物美
WU MART

THIRD QUARTERLY 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

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM Website in order to obtain up-to-date information on GEM listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from, or in reliance upon, the whole or any part of the contents of this report.

This report, for which the directors of Wumart Stores, Inc. (the "Directors") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to Wumart Stores, Inc. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and that the contents are not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL HIGHLIGHTS (UNAUDITED)

Comparison of the unaudited results between the three months and the nine months ended 30 September 2007 and the corresponding periods of 2006

		Three months ended 30 September	
	Change	**2007**	2006
		RMB'000	RMB'000
Total Revenue Note1	38.3%	**2,017,404**	1,459,180
Net profit	35.3%	**74,867**	55,341
Earnings per share	35.3%	**RMB6.13 cents**	RMB4.53 cents

		Nine months ended 30 September	
	Change	**2007**	2006
		RMB'000	RMB'000
Total Revenue Note1	41.7%	**5,774,720**	4,075,390
Net profit	43.2%	**235,136**	164,234
Earnings per share	41.5%	**RMB19.27 cents**	RMB13.62 cents

- As of 30 September 2007, number of stores amounted to 502.
- As of 30 September 2007, the Group had aggregate net assets of approximately RMB2,045,482,000.
- For the three months ended 30 September 2007, comparable store Note2 sales grew by 8.9%.
- For the three months ended 30 September 2007, the Group's inventory turnover was 19 days, and creditor turnover was 77 days.

Note 1: Total revenue includes turnover and other revenue.

Note 2: Stores that have been operating in both the third quarter of 2006 and the third quarter of 2007.

CHAIRMAN'S STATEMENT

I am pleased to present the unaudited results of Wumart Stores, Inc. (the "Company") and its subsidiaries (collectively, the "Group") for the three months (the "Reporting Period") and nine months ended 30 September 2007.

FINANCIAL REVIEW

During the Reporting Period, the Group generated approximately RMB2,017,404,000 in total revenue, representing a growth of approximately 38.3% as compared with the corresponding period of 2006. The rise in total revenue was mainly attributable to a surge of approximately 8.9% in comparable store sales over the corresponding period of last year, revenue from newly-opened stores, increase in supplier services income and rental income during the Reporting Period. An increase in comparable store sales was attributable to the Group's continuous enhancement of merchandise category management, optimization of pricing strategies, and improvement in quality of services, resulting in increases in transaction volume and average transaction value.

During the Reporting Period, the Group's consolidated gross profit amounted to approximately RMB310,488,000, representing a growth of approximately 43.1% as compared with the corresponding period of 2006. Consolidated gross profit margin was approximately 15.4%. Excluding merchandise sales at cost to managed and franchise stores and related companies, the Group's consolidated gross profit margin would have increased to approximately 16.7%, down by 1.2 percentage points as compared with 17.9% recorded in the corresponding period of 2006. The decrease was mainly attributable to the enhanced promotion on merchandise in view of the newly-opened stores and corresponding changes in prices of food during the Reporting Period, resulting in a reduction in gross profit margin and a decrease in contribution from services income to total revenue as compared with the previous year.

During the Reporting Period, net profit of the Group was approximately RMB74,867,000, representing an increase of approximately 35.3% compared with the corresponding period of last year. The increase in net profit was primarily attributable to increases in turnover and gross profit, effective control on administrative expenses, and a surge in share of revenue of associates. The aggregate of administrative expenses, selling and distribution costs accounted for 11.6% of total revenue, representing an increase of 1.2 percentage points as compared with approximately 10.4% for the corresponding period of last year. The increase was mainly due to the opening of new stores in the current period, resulting in an increase in preliminary expenses.

During the Reporting Period, rental expenses and salaries and staff benefits, the two major expenses for the Group, amounted to approximately RMB66,436,000 and RMB60,569,000, respectively, accounting for 3.3% and 3.0% of the Group's total revenue respectively (2006: approximately RMB33,833,000 and RMB32,237,000 respectively, accounting for 2.3% and 2.2% of the Group's total revenue, respectively). Rental expenses and salaries and staff benefits were 1 and 0.8 percentage points higher than that recorded in the corresponding period of 2006 respectively. The increase was mainly due to the opening of new stores during the current period, and higher salaries and staff benefits, which both led to a rise in the Group's expenses.

During the Reporting Period, the Group's net profit margin was approximately 3.7%. Excluding merchandise sales at cost to managed and franchise stores and related companies, net profit margin would have increased to approximately 4.0%.

For the nine months ended 30 September 2007, the Group recorded total revenue of approximately RMB5,774,720,000, comparable store sales rose by approximately 9.6% over the corresponding period of last year, whereas net profit was approximately RMB235,136,000. Total revenue and net profit recorded increases of approximately 41.7% and 43.2% over the corresponding period of 2006 respectively. The Group's selling and distribution cost and administrative expenses accounted for approximately 9.2% and 2.5% of the Group's total revenue respectively, and approximately 7.1% and 2.7% respectively during the corresponding period of 2006; while rental expenses and salaries accounted for approximately 3.1% and 2.6% of the Group's total revenue respectively, and approximately 2.1% and 2.5% respectively for the corresponding period of 2006. Selling and distribution cost, rental expenses and salaries were up by 2.1, 1 and 0.1 percentage points as compared with the corresponding period of the previous year. The upturn was mainly due to an increase in preliminary expenses attributable to the opening of new stores, and in depreciation expenses and marketing expenses, together with a rise in premises rental but its proportion to total revenue remained at a relatively stable level.

For the nine months ended 30 September 2007, the Group recorded earnings per share of approximately RMB19.27 cents, the calculation of which is based on the weighted average number of 1,220,348,000 shares in issue, representing an increase of approximately 41.5% compared to approximately RMB13.62 cents for the corresponding period of 2006 (the number of shares for the period ended 30 September 2006 for the purpose of earnings per share has been adjusted for the share subdivision completed during the year of 2006).

QUARTERLY RESULTS (UNAUDITED)

The board of Directors of the Company (the "Board") is pleased to announce the unaudited results of the Group for the three months and the nine months ended 30 September 2007, together with the comparative unaudited consolidated figures for the corresponding periods of 2006:

		For the three months ended 30 September		For the nine months ended 30 September	
		2007	2006	**2007**	2006
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Total revenue	2	**2,017,404**	1,459,180	**5,774,720**	4,075,390
Turnover		**1,857,035**	1,347,375	**5,281,232**	3,730,411
Cost of sales		**(1,706,916)**	(1,242,149)	**(4,852,507)**	(3,479,126)
Gross profit		**150,119**	105,226	**428,725**	251,285
Other revenues		**160,369**	111,805	**493,488**	344,979
Other income		**29,193**	23,979	**81,341**	63,554
Selling and distribution costs		**(186,982)**	(109,509)	**(532,638)**	(290,995)
Administrative expenses		**(45,728)**	(41,952)	**(144,187)**	(110,167)
Finance cost		**(7,301)**	(1,951)	**(13,223)**	(4,243)
Share of profit of associates		**10,380**	2,989	**37,506**	5,308
Profit before tax		**110,050**	90,587	**351,012**	259,721
Income tax expense	4	**(29,758)**	(31,649)	**(96,937)**	(88,183)
Profit for the period		**80,292**	58,938	**254,075**	171,538
Attributable to:					
Equity holders of the parent		**74,867**	55,341	**235,136**	164,234
Minority interests		**5,425**	3,597	**18,939**	7,304
		80,292	58,938	**254,075**	171,538
Earnings per share — basic	6	**RMB6.13 cents**	RMB4.53 cents	**RMB19.27 cents**	RMB13.62 cents

Note:

1. **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 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

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 31 December 2006.

In the first half of the year, the Group has applied, for the first time, the following new standards, amendments 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 on or after 1 January 2007.

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

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 March 2006.
3 Effective for annual periods beginning on or after 1 May 2006.
4 Effective for annual periods beginning on or after 1 June 2006.
5 Effective for annual periods beginning on or after 1 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[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions[2]
HK(IFRIC) – Int 12	Service Concession Arrangements[3]

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 March 2007.
3 Effective for annual periods beginning on or after 1 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.

2. Total Revenue

The Group is principally engaged in the operation of superstores and mini-marts in the PRC. Unaudited total revenue recognized for the three months and the nine months ended 30 September 2007 is as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Turnover	**1,857,035**	1,347,375	**5,281,232**	3,730,411
Other revenues				
Rental income from leasing shop premises	**39,362**	31,089	**140,607**	100,745
Income from suppliers, including store display income and promotion income	**121,007**	80,716	**352,881**	244,234
	160,369	111,805	**493,488**	344,979
Total revenue	**2,017,404**	1,459,180	**5,774,720**	4,075,390

3. Consolidated revenue/expense for the period

The unaudited consolidated profit has been arrived at after charging (crediting) the following items:

	For the three months ended 30 September		For the nine months ended 30 September	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Depreciation and amortization	**28,754**	17,062	**93,712**	51,359
Discount on acquisition of business released to income	**—**	—	**—**	—
(Gain) loss on disposal of property, plant and equipment	**—**	—	**—**	53
Interest income	**(1,901)**	(889)	**(7,059)**	(3,479)

4. Income tax expenses

	For the three months ended 30 September		For the nine months ended 30 September	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
The charge comprises:				
PRC income tax	**29,758**	31,649	**97,314**	88,183
Deferred tax	**—**	—	**(377)**	—
	29,758	31,649	**96,937**	88,183

The unaudited tax charge for the three months and nine months ended 30 September 2007 can be reconciled to the profit on the consolidated income statement as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit before tax	**110,050**	90,587	**351,012**	259,721
Tax at domestic income tax rate of 33%	**36,317**	29,894	**115,834**	85,708
Tax effect of share of profit of associates	**(3,425)**	(986)	**(12,377)**	(1,751)
Tax effect of expenses not deductible for tax purposes	**(1,662)**	2,791	**1,566**	5,661
Tax effect of income not taxable for tax purposes	**(1,472)**	(50)	**(8,086)**	(1,435)
Income tax for the period	**29,758**	31,649	**96,937**	88,183

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 as the Group's income is not arising in or derived from Hong Kong.

5. **Dividend**

The Board does not recommend the payment of any dividend for the nine months ended 30 September 2007 (corresponding period of 2006: Nil).

6. **Earnings per share**

The calculation of earnings per share is based on the net profit for the three months and the nine months ended 30 September 2007 of approximately RMB74,867,000 and RMB235,136,000 (2006 : approximately RMB55,341,000 and RMB164,234,000) and on the number of 1,220,348,000 shares in issue during the nine months ended 30 September 2007 (2006: number of shares in issue for the three months ended 30 September 2006: 1,220,348,000 shares; weighted average number of shares in issue for the nine months ended 30 September 2006: 1,205,817,596 shares).

7. Reserves

Unaudited movements in the Group's reserves during the three months and the nine months ended 30 September 2007 were as follows:

	For the three months ended 30 September					
	2007					2006
	Share premium RMB'000	Statutory common reserve fund RMB'000	Statutory common welfare fund RMB'000	Retained earnings RMB'000	Total RMB'000	Total RMB'000
At 1 July	1,132,062	107,806	—	425,660	1,665,528	1,487,050
Profit for the period	—	—	—	74,867	74,867	55,341
At 30 September	1,132,062	107,806	—	500,527	1,740,395	1,542,391

	For the nine months ended 30 September					
	2007					2006
	Share premium RMB'000	Statutory common reserve fund RMB'000	Statutory common welfare fund RMB'000	Retained earnings RMB'000	Total RMB'000	Total RMB'000
At 1 January	1,132,062	107,806	—	350,596	1,590,464	996,028
Placing of shares						444,667
Share issue expenses						(7,623)
Profit for the period	—	—	—	235,136	235,136	164,234
Dividend paid	—	—	—	(85,205)	(85,205)	(54,915)
At 30 September	1,132,062	107,806	—	500,527	1,740,395	1,542,391

BUSINESS REVIEW

Expansion of Retail Network

The Group adhered to its regional development strategy, and expanded its retail network through organic growth and merger and acquisitions. As at 30 September 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 502 stores, including 90 superstores and 412 mini-marts. The Group had an aggregate saleable area of 382,987 square metres excluding the stores under associated companies and the franchised stores.

During the Reporting Period, the Group opened 4 directly owned superstores, 5 directly owned mini-marts and 3 franchise stores. In addition, the Group closed down 4 directly owned mini-marts which were loss-making and terminated the cooperation with 1 managed store which was loss-making and 9 franchise stores that failed to meet franchise standards during the Reporting Period.

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

	As at 30 September 2007	
	Number of stores	Geographical distribution
Superstores		
Direct ownership	77	Beijing, Heibei, Tianjin, Yinchuan
Franchise stores	1	Yinchuan
Mini-marts		
Direct ownership	129	Beijing, Yinchuan
Franchise stores	236	Beijing, Yinchuan
Total (Note)	443	—

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

	As at 30 September 2007	
	Number of stores	Geographical distribution
Superstores	12	Heibei, Tianjin
Mini-marts	47	Beijing, Tianjin
Total (Note)	59	—

Note: The total number excluded those of Beijing Chao Shifa Company Limited.

Category Management and Centralized Procurement

During the Reporting Period, the Group deployed further efforts in promoting key categories, and completed the optimization work on two major categories, shampoo and carbonated drinks, in superstores. The Group decided category strategies, category structures and sales positions for shampoo and carbonated drinks after scientific data analysis, and formulated relevant category planning for target-oriented categories. Through the best utilization of display spaces, shampoo and carbonated drinks were completely displayed in superstores. All these products attained good sales record.

The Group promoted category optimization in demonstration mini-marts. The Group analyzed relevant information by conducting market surveys, and made complete adjustments to distribution of category merchandise and pricing strategies for demonstration stores according to results of this analysis. In addition, the Group also put in place reasonable measures for stores' layout and distribution of display resources. With this optimization of category management, merchandise in stores could fit the needs of business client groups. After adjustments, turnover and gross profit of demonstration stores recorded growth in a larger extent.

During the Reporting Period, the Group continued to develop new products with its self-owned brand name. 316 new products with its self-owned brand name were launched to the market, including dry goods, oil, vinegar, sesame oil, towels, coat hangers, rice, wheat, fried goods, underwear, washing powder, moon cakes and detergent etc.

Optimization of Supplier Network

For the purpose of retaining long-term and stable supplies, the Group further perfected the KPI assessment system for suppliers, and carried out stringent assessments on suppliers that maintained business relationship with us on a monthly basis. According to this standard, the Group terminated its cooperation with 55 suppliers and established business relationship with 58 new suppliers during the Reporting Period, allowing further optimization of the merchandise structure.

In view of the situation that the number of intermediate suppliers was relatively high, the Group continued to increase the number of producers and cut down intermediate procedures, resulting in a reduction of the Group's procurement costs. During the Reporting Period, the Group cut down the number of suppliers by 192, and established business relationship with 84 new producers.

Marketing Optimization

During the Reporting Period, the Group continued to enhance its collaboration with well-known brands' suppliers, and carried out a marketing strategy named "brand + famous brand". In view of the forthcoming 2008 Beijing Olympic Games, the Group launched various large-scale promotional events jointly with top ten sponsors and suppliers of the 2008 Beijing Olympic Games. For example, the Group organized marketing campaigns such as "Nominate Your Own Torchbearers" (「火炬手，你提名」) with Coca-Cola, "3-Person Volleyball Challenge Cup" (「三人排球挑戰賽」) with Jing Long Yu Limited (金龍魚公司), and "Nutrition and Health Interactive Month" (「營養健康互動月」) with Beijing Grain Group. These events received excellent responses and support from the community. On 8 August, which was one year before the opening of the Olympic Games, the Group launched a 13-month internal marketing campaign for the Olympic Games, the theme of which would be "Prepare for Olympic Games, Serve our Customers" (「迎接奧運，服務顧客」) and with a focus on "Strive for Better Results, Management and Skills" (「拼業績、拼管理、拼技能」). With the business opportunities brought by the Olympic Games, the objectives of this campaign are to cultivate a hard-working attitude among our staff members, improve management and skills, and strive for better results.

With an aim to enhance the cooperation with government and entities, the Group implemented a strategy named "Procurement from Farming Bases, Marketing with a Designated Theme" (「基地採購，主題營銷」). We organized a large-scale promotional event "The First Banana Festival in Guangdong and Hainan" (「首屆廣東、海南香蕉節」) with Agricultural Divisions of Guangdong and Hainan Provinces; a large-scale exhibition and promotional event "Wumart Pinggu Peach Fair" (「物美平谷鮮桃節」) with the government of Pinggu District; and "The Second American Food Festival" with a theme called "New American Experience" (「美式生活新體驗」) together with the US Embassy and Western United States Agricultural Trade Association. At the same time, the Group also actively participated in the marketing activities named "Beijing Shopping Season 2007" (「2007北京購物季」) organized by the Beijing Municipal Bureau of Commerce. These extensive and innovative marketing campaigns further enhanced the brand awareness of the Group.

During the Reporting Period, the Group made corresponding adjustments to the organizational structure of the marketing department, in which functions such as media promotions and business surveys were designated to the marketing department. These adjustments resulted in a closer collaboration between media promotions and marketing campaigns, improvement in professionalism in business surveys, streamlining of manpower, and enhancement of working efficiencies.

WINBOX@SAP

The objective of this project is to enhance the performance of Wumart's business management and information system through learning and incorporating the best retail business practices of SAP. The Group devoted full efforts in this project during the Reporting Period with this objective as its principle and motivation. During the Reporting Period, the project team completed all SAP system configurations based on the L4 business blueprint documents; conducted three large-scale major data input tests and three data inspections; organized 15 training sessions for 400 end-users, of which 154 users (from 5 training sessions) have completed the training; completed more than 500 individual scenario tests, during which over 100 problems were detected and solved; conducted two rounds of integrated tests, during which over 140 problems were detected and solved; concluded the preparation of user manual (first edition), which is currently under amendment; finished the configurations of general and local roles for authorization roles; determined the final version for go-live strategies after a number of discussions, analyses and modifications and formulated the switching plan (seventh edition); and put in place more than 50 environmental-friendly rules and more than 30 contingency proposals to match up with the switching plan. In the same period, we completed installations of Store Line and two individual tests for the new POS system of Retalix; performed 90% of localization work; finished the development on customer-friendly procedures; and formulated the switching plan for the POS system based on the SAP switching plan. Leveraging on the combined advantages of SAP and Retalix, the Group could simplify the operation of stores, increase its promotional efforts, accelerate the unification of loyalty programs, and enhance its competitiveness in this industry. Based on the methodology of ASAP of SAP, it was expected that the Group would successfully complete the final stage of the realization phase and enter into the preparation phase of go-live, so as to ensure a successful go-live of the system.

Process Optimization

During the Reporting Period, the Group continued with process reengineerring 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物美集團流程作業手冊》), and 23 processes were supplemented and optimized, such as merchandise at directly-owned stores, regulations on approval authorization of marketing contracts, operation processes for stock replenishment at superstores, terms of reference for supervisors, construction norms for the special information network of the Group, installation standards of information hardware at stores, construction norms for intranet, stock management processes for superstores, stock management processes for MerryMart's bakeries, management processes for "promotion agreement", operation processes for job rotation, management processes for the mailing system, stock-taking operation processes for superstores, management methods on appraisals and leaves 1.2, operation processes for emergency maintenance works, fees handling processes for bread companies, operation processes for the appointment and removal of cadres 1.1, management processes for discount coupons, settlement processes for the balances with associated companies, settlement processes for the balances with related companies and third parties under management, management methods of working uniforms, operation processes for the authorization to perform audit work for the holding group, operation processes for the dedicated seal for the holding group's financial matters 1.1, and investigation system for liabilities arising from a breach of duty. The Group believed that continuous supplementation and optimization of processes and IT systematizing of WINBOX@SAP process could speed up the Group's responses to customers' demands and enhance operational efficiency.

Human Resources

During the Reporting Period, the Group continued to implement its training programs. Wumart Development and Training Institute organized 60 training sessions which provided training to 1,850 staff members. These sessions improved the theoretical knowledge and professional skills of cadres and staff members at store level. In order to match up with the launch of ERP, we organized 6 training sessions for 170 staff members. During the Reporting Period, the Group launched The Third 100 Store Managers Program (第三期店長百人計劃), which included theoretical examinations, selection, off-job training and practical training, and 9 staff members were selected to be candidates of store manager. The Group emphasized on providing training to fresh university graduates. 223 university graduates attended systematic training sessions, and would continue to proceed with on-job practical training and consolidated assessments. These graduates would enrich our cadre management teams at store level. In order to increase the number of professional staff at store level, the Group also started a training program for butchers, through which 45 butchers were recruited and trained, and would continue to execute an assessment scheme for processors of fresh food at stores. In addition, the Group would continue to employ senior management and professionals, and 10 senior management and professional staff members were recruited during the Reporting Period.

The Group's objective is to develop a professional team by providing a series of training and recruiting more talents, with a view to satisfy the demands of talents arising from business development.

FUTURE OUTLOOK

China's economy continued to grow at a rapid pace. In the first three quarters of 2007, GDP jumped by 11.5% on a year-on-year basis, while total retail sales of consumables increased by 15.9% on a year-on-year basis. Retail enterprises in China have entered the golden age with enormous development, apparent increase in market concentration as well as further strengthening of consolidation in domestic retail industry. Also, as the scale of major enterprises continues to expand, there is bright prospect for China's retail industry.

Rapid development of the domestic retail industry has continuously brought the Group with new opportunities and challenges. In order to extend its market share, the Group, therefore, would assert to adhere to its regional development strategies as usual by expanding its retail network at a faster pace.

Aiming at enhancing its core competitiveness, the Group would step up the specialization of retail operations. In order to elevate the levels of formalization and specialization, we would persist to employ modern technologies, optimized process, and centralized system; standardize stores' types and formalize operating management; fine tune its merchandise categorization and develop self-owned brands; launch its established centralized distribution centre and a highly efficient channel of retail chain, so as to achieve the advantages of centralized management, cost reduction and higher efficiency; in turn to lay a foundation for a larger scale of development in the future.

The Group has put in more efforts in resources consolidation with those enterprises acquired from mergers and acquisitions. Such resources consolidation would create synergy and optimize the strengths of the Group and such enterprises, and their persistent profitabilities would be pushed up. Further, by maximizing economies of scale and optimizing operating efficiencies, the Group would achieve steady growth in results.

In addition to the collaboration with international renowned companies, the Group would further absorb most advanced retail technologies and industry experience from all over the world and introduce them to the Group, aiming to consolidate all businesses into an international and advanced management platform and establish a top-notch professional management and operation team, so as to lay a most concrete foundation for long-term and steady development of the Group.

Members of the Board and I are confident that the Group's result will experience a continuous and steady growth. On behalf of the Board, I would like to express my deep gratitude to our shareholders, loyal customers and suppliers for their constant support and to express my appreciation to all employees for their hard work and devoted efforts.

SUBSEQUENT EVENTS

The Board shall propose the general meeting to approve share consolidation and share capitalisation, in which the Company will consolidate every 4 existing shares with a nominal value of RMB0.25 each into 1 consolidation share with a nominal value of RMB1.00. The Company will issue, 915,261,000 capitalisation shares with a nominal value of RMB1.00 each, by way of capitalisation issue (i.e. capitalisation of other reserves of RMB915,261,000 to registered share capital) on the effective date of the Share Consolidation Immediately after completion of the share consolidation and capitalisation issue, the registered share capital of the Company will be increased to RMB1,220,348,000 with the total number of shares remain unchanged at 1,220,348,000 shares, comprising 506,568,000 H shares and 713,780,000 domestic shares, representing 41.51% and 58.49%, respectively, of the total share capital of the Company. The board lot of the consolidation shares and the capitalisation shares on the Stock Exchange will remain unchanged at 1,000 shares upon completion of the share consolidation and capitalisation issue. The above-mentioned issues are conditional on obtaining approvals from the general meeting of the Company, the China Securities Regulatory Commission and the Stock Exchange. Details are set out in the announcement published by the Company on 25 October 2007.

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. During the Reporting Period, the Company held one audit committee meeting session. 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.

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

As of 30 September 2007, the interests or short positions of the Directors, supervisors and chief executives of the Company in 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") (Cap. 571 of the Laws of Hong Kong)) 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 (Note 1)	497,932,928	69.76	Interests of controlled corporation
Dr. Wu Jian-zhong (Note 2)	24,982,300	3.50	Interests of controlled corporation
Dr. Wu Jian-zhong (Note 3)	160,457,744	22.48	Interests of controlled corporation
Dr. Meng Jin-xian (Note 4)	23,269,228	3.26	Interests of controlled corporation
Dr. Meng Jin-xian (Note 4)	24,982,300	3.50	Interests of controlled corporation
Mr. Wang Jian-ping (Note 5)	497,932,928	69.76	Interests of controlled corporation
Mr. Wang Jian-ping (Note 6)	24,982,300	3.50	Interests of controlled corporation
Mr. Wang Jian-ping (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, 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. For the number of shares held by CAST Technology Investment, please refer to note 1. 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 of the Company. 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 of the Company. 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 30 September 2007, none of the Directors, 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, 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 30 September 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 30 September 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 of interests 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 (Note 1)	497,932,928	69.76
Dr. Wu Jian-zhong (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 (Note 3)	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 (Note 1)	50,154,274	9.90
The Capital Group Companies, Inc. (Note 2)	47,676,000	9.41
Sansar Capital Management, LLC (Note 3)	46,758,000	9.23
Sansar Capital Master Fund, LP (Note 4)	46,758,000	9.23
Oppenheimer International Small Company Fund (Note 5)	29,000,000	5.73
Oppenheimerfunds, Inc. (Note 6)	29,000,000	5.73
Julius Baer International Equity Fund (Note 7)	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 46,758,000 H shares are held by Sansar Capital Management, LLC as an investment manager.

4. These 46,758,000 H shares are held by Sansar Capital Master Fund, LP as a beneficial owner.

5. These 29,000,000 H shares are held by Oppenheimer International Small Company Fund as an investment manager.

6. These 29,000,000 H shares are held by Oppenheimerfunds, Inc. as an investment manager.

7. 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 and the GEM Listing Rules.

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. The Company entered into the non-competition agreement, the trademark licensing agreement and the letter of undertaking with Wumei Holdings on 29 October 2003 and entered into a management agreement with Wumei Holdings and Tianjin affiliates (see Note) on 12 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. Save for the competitive businesses disclosed above, 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.

Note: The Tianjin Affiliates include: Tianjin Hedong Wumart Trading Co., Ltd.(天津河東物美商貿有限公司), Tianjin Hebei Wumart Convenience Stores Co., Ltd.(天津河北區物美便利超市有限公司), Tianjin Hezuo Wumart Trading Co., Ltd.(天津合作物美商貿有限公司), Tianjin Nankai Shidai Wumart Commerce Co., Ltd.(天津市南開區時代物美商貿有限公司), Tianjin Hongqiao Wumart Convenience Stores Co., Ltd.(天津虹橋物美便利超市有限公司) and Tianjin Wumart Huaxu Commerce Development Co., Ltd(天津物美華旭商貿有限公).

By order of the Board
Wumart Stores, Inc.
Dr. Wu Jian-zhong
Chairman

Beijing, PRC
6 November 2007

As at the date of this report, the Board comprises:

Executive Directors
Dr. Wu Jian-zhong
Dr. Meng Jin-xian
Madam Xu Ying

Non-Executive Director
Mr. Wang Jian-ping

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