINBOX Process Team continued to amend, edit and optimize the <WM-ABC: 2007 Wumart Group Process Manual> (《WM-ABC: 2007物美集團作業流程手冊》), and 36 processes such as Duties of Wumart Merchandise Quality Control Staff (物美商品質量管理各崗位職責), Process of Consignment Suppliers Management (聯營供應商管理流程), Store Decoration Management Operation Process (店面裝飾管理作業流程) and the Awards and Disciplinary Measures in Respect of Daily Management of Staff (員工日常管理獎懲辦法) were supplemented and optimized. The Group believed that continuous optimization of processes and IT systematizing of WINBOX@SAP process could speed up the Group's responses to the customers' demands and enhance operational efficiency.

During the Reporting Period, the WINBOX Process Team and the Human Resources Department of the Group cooperated to launch the online working station which significantly improved the office working efficiency.

**Category Management**

During the Reporting Period, the Group improved the category organization structures according to the locations of stores and their business characteristics. The Group formed a professional team of more than 20 members and constructed a well-equipped space experiment laboratory for engaging in the design of merchandise display and space planning. During the Reporting Period, the Group selected some demonstration stores in superstores and mini-marts and completed the overall adjustments of market positioning, merchandise mix, roles and assessments on category management, selection of single article and its pricing, marketing strategy and merchandise display. Such measures helped improve the overall operational results.

**Logistics Optimization**

The Group focused to enhance the distribution capabilities, efficiencies and service standards of stores. During the Reporting Period, the Group's Logistic Department and suppliers worked closely to solve delivery problems during festival successfully. Concurrently, the Group also submitted monthly KPI reports to suppliers (order fulfillment rate, on time delivery rate, examination report of merchandise upon receipt). These measures signified further improvements in the cooperation with the suppliers.

In July 2007, the Group and Okamura Corporation of Japan entered into an agreement for planning the Group's distribution center in the Northern China. This agreement is an important move in the optimization of the Group's supply chains. The scale and distribution capabilities of the distribution center in the northern part of China, which is under planning, will be able to meet the merchandise delivery demands of the Group.

### **Human Resources**

During the Reporting Period, the Group continued to adhere to the concept of "People-oriented" and emphasized the consensus that human resources are the core resources of enterprise operational management. Direct supervisors of various level and human resources department assume their responsibilities in respect of human resources management through the selection, deployment, training and retaining of employees. They are also responsible in developing a passionate, energetic and professional team.

In order to meet the requirement of having a professional and standardized team, Wumart Development and Training Institute and the Group collaborated to organize 158 training sessions which provided training to 5,805 staff members. At the same time, the Group actively learned from the market and its competitors. During the Reporting Period, the Group organized 9 observation groups that had special focuses such as category management, operational management, fresh food operation, and procurement from farming bases etc. A total of 132 management staff members participated in these groups and studied the experience of outstanding local and overseas retail enterprises, and the strengths of these enterprises were adapted and incorporated into the actual operation.

### **Future Outlook**

During 2007, retail chain industry in China faces more challenges; however, this is also a year full of hope for the industry. The retail industry in China has the greatest growth potential among countries in Asia. In the future, China market will become the major battlefield for international retailers. In the face of competition in connection with internationalization of the domestic market, the Group strives to improve its core competitiveness, grasps every opportunity and cope with the challenges.

The Group's management will lead all staff members in devoting their effort on every detail of every single task. The Group will proceed with the standardization and improve its operational and management capability. With rapid integration of acquired businesses, the Group will attain synergy effect for a greater market share, thereby increasing the core competitiveness of the Group and bringing satisfactory return to shareholders and investors.

## FINANCIAL INFORMATION

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30th June, 2007

	NOTES	Three months ended 30th June,		Six months ended 30th June,	
		2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
Turnover	4	1,497,492	1,103,187	3,424,197	2,383,036
Cost of sales		(1,369,551)	(1,044,195)	(3,145,591)	(2,236,977)
Gross profit		127,941	58,992	278,606	146,059
Other revenues		173,148	118,692	333,119	233,174
Other income		30,728	23,611	52,148	39,575
Selling and distribution costs		(173,358)	(84,098)	(345,656)	(181,486)
Administrative expenses		(51,713)	(39,985)	(98,459)	(68,215)
Finance costs		(3,231)	(1,100)	(5,922)	(2,292)
Share of profit of associates		15,586	(808)	27,126	2,319
Profit before tax		119,101	75,304	240,962	169,134
Income tax expense	5	(30,724)	(27,130)	(67,179)	(56,534)
Profit for the period	6	88,377	48,174	173,783	112,600
Attributable to:					
Equity holders of the Company		82,265	46,484	160,269	108,893
Minority interests		6,112	1,690	13,514	3,707
		88,377	48,174	173,783	112,600
Earnings per share (Basic)	8	RMB0.07	RMB0.04	RMB0.13	RMB0.09

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30th June, 2007

	NOTES	30th June, 2007 RMB'000 (Unaudited)	31st December, 2006 RMB'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	9	1,465,405	1,272,079
Interests in associates		342,742	330,285
Deposit paid for acquisition of property, plant and equipment		—	64,019
Investment deposit		50,000	—
Goodwill		404,711	404,711
Land use rights		28,651	29,088
Prepaid lease payments		20,885	23,491
Deferred tax asset	16	13,050	14,657
		<b>2,325,444</b>	<b>2,138,330</b>
<b>Current assets</b>			
Inventories		334,975	367,564
Investments held for trading		10,000	5,486
Trade and other receivables	10	580,638	514,001
Amounts due from related parties	11	235,292	547,516
Pledged deposit	12	100,000	193,067
Cash and bank balances		671,854	725,093
		<b>1,932,759</b>	<b>2,352,727</b>

	NOTES	30th June, 2007 RMB'000 (Unaudited)	31st December, 2006 RMB'000 (Audited)
Current liabilities			
Trade and other payables	13	1,877,607	2,260,544
Amounts due to related parties	11	1,857	1,039
Derivative financial liabilities	14	—	20,041
Tax liabilities		31,080	39,826
Bank loans	15	175,460	175,460
		<b>2,086,004</b>	2,496,910
Net current liabilities		<b>(153,245)</b>	(144,183)
Total assets less current liabilities		<b>2,172,199</b>	1,994,147
Capital and reserves			
Share capital	17	305,087	305,087
Reserves		1,750,733	1,590,464
Equity attributable to equity holders of the Company		<b>2,055,820</b>	1,895,551
Minority interests		105,770	93,360
Total equity		<b>2,161,590</b>	1,988,911
No-current liability			
Deferred tax liabilities	16	3,252	5,236
Obligation under financial lease		7,357	—
		<b>10,609</b>	5,236
		<b>2,172,199</b>	1,994,147



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30th June, 2007

	Equity attributable to equity holders of the Company							
	Share capital	Share premium	Statutory common reserve fund	Statutory common welfare fund	Accumulated profits	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January, 2006	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)
Contribution from a minority shareholder	—	—	—	—	—	—	9,800	9,800
Profit for the period	—	—	—	—	108,893	108,893	3,707	112,600
Dividend paid	—	—	—	—	(54,915)	(54,915)	—	(54,915)
Dividend paid by a subsidiary	—	—	—	—	—	—	(221)	(221)
At 30th June, 2006	305,087	1,132,062	48,451	24,084	282,453	1,792,137	36,043	1,828,180
Profit for the period	—	—	—	—	103,414	103,414	57,317	160,731
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
Profit for the period	—	—	—	—	160,269	160,269	13,514	173,783
Dividend paid by a subsidiary	—	—	—	—	—	—	(1,104)	(1,104)
At 30th June, 2007	305,087	1,132,062	107,806	—	510,865	2,055,820	105,770	2,161,590

**CONDENSED CONSOLIDATED CASH FLOW STATEMENTS**

For the six months ended 30th June, 2007

	Six months ended 30th June,	
	2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
Net cash (used in) from operating activities	<b>68,124</b>	15,868
Net cash used in investing activities		
Purchases of property, plant and equipment	<b>(182,569)</b>	(88,783)
Deposit paid for acquisition of PPE	—	(62,389)
Investment deposits paid	<b>(50,000)</b>	(170,000)
Dividends received from associates	<b>15,007</b>	—
Purchases of investments held for trading	—	(59,593)
Proceeds on disposal of property, plant and equipment	—	4,559
Proceeds on disposal of an associate	—	4,849
Decrease in pledged deposits	<b>93,067</b>	—
Other investing cash flows	<b>10,158</b>	12,807
	<b>(114,337)</b>	(358,550)
Net cash from (used in) financing activities		
Dividend paid	—	(54,915)
Proceeds on issue of shares	—	465,767
Share issue expenses	—	(7,623)
Contribution from a minority shareholder	—	9,800
Other financing cash flows	<b>(7,026)</b>	(5,533)
	<b>(7,026)</b>	407,496
Net increase (decrease) in cash and cash equivalents	<b>(53,239)</b>	64,814
Cash and cash equivalents at beginning of the period	<b>725,093</b>	415,998
Cash and cash equivalents at end of the period	<b>671,854</b>	480,812
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	<b>671,854</b>	480,812

## NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30th June, 2007

### I. BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules and with Hong Kong Accounting Standard 34 (HKAS 34), Interim Financial Reporting.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2006.

In the Reporting Period, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning at 1st January, 2007.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) – Int 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives <sup>4</sup>
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment <sup>5</sup>

- 1 Effective for annual periods beginning on or after 1st January, 2007
- 2 Effective for annual periods beginning on or after 1st March, 2006
- 3 Effective for annual periods beginning on or after 1st May, 2006
- 4 Effective for annual periods beginning on or after 1st June, 2006
- 5 Effective for annual periods beginning on or after 1st November, 2006

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions <sup>2</sup>
HK(IFRIC) – Int 12	Service Concession Arrangements <sup>3</sup>

- 1 Effective for annual periods beginning on or after 1st January, 2009
- 2 Effective for annual periods beginning on or after 1st March, 2007
- 3 Effective for annual periods beginning on or after 1st January, 2008

The Directors anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

### 3. SEGMENT INFORMATION

The Group is principally engaged in the operations of superstores and mini-marts in the PRC. All identifiable assets of the Group are located in the PRC. Accordingly, no segmental analysis is presented.

### 4. REVENUE

The Group is principally engaged in the operation of superstores and mini-marts in the PRC. Turnover recognized for the three months and six months ended 30th June, 2007 is as follows:

	Three months ended 30th June,		Six months ended 30th June,	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Turnover				
Sales of merchandise	1,497,492	1,103,187	3,424,197	2,383,036
Other revenues				
Rental income from leasing shop premises	54,958	32,207	101,245	69,674
Income from suppliers, including store display income and promotion income	118,190	86,485	231,874	163,500
	173,148	118,692	333,119	233,174
Total revenue	1,670,640	1,221,879	3,757,316	2,616,210

As a chain retail company, the revenue are in steady and continuous increase contrast to the same period of last year, there is hardly any seasonal influence on the Group's revenue.

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.

## 5. INCOME TAX EXPENSE

	Three months ended		Six months ended	
	30th June,		30th June,	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
The charge comprises:				
PRC income tax	31,101	26,060	67,556	55,464
Deferred tax	(377)	1,070	(377)	1,070
	<b>30,724</b>	<b>27,130</b>	<b>67,179</b>	<b>56,534</b>

The charge for the three months and six months ended 30th June, 2007 can be reconciled to the profit per the income statement as follows:

	Three months ended		Six months ended	
	30th June,		30th June,	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Profit before tax	119,101	75,304	240,962	169,134
Tax at domestic income tax rate of 33%	39,303	24,850	79,517	55,814
Tax effect of share of profit of associates	(5,143)	267	(8,952)	(765)
Tax effect of expenses that are not deductible for tax purpose	2,414	2,154	2,464	2,516
Tax effect of income not taxable for tax purposes	(6,614)	(495)	(6,614)	(1,385)
Tax effect of tax losses not recognised	764	354	764	354
Income tax for the period	<b>30,724</b>	<b>27,130</b>	<b>67,179</b>	<b>56,534</b>

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

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

## 6. PROFIT FOR THE PERIOD

Consolidated profit for the period has been arrived at after charging (crediting) the following items:

	Three months ended		Six months ended	
	30th June,		30th June,	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	1,497,492	1,103,187	3,424,197	2,383,036
Cost of sales	(1,369,551)	(1,044,195)	(3,145,591)	(2,236,977)
Investment and other income	203,876	142,303	385,267	272,749
Depreciation for property, plant and equipment	(26,617)	(19,868)	(51,632)	(33,620)
Amortisation of prepaid lease payments	(1,303)	(120)	(2,606)	(240)
Amortisation for land use right	(218)	(218)	(437)	(437)
Total depreciation and amortisation	(28,138)	(20,206)	(54,675)	(34,297)
Finance costs	(3,231)	(1,100)	(5,922)	(2,292)
Profit before tax	119,101	75,304	240,962	169,134
Increase (decrease) in fair value of investments held-for-trading	—	2,951	—	2,951
Operating lease rentals in respect of rented land and premises	(55,479)	(23,328)	(112,467)	(51,547)
Staff costs including director remuneration	(40,891)	(34,036)	(90,912)	(70,780)
Share of tax of associates (included in share of profit of associates)	(5,143)	(3,043)	(8,952)	(3,043)
Loss (gain) on disposal of property, plant and equipment	—	(53)	—	(53)
Interest income	950	651	5,158	2,590

## 7. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the Reporting Period.

The final dividend of RMB0.07 (2006:RMB0.045) per share for the year ended 31st December, 2006 has been approved and paid in July 2007.

## 8. EARNINGS PER SHARE

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

	Three months ended 30th June,		Six months ended 30th June,	
	2007	2006	2007	2006
Profit for the period attributable to equity holders of the Company (RMB'000)	<b>82,265</b>	46,484	<b>160,269</b>	108,893
Weighted average number of shares for the purposes of basic earning per share (shares)	<b>1,220,348,000</b>	1,220,348,000	<b>1,220,348,000</b>	1,198,431,976

The weighted average number of ordinary shares for the period ended 30th June, 2006 for the purpose of basic earnings per share has been adjusted for the share subdivision completed during the year of 2006.

No diluted earnings per share is presented as the Company had no outstanding potential shares during both period.

## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the Reporting Period, the Group spent approximately RMB21,762,000 (2006: RMB30,061,000) on additions to furniture, fixtures and equipment, approximately RMB30,443,000 (2006: RMB49,329,000) on additions to leasehold improvements, approximately RMB153,972,000 (2006: RMBNil) on additions to lands and buildings and approximately RMB38,781,000 (2006: RMB9,393,000) on additions to construction in progress.

## 10. TRADE AND OTHER RECEIVABLES

	<b>30th June, 2007</b>	31st December, 2006
	<b>RMB'000</b>	RMB'000
Trade receivables	<b>48,608</b>	105,167
Prepayments, deposits and other receivables	<b>532,030</b>	408,834
	<b>580,638</b>	514,001

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.

The aged analysis trade receivables is as follows:

	<b>30th June, 2007</b>	31st December, 2006
	<b>RMB'000</b>	RMB'000
0–30 days	<b>34,030</b>	65,820
31–60 days	<b>14,578</b>	39,347
	<b>48,608</b>	105,167

The fair value of the Group's trade and other receivables at 30th June, 2007 was approximate to the corresponding carrying amount.



## II. AMOUNTS DUE FROM (TO) RELATED PARTIES

	30th June, 2007 RMB'000	31st December, 2006 RMB'000
Amounts due from an associate	81,520	109,837
Amounts due from subsidiaries of a Company's shareholder which has significant influence over the Company ("Company's Controlling Shareholder")	128,353	411,806
Amounts due from minority shareholders of subsidiaries	25,419	25,873
	<b>235,292</b>	547,516
Amounts due to an associate	598	—
Amount due to a subsidiary of the Company's Controlling Shareholder	1,259	1,039
	<b>1,857</b>	1,039

The amounts are unsecured, non-interest bearing and have no fixed repayment terms. The amounts due from associates and subsidiaries of the Company's Controlling Shareholder are trading in nature. The average credit period is 30 to 60 days. The aged analysis of these balances is as follows:

	30th June, 2007 RMB'000	31st December, 2006 RMB'000
0–30 days	89,233	203,881
31–60 days	72,871	163,434
61–90 days	47,769	154,328
	<b>209,873</b>	521,643

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 30th June, 2007 was approximate to the corresponding carrying amount.

## 12. PLEDGED DEPOSIT

At 30th June, 2007, included in the balance, RMB100,000,000 (2006: RMB100,000,000) represents deposit pledged to a bank in respect of a bank loan granted to an associate.

## 13. TRADE AND OTHER PAYABLES

	30th June, 2007 RMB'000	31st December, 2006 RMB'000
Trade payables	1,393,707	1,776,731
Other payables, deposits and accruals	483,900	483,813
	<b>1,877,607</b>	<b>2,260,544</b>

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

	30th June, 2007 RMB'000	31st December, 2006 RMB'000
0–30 days	610,769	772,472
31–60 days	479,588	830,308
61–90 days	289,615	122,191
Over 90 days	13,735	51,760
	<b>1,393,707</b>	<b>1,776,731</b>

The fair value of the Group's trade and other payables at 30th June, 2007 was approximate to the corresponding carrying amount.

#### 14. DERIVATIVE FINANCIAL LIABILITIES

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 Stock 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). 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. As at 31st December, 2006, the rest booking amounts of irrevocable rights is approximately RMB20,041,000.

On 31st May, 2007, a total of 37 Tradable Shareholders exercised the Put Options in relation to an aggregate of 40,302 Tradable Shares and accordingly the Company will acquire such Tradable Shares for an aggregate consideration of RMB337,622.60 inclusive of, inter alia, transfer fee and stamp duty. The fair value of the derivative financial liabilities come up to zero since the closing price of Xinhua Co. in Shanghai Stock Exchange on 31st May, 2007 is RMB24.38 per share which is much higher than the exercise price. The rest booking amounts of the liabilities as at 31st December, 2006 had been credited as the profit in the Reporting Period.

#### 15. BANK LOAN

The loans are repayable within one year and carry interests at fixed rates ranging from 6.21% to 6.48% (2006: 6.21% to 6.48%) per annum.

As at 30th June, 2007, the bank loan of RMB75,460,000 was secured by the pledge of leasehold land and building with carrying amount of RMB105,476,000 (2006: RMB107,821,000). The unsecured bank loan is guaranteed by a subsidiary of the Company's Controlling Shareholder.

The fair value of the Group's bank loans at 30th June, 2007 was approximate to the corresponding carrying amount.

## 16. DEFERRED TAX

The following is the major deferred tax assets/liabilities recognised by the Group and movements thereon during the current and prior Reporting Period:

	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, 2007	6,049	15,798	(15,866)	(865)	4,305	9,421
Credited to income statement for the year	—	1,076	1,392	865	(2,956)	377
At 30th June, 2007	6,049	16,874	(14,474)	—	1,349	9,798

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 report purposes:

	30th June, 2007 RMB'000	31st December, 2006 RMB'000
Deferred tax assets	13,050	14,657
Deferred tax liabilities	(3,252)	(5,236)
	9,798	9,421

At 30th June, 2007, the Group had unused tax losses of approximately RMB14,831,000 (31st December, 2006: RMB21,473,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB4,089,000 (31st December, 2006: RMB13,045,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB10,743,000 (31st December, 2006: RMB8,428,000) due to unpredictability of future profit stream.

## 17. SHARE CAPITAL

	Number of Domestic Shares '000	Number of H Shares '000	Value RMB'000
Authorized, issued and fully paid:			
Ordinary shares of RMB0.25 each at			
1st January, 2006, 31st December, 2006	713,780	506,568	305,087
Ordinary shares of RMB0.25 each at			
30th June, 2007	713,780	506,568	305,087

### Notes:

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.

## 18. CONTINGENT EVENTS

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 Report.

## 19. 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:

	30th June, 2007 RMB'000	31st December, 2006 RMB'000
Within one year	236,184	220,186
In the second to fifth year inclusive	925,858	824,256
Over five years	1,586,736	1,404,266
	<b>2,748,778</b>	<b>2,448,708</b>

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:

	30th June, 2007 RMB'000	31st December, 2006 RMB'000
Within one year	142,228	110,536

## 20. COMMITMENTS

	30th June, 2007 RMB'000	31st December, 2006 RMB'000
<b>Capital commitments</b>		
Capital expenditure in respect of property, plant and equipment	129,355	200,074

### Other commitments

All Put Options which had been granted by the Group to Tradable Shareholders of Xinhua Co. (see note 14 for details) but had not been exercised have expired on 1st June, 2007 and the commitments of the Group in connection with the Put Options has been released upon such expiry.

## 21. RELATED PARTY DISCLOSURES

Apart from the amounts due from and to related companies as disclosed in note 11, during the period, the Group had the following related party transactions:

	Six months ended 30th June,	
	2007 RMB'000	2006 RMB'000
Sales to associates	116,483	114,627
Sales to subsidiaries of the Company's Controlling Shareholder	258,176	463,490
Service fee income from subsidiaries of the Company's Controlling Shareholder in respect of merchandise delivery services	2,850	12,777
Service fee income from associates in respect of merchandise delivery services	556	2,071
Management fee income from subsidiaries of the Company's Controlling Shareholder	419	384
Rental expense to a subsidiary of the Company's Controlling Shareholder	2,671	—

## 22. EVENTS AFTER THE BALANCE SHEET DATE

- (a) On 22nd June, 2007, the Company entered into the cooperation agreement with Beijing Aoshikai, Pursuant to which the Company agree to contribute RMB50,000,000 in cash to acquire 50% equity capital in Aoshikai Wumart. Meanwhile, Aoshikai agree to inject RMB50,000,000 by it's operating assets to acquire another 50% equity capital of Aoshikai Wumart.

On 18th July, 2007, Aoshikai Wumart has been set up. The registered capital of Aoshikai Wumart is RMB100,000,000.

Beijing Aoshikai has owned excellent store locations in central district of Beijing, "Quansuzhai" and "Puwufang", the two production enterprises which their brands have existed for over 100 years. Aoshikai Wumart will fully rebuild and upgrade its owned stores, meanwhile new operation mechanism and sales approach will be introduced.

The Group believe that this cooperation will enable the Group have a presence in central district of Beijing, and improve the sales and profitability of the stores, so the Group can better solidify the competitive strength in Beijing Market.

- (b) The final dividend of RMB0.07 (2006:RMB0.045) per share for the year ended 31st December, 2006 has been approved on 28th June, 2007 and total of RMB85,424,360 has been paid on July 2007.

## 23. INVESTIGATION AGAINST THE FORMER CHAIRMAN

The investigation against the former chairman conducted by relevant authority in the PRC still has not been concluded. 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.



## OTHER INFORMATION

### Termination of Times Acquisition

On 11th April, 2007, the Company, Wumart Enterprise Corporation Limited, a wholly-owned subsidiary of the Company, Fang Brothers Investments Limited ("FB Investments") and CS International Investment Limited, Times Supermarket Limited, Swift Harvest Limited and Jiangsu Times Supermarket Company Limited (collectively, the "Transferors") entered into an agreement (the "Termination Agreement") to terminate the Share Acquisition Agreement. Please refer to the Company's announcement dated 7th September, 2006 and circular dated 31st October, 2006 for details of the Share Acquisition Agreement and the related transactions. Pursuant to the Termination Agreement, the parties unanimously agreed to terminate the Share Acquisition Agreement on the date of execution of the Termination Agreement on 11th April, 2007. In view of the suspension of trading in the H Shares of the Company on the Stock Exchange since 13th November, 2006, there were uncertainties in relation to the share placement and/or the cash payment required for completion of the transaction under the Share Acquisition Agreement. Therefore, in view of the circumstances, the parties took the view that terminating the Share Acquisition Agreement was in the mutual interests of the Company, FB Investments and the Transferors.

### Exercise of Put Option in Relation with Xinhua Co Acquisition

On 31st May, 2007, a total of 37 tradable shareholders of Xinhua Co exercised the put options in relation to an aggregate of 40,302 tradable shares of Xinhua Co and accordingly the Company will have acquired such tradable shares for an aggregate consideration of RMB337,662.6. As a result of the exercise of the put options mentioned above, the Company now holds 36,140,302 shares in Xinhua Co, representing 29.27% of the total share capital of Xinhua Co. All put options which had not been exercised on 31st May, 2007 have expired on 1st June, 2007 and the obligation of the Company in connection with the put options has been released upon such expiry.

### Appointment of Director

At the annual general meeting convened by the Company on 28th June, 2007, Madam Xu Ying (徐莹) was appointed as executive Director. As a result, the Board will have 7 Directors.

**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 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.

### Directors', Supervisors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As of 30th June, 2007, 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*

Names	Number of Domestic Shares held (Shares)	Approximate percentage of Total issued Domestic Share Capital (%)	Type of interest
Dr. Wu Jian-zhong <sup>(Note 1)</sup>	497,932,928	69.76	Interests of controlled corporation
Dr. Wu Jian-zhong <sup>(Note 2)</sup>	24,982,300	3.50	Interests of controlled corporation
Dr. Wu Jian-zhong <sup>(Note 3)</sup>	160,457,744	22.48	Interests of controlled corporation
Dr. Meng Jin-xian <sup>(Note 4)</sup>	23,269,228	3.26	Interests of controlled corporation
Dr. Meng Jin-xian <sup>(Note 4)</sup>	24,982,300	3.50	Interests of controlled corporation
Mr. Wang Jian-ping <sup>(Note 5)</sup>	497,932,928	69.76	Interests of controlled corporation
Mr. Wang Jian-ping <sup>(Note 6)</sup>	24,982,300	3.50	Interests of controlled corporation
Mr. Wang Jian-ping <sup>(Note 6)</sup>	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, Inc. (物美控股集團有限公司) ("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 Holdings.
2. The 24,982,300 domestic shares are held by one of the promoters of the Company, Beijing Hekang Youlian Technology Company Limited (北京和康友聯技術有限公司) ("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 Beijing Wangshang Shijie E-business Company Limited (北京網商世界電子商務有限公司) ("Wangshang Shijie E-business"), one of the promoters of the Company, which has a direct interest in 160,457,744 domestic shares of the Company.
4. Dr. Meng Jin-xian holds 40% of the share capital of Beijing Junhe Investment Company Limited (北京君合投資有限公司) ("Junhe Investment"), one of the promoters of the Company, which has a direct interest in the 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 30th June, 2007, 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 30th June, 2007, 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 30th June, 2007, 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 (Shares)	Approximate percentage of total Domestic Share Capital (%)
Dr. Zhang Wen-zhong <sup>(note 1)</sup>	497,932,928	69.76
Dr. Wu Jian-zhong <sup>(note 2)</sup>	160,457,744	22.48
Jingxi Guigu <sup>(note 1)</sup>	497,932,928	69.76
CAST Technology Investment <sup>(note 1)</sup>	497,932,928	69.76
Wumei Holdings <sup>(note 1)</sup>	497,932,928	69.76
Wangshang Shijie E-business <sup>(note 2)</sup>	160,457,744	22.48
Dr. Meng Jin-xian <sup>(note 3)</sup>	48,251,528	6.76

Notes:

1. Jingxi Guigu is owned as to 85% by Dr. Zhang Wen-zhong, and therefore Dr. Zhang Wen-zhong is entitled to control the exercise of one-third or more of the voting power at general meetings of Jingxi Guigu. CAST Technology Investment is owned as to 80% by Jingxi Guigu, and therefore Jingxi Guigu is entitled to control the exercise of one-third or more of the voting power at general meetings of CAST Technology Investment. Wumei Holdings is owned as to 70% by CAST Technology Investment, and therefore CAST Technology Investment is entitled to control the exercise of one-third or more of the voting power at general meetings of Wumei Holdings. Each of Dr. Zhang Wen-zhong, Jingxi Guigu and CAST Technology Investment is therefore deemed, by virtue of Part XV of the SFO, to be interested in the 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 (Shares)	Approximate percentage of total H Share Capital (%)
Julius Baer Investment Management LLC <sup>(Note 1)</sup>	50,154,274	9.90
The Capital Group Companies, Inc. <sup>(Note 2)</sup>	47,676,000	9.41
Oppenheimerfunds, Inc. <sup>(Note 3)</sup>	37,388,000	7.38
JPMorgan Chase & Co. <sup>(Note 4)</sup>	33,503,872	6.61
Julius Baer International Equity Fund <sup>(Note 5)</sup>	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.

#### **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.

#### **Competing Interests**

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

In line with its business objectives, the Group will implement its expansion plan first in Beijing and 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 Wumart Pujinda Convenience Stores Company Limited ("Beijing Pujinda"), (b) Tianjin Subsidiaries (Note) 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.

Note: The 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.

**Pledge of the Group's Assets**

At 30th June, 2007, included in the balance, RMB100,000,000 (2006:RMB100,000,000) represents deposit pledged to a bank in respect of a bank loan granted to an associate, a bank loan of RMB75,460,000 was secured by the pledge of leasehold land and buildings in carrying amount of approximately RMB105,426,000.

**Exchange Rate Risk**

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

**Contingent Liability**

The Group did not have any material contingent liability as at 30th June, 2007.

**Compliance with Code on Corporate Governance Practices**

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. Within the Reporting Period, the Group has complied with all the Code provisions set out in the Code on Corporate Governance Practices.