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

CONTENTS

COMPANY INFORMATION

BOARD OF DIRECTORS

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

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

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

SUPERVISORS
Mr. Fan Kui-jie
(Chairman of the Supervisory Committee)
Ms. Xu Ning-chun
Ms. Yan Li-xia

SENIOR MANAGEMENT
Mr. Zhu You-nong *(President)*
Dr. Yu Jian-bo *(Vice President)*
Mr. Xu Shao-chuan *(Vice President)*

QUALIFIED ACCOUNTANT
Mr. Chan Wai Lok *(CPA)*[Note]

COMPANY SECRETARY
Ms. Xie Dong
Mr. Chan Wai Lok[Note]

AUDIT COMMITTEE
Mr. Han Ying
Mr. Li Lu-an
Mr. Lv Jiang

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

COMPLIANCE OFFICER
Dr. Wu Jian-zhong

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

AUDITOR
Deloitte Touche Tohmatsu

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

As to PRC Law:
Haiwen & Partners

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE
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Shijingshan District
Beijing
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
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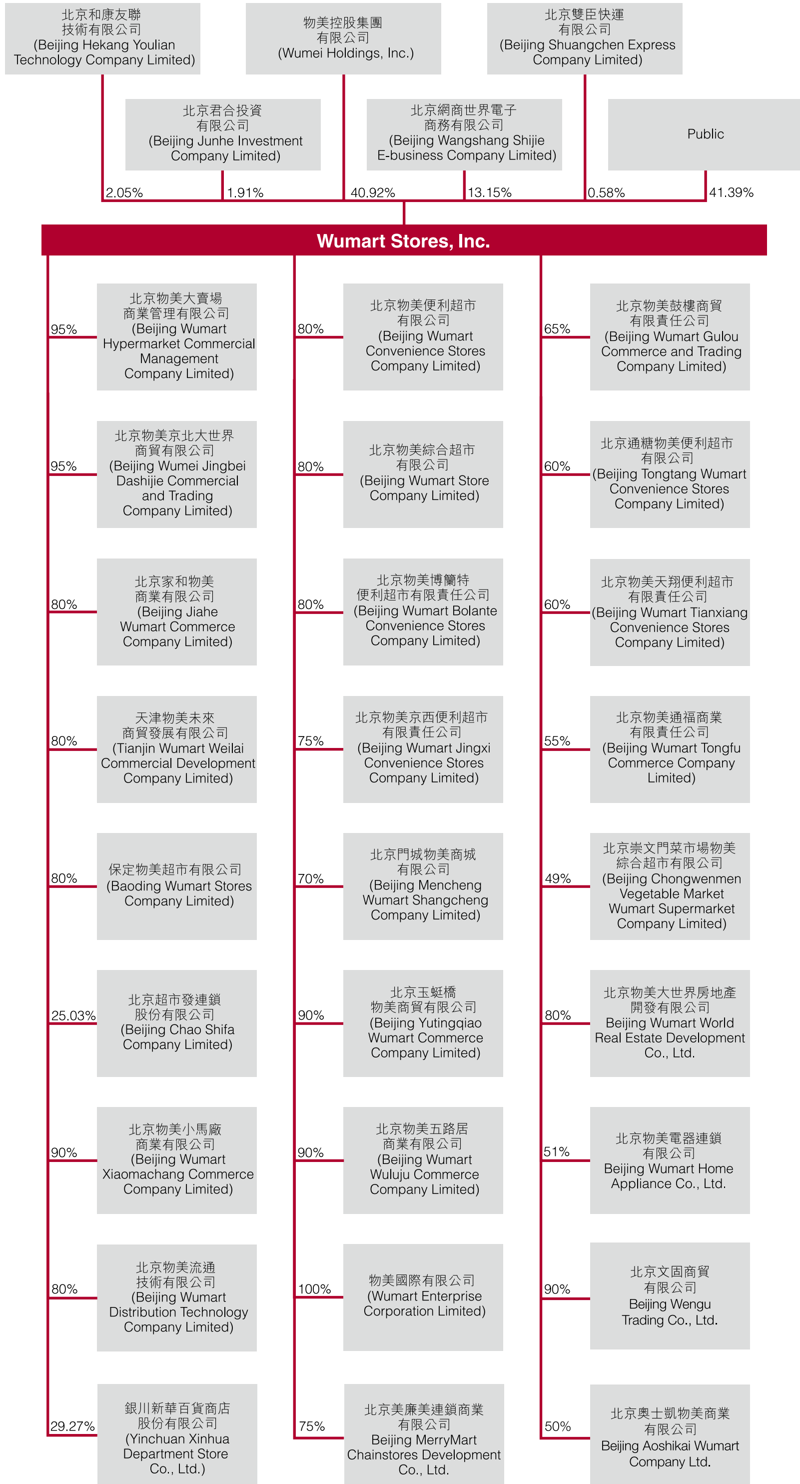
WEBSITE
www.wumart.com

STOCK CODE
8277

Note: Mr. Chan Wai Lok resigned from his position on 4 February 2008.

SHAREHOLDING AND GROUP STRUCTURE

As at 31 December 2007, the shareholding structure of Wumart Stores, Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group" or the "Wumart Group"), associates and a joint venture was as follows:



2007 is a year that Wumart has been through a critical challenge, and also a year for us to proceed with the painstaking self improvement and persist our conviction;

2008 will be the year for China to host the Beijing Olympics, which means challenge and competition. It is a year striving to win the competition with the spirit of being "faster, higher and stronger".

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present the report on the audited results of Wumart Group for the year ended 31 December 2007 (the "Reporting Period").

ACKNOWLEDGEMENT

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

REVIEW OF RESULTS

- Total revenue[(Note 1)] amounted to approximately RMB7,865,805,000, representing a growth of 38.2% as compared with 2006;
- Consolidated gross profit[(Note 2)] amounted to approximately RMB1,284,838,000, representing a growth of 45.8% as compared with 2006;
- Net profit reached approximately RMB300,078,000, representing a growth of 41.3% as compared with 2006;
- Net profit margin[(Note 3)] was approximately 3.8%, which remained stable as compared with 2006;
- Our retail network comprised 447 outlets;
- Comparable store sales (revenue recognized by a particular store in respect of different periods of time) increased by 10.2% as compared with 2006; and
- Final dividend of RMB0.13 (inclusive of tax) per share[(Note 4)] is proposed.

Note 1: Total revenue includes revenue and other revenues.

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

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

Note 4: The nominal value of the Company's shares is RMB0.25 each.

CHAIRMAN'S STATEMENT

During the Reporting Period, the Group adhered to the strategy of regional development, and continued to strengthen our leading position in, and penetrate into the Beijing market. By expanding retail network through establishment of new stores, the Group continued to enhance the operational ability of its existing stores, maintained a steady growth in gross profit margin in the course of rapid expansion, controlled its costs in an efficient manner, and attained excellent results of recording growth in both total revenue and profit.

During the Reporting Period, despite ferocious market competition, the Group focused on establishing new stores. Saleable area increased by about 62,977 square metres.

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, Beijing Aoshikai Wumart Company Ltd. (北京奧士凱物美商業有限公司) ("Aoshikai Wumart") was established. Beijing Aoshikai is a state-owned retail enterprise which owns three supermarkets located in the centre of Beijing, and two renowned deli product brand names "Quansuzhai" (全素齋) and "Puwufang" (浦五房) that have over hundred years of history. Upon establishment, Aoshikai Wumart adopted modern retail management skills to expand and upgrade its stores in all aspects. Meanwhile, Aoshikai Wumart introduced new operational mechanism and sales channels to its existing renowned brand names, resulting in a substantial year-on-year growth in operating results. Such cooperation has expanded the Group's retail network into the centre of Beijing, and further strengthened the Group's advantages in the Beijing market.

The Group completed tasks for BPR (business process reengineering), business blueprints, system realization, preparation for go-live and support for go-live for WINBOX@SAP of the ERP system according to the plan formulated at the beginning of the year. The go-live of master data was successfully completed in October 2007, whereas the go-live for testing stores and distribution centres started on 1 December 2007 and achieved great success. During the go-live processes, sales performance maintained a steady growth.

FUTURE OUTLOOK

In 2007, China's economy has recorded a two-digit growth for the fifth consecutive year, and hit a 13-year record high. Growth in CPI has also surged to its highest record for the past 11 years. With a prosperous economy, rapid growth in residents' income, and globalization of China's economy, China has entered the stage with enormous development opportunities for the retail industry. However, competition is turning more ferocious concurrently. The Group will implement its regional development strategies in a steady and rapid manner, expand its retail network in existing regions, identify mergers and acquisition opportunities to accelerate expansion, so as to attain steady growth of retail network and sales volume.

The Group will execute and focus on issues in respect of operational standards, development of merchandise, IT application, training of talents and logistics infrastructure. The Group will proceed with the implementation of WINBOX@SAP. The best business practices of WINBOX@SAP provide standards and support to the optimization of category management, procurement and supply chain; simplification of stores; and consolidation of financial results, with an aim to maximize the effect and benefits from reforms in businesses, systems and management, and further strengthen the Group's core competitiveness.

CHAIRMAN'S STATEMENT

I would like to express my gratitude to all members of the Board, and the Group's management team for their persistent efforts in the past year as well as all employees' hard work. The Group will focus on concrete work and strive for better results. 2007 is a year that Wumart has been through a critical challenge, and also a year for us to proceed with the painstaking self improvement and persist our conviction; 2008 will be the year for China to host the Beijing Olympics, which means challenges and competitions. It is a year striving to win the competition with the spirit of being "faster, higher and stronger".

Dr. Wu Jian-zhong
Chairman

Beijing, the PRC
26 March 2008

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Financial Highlights

	For the year ended 31 December 2007 RMB'000	For the year ended 31 December 2006 RMB'000	Percentage of year-on-year increase (%)
Total revenue	7,865,805	5,693,349	38.2
Consolidated gross profit	1,284,838	881,047	45.8
Net profit	300,078	212,308	41.3
Basic earnings per share (Note) (RMB)	0.25	0.18	39.7

Note: The calculation of basic earnings per share is based on the net profit for 2007 attributable to equity holders of the Company of approximately RMB300,078,000, and on the 1,220,348,000 shares in issue during 2007. The weighted average number of shares in 2006 was 1,206,137,000 shares.

Total revenue by Activities

	For the year ended 31 December 2007 RMB'000	Percentage of total revenue (%)	For the year ended 31 December 2006 RMB'000	Percentage of total revenue (%)
Revenue	7,118,755	90.5	5,159,666	90.6
Income from suppliers	547,804	7.0	376,998	6.6
Rental income from leasing of shop premises	199,246	2.5	156,685	2.8
Total revenue	7,865,805	100	5,693,349	100

Total Revenue

During the Reporting Period, the Group recorded a total revenue of approximately RMB7,865,805,000, up by 38.2% as compared with 2006. The comparable store sales grew by 10.2%. The growth in total revenue was derived from the sales of acquired stores and newly-opened stores, growth in comparable store sales, services income from suppliers and rental income. An increase in comparable store sales was attributable to the strengthening of merchandise category management, improvement in merchandise category mix, optimization of pricing policies, continuous enhancement of shopping environment and images of stores, and improvement in services quality, resulting in a growth in number of transactions and average transaction amount per customer. Increases in income from suppliers continued to reflect the Group's regional development advantages, a stronger collaboration with suppliers in respect of increasing operating results of suppliers by means of implementing comprehensive marketing strategies and boosting sales of merchandise at our stores, and our negotiation advantages resulting from centralized procurement. The increase in rental income was mainly attributable to a rise in lease-out area, optimization of operational layout of stores, a raise in rent of lease-out area for certain stores at the time of lease renewal, and optimization of our tenant mix.

Cost of Sales and Consolidated Gross Profit Margin

For 2007 and 2006, the cost of sales of the Group were approximately RMB6,580,967,000 and RMB4,812,302,000 respectively, with consolidated gross profit margin for these two years of 16.3% and 15.5%, respectively. Excluding the sales at cost to managed and franchised stores and related companies, the Group obtained a consolidated gross profit margin of 18%. During the Reporting Period, the Group focused on optimizing our purchases from suppliers and improving our competitiveness in merchandise categories. In the fourth quarter, gross profit margin of merchandise recorded an increase, and our pricing mechanism continued to improve, and there is still room for further improvement subsequently.

Operating Costs and Net Profit

During the Reporting Period, the administrative expenses of the Group were approximately RMB219,065,000, accounting for approximately 2.8% of the total revenue, as compared with about 3.3% in 2006. Administrative expenses primarily included staff cost of approximately RMB92,221,000 and rental expenses of approximately RMB5,659,000.

During the Reporting Period, the Group recorded distribution and selling expenses of about RMB754,420,000, making up about 9.6% of the total revenue, as compared with about 8.3% for the year 2006. Distribution and selling expenses primarily included staff costs of approximately RMB159,509,000 and rental expenses of approximately RMB232,626,000. The increase in distribution and selling expenses costs was mainly attributable to increases in start-up costs and employee costs relating to newly-opened stores during the Reporting Period.

During the Reporting Period, finance costs of the Group amounted to approximately RMB16,589,000, compared with about RMB5,654,000 for 2006. The rise in finance costs was mainly due to a rise in short-term loans over the previous year, and an increment of interest rate for funding.

During the Reporting Period, the Group's net profit was approximately RMB300,078,000, up by 41.3%, or RMB87,770,000, compared with approximately RMB212,308,000 in 2006. A rise in net profit was mainly due to a growth in consolidated profit margin and an effective control on increases in costs.

During the Reporting Period, the Group's net profit margin was 3.8%. Excluding the sales at cost to managed and franchised stores and related companies, the Group's net profit margin would have risen to approximately 4.2%, which remained relatively stable as compared with the previous year.

Liquidity and Financial Resources

During the Reporting Period, the Group's funds were mainly sourced from cash income from operations. As at 31 December 2007, the Group had non-current assets of approximately RMB2,591,456,000, which mainly included property, plant and equipment of approximately RMB1,722,560,000, interests in associates of approximately RMB358,807,000, interests in a joint venture of approximately RMB47,574,000, and goodwill of approximately RMB404,711,000.

As at 31 December 2007, the Group recorded net current liabilities of approximately RMB354,725,000. Current assets amounted to approximately RMB2,106,312,000, which mainly comprised cash and bank balances of approximately RMB815,179,000, inventory of approximately RMB480,271,000, trade and other receivables of approximately RMB412,234,000, and amount due from related parties of approximately RMB370,657,000. Current liabilities amounted to approximately RMB2,461,037,000, mainly comprised trade and other payables of approximately RMB2,086,319,000, amount due to related parties of approximately RMB48,051,000, tax liabilities of approximately RMB46,097,000 and bank loans of approximately RMB275,460,000.

During the Reporting Period, the Group had an average account payable turnover of 89 days, compared with 86 days in 2006; inventory turnover was 23 days, compared with 19 days in 2006.

BUSINESS REVIEW

Expansion of Retail Network

The Company adhered to its regional development strategy, and expanded its retail network through organic growth and merger and acquisitions. As at 31 December 2007, the Group, its associates and a joint venture directly owned, and by entering into franchise agreements or management agreements, operated and managed a retail network of 447 stores, including 90 superstores and 357 mini-marts. The Group had an aggregate saleable area of 384,363 square metres, excluding the stores under associated companies and franchised stores.

In the fourth quarter, the Group opened 15 directly owned mini-marts. In addition, after evaluating certain loss-making mini-marts and considering various factors such as market competition in the surrounding area, the Group closed down 4 directly-owned mini-marts, terminated the cooperation with 5 managed stores and closed down 61 franchised stores that failed to meet standards of the Company.

Stores, which were directly owned by the Group, its associates or a joint venture or operated and managed through franchise agreements, were as follows:

	As at 31 December 2007	
	Number of stores	Geographical distribution
Superstores		
Direct ownership	77	Beijing, Hebei, Tianjin, Yinchuan
Franchise	1	Yinchuan
Mini-marts		
Direct ownership	140	Beijing, Yinchuan
Franchise	175	Beijing, Yinchuan
Total *(Note)*	393	

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

	As at 31 December 2007	
	Number of stores	Geographical distribution
Superstores	12	Hebei, Tianjin
Mini-marts	42	Beijing, Tianjin
Total *(Note)*	54	

Note: The total number excluded stores under Beijing Chao Shifa Company Limited ("Chao Shifa").

Procurement and Category Management

During the Reporting Period, the Group commenced a trial for centralized procurement of hygiene products. With centralized procurement, inventory turnover days were cut down by five days, and logistics and delivery costs were also reduced.

During the Reporting Period, category management was carried out according to the SAP system. By using prototype stores as a starting point, the Group implemented trial optimization of its category management in prototype stores in respect of customer positioning, merchandise structure adjustment and space planning. The Group completed upgrading category management systems such as "Operational Procedures for Addition and Replenishment of Merchandise", "Management Procedures for Pricing and Price Adjustment of Merchandise", "Rules for Managing Stores' Layout", "Methods for Arrangement and Display of Merchandise at Stores", "Rules for Managing Shelves and Floor Display" and "Procedures for Managing Market Survey" through optimizing category management at prototype stores, and the results of the optimization were promoted to all stores under the Group. Meanwhile, to ensure a smooth go-live of the WINBOX@SAP system, the Group carried out large-scale merchandise removal work and monitored merchandise categories procured.

Optimization of Supplier Network

During the Reporting Period, the Group formulated key assessment indicators (including sales volume, consolidated gross profit margin, contributions from single merchandise, and number of new products/replenishment) and a number of benchmarks. These indicators and benchmarks were adopted as bases for assessing and replacing suppliers. The Group gradually perfected the KPI assessment system, and carried out stringent assessments on suppliers on a monthly basis, whereby under-performed suppliers were replaced with new suppliers with good quality, allowing further optimization of supplier base and merchandise mix. The Group also had direct cooperation with production bases and established supply bases of agricultural products, which enabled the transportation of fruits and vegetables from farms to stores in 24 hours. Procurement costs were reduced due to cut down of intermediate procedures. With well-known brand suppliers such as P&G, Unilever and Colgate joining our distribution system, our strategic cooperation with suppliers has reached a new stage.

Store Optimization

With a flat management structure, simple management procedures and regular inspection, the Group enhanced integrated competitiveness of superstores and increased convenience of merchandise and services provided by mini-marts during the Reporting Period. With stores operation as its core focus, the Group strived for continuous improvement and innovation in respect of customers, finance, resources, merchandise and human resources. We also emphasized on the assessment of quantified data for marketing strategies, on-site management, category display and handling of contingencies, with an aim to improve our operational efficiencies and capabilities of stores.

During the Reporting Period, the Group remodeled Xin Jie Kou hypermarket, Gu Cheng supermarket and Wan Da mini-mart, thereby enhancing our stores' image and attracting more customers. Accordingly, the Group used these three stores as demonstration stores, and improved the normalization and standardization of our stores.

Marketing Optimization

Our marketing activities fully leveraged on the Group's advantages from procurement scale and leading position in the Beijing market during the Reporting Period. For example, the Group organized the Longda Food Fair with a theme of "Natural and Healthy" (「自然全健康」) with Shandong Longda Group; "Wumart Daxing Water Melon Festival Green Promotion" (「物美大興西瓜節綠色營銷活動」) with the government of Daxing District; "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; "Wumart Pinggu Peach Fair" (「物美平谷鮮桃節」) with the government of Pinggu District; large-scale promotional campaign "Nutrition and Health Interactive Month" (「營養健康互動月」) with Beijing Grain Group; "Nominate Your Own Torchbearers" (「火炬手，你提名」) with Coca-Cola, and "3-Person Volleyball Challenge

Cup" (「三人排球挑戰賽」) with Jin Long Yu Limited (金龍魚公司). Apart from boost in sales, our cooperation with well-known suppliers also resulted in increase in sales of brand products; and our corporate image was enhanced accordingly.

We fully integrated directly-owned mini-marts during the Reporting Period. Instead of using supermarket operation mode, mini-marts changed to adopt category mini-marts operation mode. The Group categorized directly-owned mini-marts into fresh mini-marts, community mini-marts and convenience stores according to operational characteristics, target customers and merchandise structure of these mini-marts. Each type of mini-marts implemented specific marketing activities in accordance with its own features, in order to improve operational results. After adopting category mini-marts operation mode, different types of mini-marts recorded substantial increase in sales volume and gross profit.

Logistics Optimization

The Group established a planning project team, which was responsible for planning, constructing and implementing the project of our logistics centre, and developing a new supply chain management system. During the Reporting Period, our cooperation with Okamura Corporation of Japan for the planning of the Group's distribution centre in the Northern China was an important move in integrating our modern commercial logistics supply chains. The distribution centre in the Northern China, which is still under planning, has a site area of over 200 mu (equivalent to approximately 133,300 square metres). Floor area of the warehouse in phase 1 is approximately 60,000 square metres. This distribution centre will be able to meet business development demands of the Group up to 2015; carry out centralized delivery for a majority of dry goods, perishable food, fruits and vegetables, and bread; and implement home delivery for home appliances and products shopped via internet.

During the Reporting Period, with an objective to cope with the go-live of WINBOX@SAP, our order renewals from existing distribution centres were centralized, and the movement of products with high inventories and resources were integrated. Accordingly, the Group had centralized management over stores, distribution centres and orders from suppliers, and resources were effectively allocated and utilized.

Successful Go-Live of WINBOX Project

The Group proceeded with the WINBOX project in full extent according to SAP methodology. During the Reporting Period, the Group completed tasks for BPR (business process reengineering), business blueprints, system realization, preparation for go-live and support for go-live. These tasks covered 5 business sections of procurement, category management, logistics, stores and finance; high-level process documents for master data, software and hardware; and business blueprint core processes. The Group organized 39 training sessions for more than 1,200 end-users; completed all SAP system configurations; established a detailed monitoring mechanism and contingency plan; and conducted trial operation and pressure testing that lasted for weeks. The go-live of master data was successfully completed on 22 October 2007, whereas the go-live for testing stores and distribution centres commenced on 1 December 2007. The success laid a good foundation for large-scale roll-out in 2008. During the same period, we completed installations of Store Line for the POS system of Retalix, and a series of training and preparation for switching. Leveraging on the combined advantages of SAP and Retalix, we became the first PRC retail enterprise to combine the SAP retail back office and Retalix front office POS system. By further optimization of our system, WINBOX project will be important keys for our improvement in replenishment accuracy based on demand forecasting, specialization in respect of procurement, optimization of category management, highly-efficient supply chain, and simplified store operation model.

The successful go-live of WINBOX project was an important achievement for the Group in respect of increasing internal core competitiveness, and also created long-term effects for our rapid integration in our continuous expansion plan and enhancement of operational efficiency in the future.

Process Optimization

The Group continued with process reengineering work. In order to cope with the go-live of WINBOX@SAP system, WINBOX@SAP process team continued to amend, edit and optimize the (Wumart Group Process Manual) (《物美集團流程作業手冊》), 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, 97 processes were supplemented and optimized, such as regulations on approval authorization of merchandise and marketing contracts, merchandise ordering and receiving processes and stock-taking operation processes at superstores, construction norms for the special information network of the Wumart Group, installation standards of information hardware at stores, management processes for the email system, settlement processes for the balances with associated companies, settlement processes for the balances with related companies and third parties under management, and operation processes for the authorization to perform audit work. Continuous supplementation and optimization of processes and IT systematizing of WINBOX@SAP process allowed the Group to establish a highly-efficient operation and simplified management platform.

Human Resources

The Group continued to adhere to the concept of "People-oriented". Through the selection, deployment, training and retaining of employees, the Group strived to develop a passionate, energetic and professional team. During the Reporting Period, the Group's Development and Training Institute organized 214 training sessions for 9,700 staff members, and also set up 14 new courses and continued to improve our training system. 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 for positions of store manager. In order to match up with the launch of WINBOX@SAP system, our Development and Training Institute organized 18 specific training sessions targeting at key users and end-users, and achieved good results. The Group provided training to graduates of 2007. 334 graduates attended systematic training sessions, on-job practical training and consolidated assessments. These graduates would enrich our management at store level. The Group also recruited 32 middle and senior management and professional staff members in management and operational aspects. During the Reporting Period, the Group organized 9 field study 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 retail enterprises. The strengths of these enterprises were adapted and incorporated into the actual operation, so as to improve our operational and management skills.

Appraisal is one of the "Three Weapons" to ensure our success and growth. The appraisal is performed through annual appraisal, monthly appraisal, assessment after probation and promotion assessment. Annual appraisal is a combination of an all-round assessment (self-assessment, assessment by subordinates, by peers and the supervisor's review) and the average of monthly appraisal. Our appraisal system provides a platform for regular communication and feedback between employees and supervisors in respect of performance, and continuous improvement in abilities.

With our appraisal system, the Group can implement its selection process, through which those loyal, capable and well-performed employees will be rewarded and entrusted with more important responsibilities; and those under-performed employees will be removed. The Group will provide specific training based on particularities of its employees, and entrust our employees with suitable tasks. Appraisal system is important in establishing a performance driven and professional team nurtured with Wumart Culture.

Future Outlook and Strategies

Retail enterprises in China have entered an age of buoyant development, apparent increase in market concentration as well as further strengthening of consolidation in domestic retail industry. Also, the scale of major enterprises continues to expand, and the retail industry with an extensive coverage and reasonable layout is improving. In the future, exploration of market potential, expansion of consumption demand, and impetus to changes of economic growth model will be considerations when formulating policies in respect of retail industry.

In 2008, the Group will continue with its regional development strategies in a steady and rapid manner, expand its retail network in existing regions, increase its market share, and accelerate the integration after merger and acquisition to match up with its regional development strategies. The Group will also carry out analysis and preparation work while developing its business. Our abilities will be enhanced in areas such as operational standards, development of merchandise, IT application, training of talents and logistics infrastructure. With its principle of "Starting from the actual, striving for the results" (一切從實際出發，一切以成果為導向), the Group will attain revenue maximization and cost reduction, and further focus on opening new stores, renovating old stores in accordance with our plans, closing down stores that have recorded continuous losses, and terminating franchised stores that fail to meet our requirements. Objectives of these measures are to optimize our brand, quality of our stores and operating results, thereby maintaining a steady and rapid growth of sales volume and enhancing our profitability.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Dr. Wu Jian-zhong, aged 50, Chairman of the Company and Chairman of Beijing Wangshang Shijie E-business Co., Ltd (北京網商世界電子商務有限公司) (the "Wangshang Shijie E-business"). Dr. Wu obtained his Ph.D. degree in system engineering at Institute of Automation, Chinese Academy of Sciences. He pursued postdoctoral research at University of Michigan, United States during 1993 to 1994. From 1994 to 2000, Dr. Wu held the position as the Vice President of Wumei Holdings, Inc. (物美控股集團有限公司) (the "Wumei Holdings"). From 2000 to 2002, he served as the President of Wumei Holdings. When the Company was established in August 2000, he was appointed as Director. In November 2002, he was appointed as the Vice Chairman of the Company. Since July 2003, Dr. Wu served as a Vice President of the Company. Since November 2006, he has acted as the Chairman of the Company.

Dr. Meng Jin-xian, aged 51, Executive Director and Vice President of the Company. Dr. Meng earned his doctorate at the University of Science & Technology Beijing. He joined Wumei Holdings as Vice President in 1997 till 2000, mainly responsible for business development and operations. He has served as Vice President of the Company from August 2000, responsible for the operation, and procurement and logistics management. Since November 2002, he acted as Executive Director and Vice President of the Company, currently responsible for new business development and operations.

Madam Xu Ying, aged 43, Executive Director, Vice President and Chief Financial Officer of the Company. She holds a MBA from Meinders School of Business of Oklahoma City University. Before joining the Company, she worked with Tianjin International Trust and Investment Corporation as investment manager from 1987 to 2001, and served as director and vice president of LG Company, a joint venture co-established by the Tianjin International Trust and Investment Corporation from 1996 to 2000. In 2001, she was recruited as associate professor with Tianjin University of Finance & Economics, conducting teaching and research on business logistics and supply chain management. In 2004, she joined the Company serving as Associate Director of Finance, and was appointed as Vice President in March 2007. In June 2007, Madam Xu was appointed as Director.

Non-executive Director

Mr. Wang Jian-ping, aged 44, Non-executive Director and Vice Chairman of the Company, and executive director of Wumei Holdings. Mr. Wang received his master's degree in law from China University of Political Science and Law. He acted as Vice President of the Company during August 2000 to May 2002. He was elected as non-executive Director in November 2002. Since November 2006, he has acted as Vice Chairman of the Company.

Independent Non-executive Directors

Mr. Han Ying, aged 73, Independent Non-executive Director. Mr. Han holds a bachelor's degree from the Beijing Institute of Mines. During 1991 to 1995, he acted as vice minister of the Ministry of Coal Mining of the PRC and vice general manager of China Tongpei Coal Mine Headquarters Company. During 1996 to 2000, he worked as vice chairman and general manager of Shenhua Group Company. He was appointed to a number of positions such as member of the 5th Standing Committee of the Chinese People's Political Consultative Conference, a member of the 8th and 9th Chinese People's Political Consultative Conference and representative of the 10th, 11th and 12th National Congress of Communist Party of China. In July 2003, he was appointed as Independent Non-executive Director.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Li Lu-an, aged 64, Independent Non-executive Director. From 1998 to the beginning of 2002, Mr. Li acted as director of Huaxia Travel, a subsidiary of TOM Group Limited. Furthermore, he also served as chairman with several companies, vice president with China Travel Association, and adviser for economic development of China's Central-Western Region and Strategy Development Commission of World Travel Organization. In September 2004, he was appointed as Independent Non-executive Director.

Mr. Lv Jiang, aged 51, Independent Non-executive Director, chairman of Beijing Yongtuo Engineering Co., Ltd, chairman and general manager of Beijing Yongtuo Accountants Co., Ltd, a committee member of Beijing Registered Accountants Association, and a committee member of Beijing Assets Valuation Association. Mr. Lv, a PRC certified public accountant, has years of experience in accounting, auditing, assets valuation and management. In September 2004, he was appointed as Independent Non-executive Director.

SUPERVISORS

Supervisor Nominated by Employees

Ms. Yan Li-xia, aged 42, graduated from Beijing University of Technology. Before joining the Company, she worked with human resource department of Beijing Kraft Food Company Limited as supervisor. She served as customer service supervisor at the Company's supermarkets from 1994 to July 2000 and as manager of Staff Administration Department under supermarket department of the Company from August 2000 to August 2004. In September 2004, she served as assistant to director with Staff Administration Department under convenience store department of the Company. Since February 2006, Ms. Yan has been promoted as the vice director of Staff Administration Department under convenience store department of the Company and was promoted as the director in August 2007. In November 2005, she was appointed as supervisor of the Company.

Independent Supervisors

Mr. Fan Kui-jie, aged 44, Chairman of the Supervisory Committee. Mr. Fan obtained his master's degree in engineering from Business Management School of Xi'an Jiaotong University. He worked as managerial staff with Yanzhou Mining Business Group from 1982 to 1988, and from 1991 to 1999. Since 1999, Mr. Fan has been a chief supervisor of China International Futures Brokerage Co., Ltd. In November 2002, he was appointed as independent supervisor of the Company.

Ms. Xu Ning-chun, aged 44, Independent Supervisor. Ms. Xu received her bachelor's degree in economics from the College of Commerce, Beijing, and is a PRC certified public accountant and a registered assets valuer in the PRC. She has been chairman and general manager of Beijing Dingge Capital Assessment Co., Ltd since 1998. She served as finance evaluation expert of Beijing Municipal Science & Technology Commission from 2003 to 2005. In July 2003, she was appointed as independent supervisor of the Company.

SENIOR MANAGEMENT

Mr. Zhu You-nong, aged 55, President of the Company. From 1988 to 1992, Mr. Zhu served as the deputy general manager of Beijing Ya Du Manmade Environment Technology Company. From 1993 to 2000, he served as the chairman of Beijing Duo Ling Duo Investment Company Limited. From 2000 onwards, Mr. Zhu served as the director and general manager of Beijing MerryMart Chainstores Development Co., Ltd.. Since October 2007, Mr. Zhu has served as the President of the Company.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Dr. Yu Jian-bo, aged 43, Vice President of the Company and deputy chief of SAP-ERP WINBOX Project team. Dr. Yu received his doctoral degree from Chinese Academy of Social Sciences and is a senior researcher. From 1991 to 1998, Dr. Yu served in Institute of Contemporary China Studies (當代中國研究所), specializing in research on contemporary significant economical issues. From 1998 to May 2005, Dr. Yu served as director and executive president of Jin-Ri Investment (今日投資), vice president of OBI in China region, and independent director of Shanda Wit Science and Technology Co. Ltd. (山大華特科技股份有限公司). Dr Yu joined the Company in May 2005.

Mr. Xu Shao-chuan, aged 36, Vice President and general manager of the Finance Department of the Company. He holds a bachelor's degree in statistics from Shenyang Institute of Finance & Economics. Before joining the Company, he served as finance manager of Shenyang North-American Products Trade Co., Ltd from 1995 to 1999. He served as manager and vice general manager of the Finance Department of Wumei Holdings from 1999 to 2000. In August 2000, he took up the position as general manager of the Finance Department of the Company. Mr. Xu was appointed as Vice President in March 2007.

REPORT OF THE BOARD

The Board is pleased to present the annual report for the year ended 31 December 2007 for shareholders' perusal.

PRINCIPAL ACTIVITIES

The Group aims at "Development of China's retail industry, improvement of the public's living quality" (發展民族零售產業, 提升大眾生活品質). It adheres to the strategy of regional development which focuses chain retail business in major areas such as Beijing, Tianjin, Hebei and Yinchuan. It is principally engaged in the operation and management of superstores and mini-marts. Principal activities of its subsidiaries are set out in Note 40 to the Consolidated Financial Statements.

Annual results and financial information of the Group for the Reporting Period are prepared pursuant to the Hong Kong Financial Reporting Standards and set out in the Consolidated Financial Statements.

MAJOR SUPPLIERS AND CUSTOMERS

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

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

SHARE CAPITAL

Name of shareholders	Class of shares	Number of shares (shares)	Percentage of total share capital (%)
Wumei Holdings	Domestic shares	497,932,928	40.80
	H shares	1,375,000	0.12
Beijing Hekang Youlian Technology Co., Ltd. (北京和康友聯技術有限公司) ("Hekang Youlian")	Domestic shares	24,982,300	2.05
Beijing Junhe Investment Co., Ltd. (北京君合投資有限公司) ("Junhe Investment")	Domestic shares	23,269,228	1.91
Wangshang Shijie E-business	Domestic shares	160,457,744	13.15
Beijing Shuangchen Express Co., Ltd. (北京雙臣快運有限公司)	Domestic shares	7,137,800	0.58
General public	H shares	505,193,000	41.39
Total share capital		1,220,348,000	100

Detailed information about movements in share capital of the Company during the Reporting Period is set out in Note 29 to Consolidated Financial Statements.

FIXED ASSETS

During the Reporting Period, detailed information about movements in fixed assets of the Group is set out in Note 15 to Consolidated Financial Statements.

DISTRIBUTABLE RESERVE

In accordance with Company's Law of the People's Republic of China, the distributable reserve of the Company as of 31 December 2007 amounted to approximately RMB533,568,000 (2006: approximately RMB270,659,000).

DIVIDEND

The Board recommended the payment of a final dividend of RMB0.13 (inclusive of tax) per share to shareholders whose names appear on the register of shareholders on the date of the 2007 annual general meeting ("AGM"), subject to the passing of an ordinary resolution at the AGM. The register of shareholders will be closed for a period of 30 days (both days inclusive) prior to the date of the AGM, during which period no transfer of the shares of the Company will be registered. Dividends payable to holders of domestic shares of the Company will be in Renminbi, and to holders of H shares in Hong Kong dollars.

The Company will further publish an announcement in relation to the AGM and book closure time in respect of annual dividends.

SUBSIDIARIES

During the Reporting Period, subsidiaries of the Company are set out in Note 40 to the Consolidated Financial Statements.

SIGNIFICANT INVESTMENTS

For the year ended 31 December 2007, the Group did not have any significant investments.

ACQUISITIONS AND DISPOSALS DURING THE YEAR AND FUTURE INVESTMENT PLANS

During the Reporting Period, the Group did not have any material acquisitions and disposals, and significant investment plans.

PLEDGE OF THE GROUP'S ASSETS

On 31 May 2007, all put options granted to tradable shareholders of Xinhua Department Store expired and the obligations of the Company in connection with the put options were released. The security of RMB64,772,000 (as guarantee to the full exercise of put options by tradable shareholders) and the deposit of RMB28,295,000 pledged to the bank for the grant of performance guarantee letters, were recovered during the Reporting Period. On 31 December 2007, a bank loan of RMB75,460,000 was secured by the pledge of leasehold land and buildings with carrying amount of RMB105,126,000.

EXCHANGE RATE RISK

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

CONTINGENT LIABILITY

The Group did not have any material contingent liability as at 31 December 2007.

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

As at 31 December 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

Name	Number of domestic shares held (shares)	Approximate percentage of total issued domestic share capital (%)	Type of interests
Dr. Wu Jian-zhong (吳堅忠博士) (Note 1)	160,457,744	22.48	Interests of controlled corporation
Dr. Meng Jin-xian (蒙進暹博士) (Note 2)	23,269,228	3.26	Interests of controlled corporation
Dr. Meng Jin-xian (蒙進暹博士) (Note 2)	24,982,300	3.50	Interests of controlled corporation

Notes:

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

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

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2007, none of the Directors, Supervisors or chief executives of the Company or their respective associates had any interests 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 31 December 2007, none of the Company, any of its subsidiaries, holding companies or fellow subsidiaries was a party to any arrangement which enabled the Directors or Supervisors of the Company to acquire benefits by acquiring shares in, or debentures of, the Company.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the interests or short positions of persons 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 issued domestic share capital (%)
Dr. Zhang Wen-zhong (張文中博士) (Note 1)	497,932,928	69.76
Dr. Wu Jian-zhong (吳堅忠博士) (Note 2)	160,457,744	22.48
Jingxi Guigu (Note 1)	497,932,928	69.76
CAST Technology Investment (Note 1)	497,932,928	69.76
Wumei Holdings (Note 1)	497,932,928	69.76
Wangshang Shijie E-business (Note 2)	160,457,744	22.48
Dr. Meng Jin-xian (蒙進暹博士) (Note 3)	48,251,528	6.76

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 shares held by Junhe Investment and Hekang Youlian.

Long positions in the H shares of the Company

Name	Number of H shares held (shares)	Approximate percentage of total issued H share capital (%)
Sansar Capital Management, LLC (Note 1)	56,495,000	11.15
Sansar Capital Master Fund, LP (Note 2)	56,495,000	11.15
Julius Baer Investment Management LLC (Note 3)	50,154,274	9.90
Cooper Lindsay William Ernest (Note 4)	48,097,000	9.49
Arisaig Greater China Fund Limited (Note 5)	40,997,000	8.09
Arisaig Partners (Mauritius) Limited (Note 6)	40,997,000	8.09
Oppenheimer International Small Company Fund (Note 7)	29,000,000	5.73
Oppenheimerfunds, Inc. (Note 8)	29,000,000	5.73
Julius Baer International Equity Fund (Note 9)	27,342,132	5.40

Notes:

1. These 56,495,000 H shares are held by Sansar Capital Management, LLC in its capacity as an investment manager.

2. These 56,495,000 H shares are held by Sansar Capital Master Fund, LP in its capacity as a beneficial owner.

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

4. These 48,097,000 H shares are held by Cooper Lindsay William Ernest through its controlled corporation.

5. These 40,997,000 H shares are held by Arisaig Greater China Fund Limited in its capacity as a beneficial owner.

6. These 40,997,000 H shares are held by Arisaig Partners (Mauritius) Limited in its capacity as an investment manager.

7. These 29,000,000 H shares are held by Oppenheimer International Small Company Fund in its capacity as an investment manager.

8. These 29,000,000 H shares are held by Oppenheimerfunds, Inc. in its capacity as an investment manager.

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

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

DETAILS OF DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the executive Directors and supervisor of the Company nominated by employees has entered into a service contract with the Company for a term commencing from 25 October 2005 or 28 June 2007 and ending on the date of the conclusion of the 2007 annual general meeting of the Company.

The non-executive Director, independent non-executive Directors and independent supervisors of the Company have entered into letters of appointment with the Company for a term commencing from 25 October 2005 and ending on the date of the conclusion of the 2007 annual general meeting of the Company.

Save as disclosed above, none of the Directors or supervisors of the Company has entered into a service contract with the Group which was not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save for the service contracts/appointment letters mentioned above and those set out in Note 10 to the Consolidated Financial Statements, there was no contract of significance in relation to the Group's business to which the Company, its holding companies or its subsidiaries was a party and in which a Director or Supervisor of the Company had material interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

EMPLOYEES

As of 31 December 2007, the Group employed 15,089 full-time employees. The remunerations received by employees are in line with the market level. During the Reporting Period, the Group has not implemented any employees' share option scheme.

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

AUDIT COMMITTEE

The audit committee comprises Mr. Han Ying (Chairman), Mr. Li Lu-an and Mr. Lv Jiang, all of them are independent non-executive Directors.

The main duties of the audit committee are to review the financial performance of the Group, the nature and scope of internal audit, and effectiveness of internal control.

In 2007, the audit committee held five meetings, during which it reviewed the accounting principles and methods adopted by the Group, reviewed the annual results of 2006 and the quarterly and interim accounts for 2007, discussed internal control and the Company's financial statement prepared in accordance with the generally accepted accounting principles of Hong Kong, and made recommendations for the appointment of external auditor to the Board.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS

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 as set out in the GEM Listing Rules. In accordance with the code of conduct, the Company has made specific enquiries of all Directors and confirmed that the Directors comply with the code of conduct regarding securities transactions by Directors.

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

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CONNECTED TRANSACTIONS

The related party transactions set out in Note 39 to the Consolidated Financial Statements, other than those with associates and a joint venture, constituted continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules.

On 24 October 2007, the Company entered into the Entrusted Operation and Management Agreements ("Entrusted Operation and Management Agreements") with Wumei Holdings and Tianjin Affiliates[note], pursuant to which the Company will supply and deliver merchandise and provide management services to Tianjin Affiliates for a period from 1 January 2008 to 31 December 2010. The respective annual caps for supply of merchandise are RMB979 million, RMB1,214 million and RMB1,507 million; for delivery fees are RMB29.37 million, RMB36.42 million and RMB45.21 million; and for management fees are RMB2.18 million, RMB2.70 million and RMB3.34 million. The terms of the above continuing connected transactions are negotiated on arm's length basis.

Wumei Holdings, one of the promoters and a controlling shareholder of the Company, and its associates hold approximately 40.92% interests in the Company in aggregate. Wumei Holdings is able to control the exercise of more than 30% of voting rights in general meetings of each of the Tianjin Affiliates. Accordingly, Wumei Holdings and Tianjin Affiliates are connected parties of the Company. The Entrusted Operation and Management Agreements and all the transactions contemplated thereunder constituted continuing connected transactions of the Company under the GEM Listing Rules.

The Entrusted Operation and Management Agreements were approved by the extraordinary general meeting of the Company held on 28 December 2007.

Note: 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. (天津物美華旭商貿發展有限公司).

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

(I) during the ordinary and usual course of business of the Company;

(II) on normal commercial terms; and

(III) on terms that are fair and reasonable and in the interests of shareholders of the Company as a whole.

COMPETING INTERESTS

Wumei Holdings operates retail chain business in Tianjin and Eastern China.

The Group mainly expands its retail business in Beijing and peripheral areas, Tianjin and Yinchuan. The Company entered into the non-competition agreement and the trademark licensing agreement with Wumei Holdings on 29 October 2003, and Entrusted Operation and Management Agreements with Wumei Holdings and Tianjin Affiliates on 24 October 2007, with a view to avoiding business competition with Wumei Holdings. Wumei Holdings has operated in strict compliance with the non-competition agreement and Entrusted Operation and Management Agreements in order to avoid business competition with the Group to the fullest extent. Save and except for the competing businesses disclosed above, Wumei Holdings did not engage in any direct or indirect competition against the Group, nor did it have any interests.

LITIGATION

On 17 May 2004, the Beijing Municipal People's High Court ("Beijing High Court") entertained civil proceedings (the "Proceedings") instituted against, inter alia, the Company, by a shareholder (the "Chao Shifa Shareholder") of Chao Shifa. The Proceedings related to a share purchase agreement (the "Share Purchase Agreement") entered into between the Company and Beijing Chao Shifa Company Limited Staff Shareholding Union, and a trust agreement (the "Trust Agreement") entered into between the Company and Beijing Chao Shifa State-owned Asset Management Limited (北京超市發國有資產經營公司). Chao Shifa Shareholder made several applications to the Beijing High Court, which primarily include, (1) a confirmation that the Share Purchase Agreement is invalid, (2) a confirmation that the Trust Agreement is invalid, (3) a restriction on the performance of the Share Purchase Agreement and the Trust Agreement, (4) a restoration of the shareholding and operation structure of Chao Shifa to that immediately preceding the execution of the Share Purchase Agreement and Trust Agreement, and (5) the defendant to bear all the costs of the Proceedings.

On 20 December 2007, Beijing High Court delivered a judgment and dismissed all applications from the Chao Shifa Shareholder, and confirmed the legality and validity of the Share Purchase Agreement and the Trust Agreement.

At the end of December 2007, the Chao Shifa Shareholder instituted an appeal (the "Appeal") to the Supreme Court of the PRC (the "Supreme Court"). The Chao Shifa Shareholder applied to the Supreme Court for discharging and altering the above-mentioned judgment in accordance with laws. As at the date hereof, the Appeal is yet to be tried.

MATERIAL ADVERSE CHANGE

As of 31 December 2007, the Board confirmed that there is no material adverse change in the Group's financial or operational position.

SUBSEQUENT EVENTS

On 23 January 2008, the Company and Wumei Holdings entered into the Equity Transfer Agreement in respect of the acquisition of the entire equity in Hangzhou Tiantian Wumart Commerce Company Limited ("Hangzhou Commerce") for a non-cash consideration payable by means of the Company's holding of 29.27% of the shares in Yinchuan Xinhua Department Store Company Limited ("Xinhua Department Store"). Following completion of the Acquisition, Hangzhou Commerce will become a wholly-owned subsidiary of the Company. Wumei Holdings will cease to have the equity of Hangzhou Commerce and the Company will not hold any shares in Xinhua Department Store. The Acquisition is subject to approval by a general meeting of the Company. Further details were set out in the announcement "Discloseable and Connected Transaction" published on 23 January 2008.

On 4 February 2008, Mr. Chan Wai Lok resigned as a Joint Company Secretary and the Qualified Accountant of the Company. Madam Xie Dong, the other Joint Company Secretary of the Company, became the sole Company Secretary on the same date. Madam Xie has satisfied the requirements to be the company secretary of a listed issuer in Hong Kong under Rule 5.14(2) of the GEM Listing Rules.

AUDITOR

The attached Consolidated Financial Statements are audited by Deloitte Touche Tohmatsu. The Company has not changed its auditors in the past three years.

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

Beijing, the PRC
26 March 2008

REPORT OF THE SUPERVISORY COMMITTEE

Dear all shareholders:

In compliance with relevant laws and regulations such as Company Law of the PRC and the GEM Listing Rules and the requirements of the articles of the Company, the Supervisory Committee (the "Supervisory Committee") of the Company complies with the code of integrity and performs the duties of supervising the Board, senior management and the financial position of the Company, in order to protect the interests of the shareholders as well as of the Company. During the Reporting Period, each of the supervisors performed their duties strictly, actively and diligently, and continuously reinforced the internal development of the Supervisory Committee.

During the Reporting Period, the Supervisory Committee held two meetings. The Committee examined the financial statements of the Company and the corporate governance report, and reviewed the "Analysis Report on Assessment of Internal Control at the Company Level for Wumart Stores, Inc." issued by Ernst & Young. The Supervisory Committee concurred with the analysis results and recommendations set out in the report, that the Group has established a sound internal control system, made considerable progress in the formulation and implementation of internal work procedures, and effectively controlled major operating risks of the Company. Supervisors attended board meetings from time to time so as to understand directly the considerations and decisions of the Board in respect of the operations of the Company as well as the Company's operating positions, development plans, and expansion of retail network. Supervisors also received reports from the Company, and consulted with some of the senior management members, in order to have a better understanding of the Company's operating approaches and their enforcement.

The Supervisory Committee considered that the Board and the management team of the Company continued to perfect the corporate governance of the Group, and established sound internal control system pursuant to requirements of the Company Law of the PRC and the GEM Listing Rules, which played a positive role in withstanding risks. The Supervisory Committee also recommended to the Board to further improve corporate governance structure of the Group, and procure the Group and its Board to provide an open, fair, equitable and transparent disclosure to our investors in strict compliance with requirements under the GEM Listing Rules.

The Supervisory Committee carefully reviewed the work report by the Board and the audited financial report to be submitted to the annual general meeting, and considered that the contents in the Group's financial statements and annual report to be true and reliable, and the auditor's report to be objective and impartial. The Supervisory Committee considered that the continuing connected transactions of the Company were executed in strict compliance with the GEM Listing Rules, the respective annual caps did not exceed the cap under the waiver granted by Stock Exchange, and the terms thereof are fair and reasonable. We were not aware of any insider dealings or situations where the interests of the Company and the shareholders were undermined. During the Reporting Period, all significant transactions of the Company, including the proposed share consolidation and capitalization issue, were in the interests of the Company as a whole.

REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee believed that, the Board formulated clear development strategies and operational objectives, and accomplished good performances, maintaining a stable growth for the Company. In the operation management of the Company, members of the Board and other senior managers strictly adhered to the principle of integrity, duly performed the rights and responsibilities conferred. They worked diligently, and stayed faithful to the best interests of the Company when performing their duties. They were able to carry out the work pursuant to the Company's articles in a regulated manner. There were no significant acts of abusing the authorities, undermining the interests of the Company or infringing the interests of shareholders and employees. The Supervisory Committee is satisfied with each major work and achievements in 2007, and is fully confident in the development prospect of the Company in the future.

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

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

Beijing, the PRC
26 March 2008

CORPORATE GOVERNANCE REPORT

The Company targets at pursuing good corporate governance. The Board believes that sound corporate governance practices are crucial to the continuous and steady growth of the Company's results, and are essential for enhancing functions of the Board, improving our transparency, strengthening our accountability towards shareholders, protecting shareholders' interests and optimizing their value ultimately.

In 2007, the Company strictly observed relevant laws and regulations of the PRC and overseas, with an aim to perfect our governance. The Board confirmed that, during the Reporting Period, the Company complied with all code provisions set out in "Code on Corporate Governance Practices" contained in Appendix 15 of the GEM Listing Rules.

BOARD

Roles and Responsibilities

The Board is responsible for leading and monitoring the Group, as well as directing the Group in attaining outstanding results. The primary functions of the Board include:

1. formulating the overall strategies, goals and business plans of the Group, and monitoring their implementation;

2. discussing and overseeing material operational management and financial performance, and approving significant investment;

3. formulating appropriate policies and monitor systems to avoid and manage the risk exposure experienced for realizing the strategies and goals of the Group; and

4. preparing accounts of the Company and assessing the Group's performance, financial position and prospects.

Composition of the Board

The Board comprises seven Directors, including three executive Directors, one non-executive Director and three independent non-executive Directors. Madam Xu Ying was appointed as executive Director in June 2007.

Executive Directors possess extensive industrial management experience and technical expertise. Non-executive Directors possess extensive expertise, experience and judgement in various fields, in particular, the appropriate accounting qualifications possessed by Mr. Lv Jiang. Biographies of the Directors are set out on pages 14 to 16 in this annual report.

The terms of office of each Director shall lapse upon the conclusion of the 2007 Annual General Meeting of the Company. The terms for all Directors will not exceed three years.

Independence of Independent Directors

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

Board Committees

There are two committees under the Board, each of them is responsible for a specified important scope. The website of the Company contains the rules of procedures for each of the committees, setting out their responsibilities, rights and duties.

Audit Committee

The audit committee comprises Mr. Han Ying (Chairman), Mr. Li Lu-an and Mr. Lv Jiang, all of them are independent non-executive Directors.

The main duties of the audit committee are to review the financial performance of the Group, the nature and scope of internal audit, and effectiveness of internal control.

In 2007, the audit committee held five meetings, during which it reviewed the accounting principles and methods adopted by the Group, reviewed the annual results of 2006 and the quarterly and interim accounts for 2007, discussed internal control and the Company's financial statements prepared in accordance with the generally accepted accounting principles of Hong Kong, and made recommendations for the appointment of external auditor to the Board.

Remuneration Committee

The remuneration committee comprises Dr. Wu Jian-zhong (Chairman), Chairman of the Company, and Mr. Han Ying and Mr. Li Lu-an, both of whom are independent non-executive Directors. During the Reporting Period, the remuneration committee held one meeting, in which it examined and approved the remuneration of senior management, and the proposal for formulating long-term incentive system.

During the Reporting Period, details of the Directors' attendance at meetings of the Board and the committees are as follow:

	Meetings attended/held in 2007		
	Board	Audit Committee	Remuneration Committee
Meetings held during the year	9	5	1
Executive Directors			
Wu Jian-zhong	9/9	—	1/1
Meng Jin-xian	9/9	—	—
Xu Ying[Note]	5/9[Note]	—	—
Non-Executive Director			
Wang Jian-ping	9/9	—	—
Independent Non-Executive Directors			
Han Ying	9/9	5/5	1/1
Li Lu-an	9/9	5/5	1/1
Lv Jiang	9/9	5/5	—

Note: Madam Xu Ying was appointed as executive Director at the general meeting held on 28 June 2007. She attended all five Board meetings held after 28 June 2007.

Delegation of the Authority of the Board

The division of responsibilities and authorities between the Board and the management is clearly defined. The Board or its sub-committees are responsible for matters such as strategic development, risk policies, internal audit, connected transactions, and determination of remuneration of the management of the Company; while the management team is responsible for day-to-day operation of the Company. Reasonable division of responsibilities between the Board and the management enables the Board to devote more time and effort on the long-term development strategies of the Company. The Board shall select and appoint senior management, and establish a rational performance assessment mechanism for examining and evaluating the performance of the management. With all these procedures, the Company will be able to operate and develop in a sustainable manner.

DIRECTORS

Responsibilities of Directors

Each Director fully understands his/her role as a Director. During their terms of office, all Directors carry out their work in a dedicated, diligent and proactive manner, and promote the continuous development of the Company's results.

The management shall provide the Directors with adequate and appropriate information in due course to update the Directors with the latest development of the Group, so as to facilitate the due performance of their duties, and fully understand items to be examined during Board meetings. For their strict compliance with relevant regulations, Directors shall be provided with the GEM Listing Rules (as amended from time to time) in a timely manner.

Nominations

The Company has no nomination committee. The Board is responsible for identifying and nominating suitable candidates to stand in an election or fill vacancies of the Board; understanding details of a nominee, including his/her profession, academic background, detailed working experience and independence; and providing written biographies in respect of nominees to shareholders. Shareholders will consider and approve the selection of candidates at general meetings.

The Board shall review independence of independent non-executive Directors regularly, and obtain written confirmation from each of the independent Directors.

Appointment

Directors, including independent non-executive Directors, will be elected by general meetings. All Directors have a term of office of three years, and can stand in for re-election upon expiration of their terms. Election or removal of the chairman must be approved by a majority of members of the Board. Subject to relevant laws and administrative regulations, a Director with an unexpired term can be removed by shareholders at general meetings by way of ordinary resolutions.

Retirement by Rotation

Pursuant to A4.2 of the code provisions on corporate governance practice, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the articles of the Company, Directors are appointed and removed by general meetings, and have a term of office of not more than three years. Upon expiration of his/her term of office, a Director may be re-elected.

Securities Dealings by Directors

Details of Directors' interests in securities of the Company have been disclosed in each of the published results announcements of the Company. The Company has adopted a model code of practice for securities dealings by Directors on terms no less exacting than the required standard of dealings set out by the Stock Exchange. The Company has confirmed, after making specific enquiries with the Directors in accordance with the code of practice, all the Directors have complied with the standard of dealings and model code of practice in relation to securities dealings by Directors during the year.

Provision and Application of Information

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

Detailed information in relation to the Board / sub-committees shall be kept by the Secretary of the Board. Directors can access all information at any time. The Secretary of the Board will actively provide assistance to independent non-executive Directors. During the course of performing their duties, independent non-executive Directors will have relevant officers' cooperation.

Chairman and President

The positions of Chairman and President of the Company are completely separated. Both positions have unique duties but are complementary to each other. In October 2007, the Board appointed Mr. Zhu You-nong as the President, who will be responsible for the operation and management of the Group. Mr. Zhu's biography is set out on page 15 of this annual report. The Board believes that Mr. Zhu's extensive retail experience and hard work will be beneficial to the Group's operational and financial performance.

The Company does not have a chief executive officer. Related duties (including the formulation and implementation of the Company's annual operational plans, and operational, management and relevant decisions) are assumed by the President.

	Chairman	President
Main Duties	Lead the Board to ensure its effective operation, and perform his designated duties	Execute resolutions of the Board, and oversee day-to-day operational and management work
	Ensure that all Directors receive all information and data of the Company in a timely manner, and that the information and data are accurate, complete and clear	Implement the Company's annual operational plans and investment proposals
	Ensure that the Board and the management maintain effective communication in a timely manner and discuss all material events	Formulate internal organizational structure and basic management system
	Ensure that the Company has in place sound corporate governance codes and procedures	Other duties conferred by the Company's articles and the Board

The Directors' Remuneration

In accordance with the service contract between each of the Directors and the Company, remuneration of executive Directors shall be determined in accordance with their respective management functions in the Company; a non-executive Director shall not receive any remuneration from the Company; and the remuneration of each independent non-executive Director shall be fixed at RMB60,000 per annum (inclusive of tax). Expenses incurred by Directors during the course of performing their duties shall be borne by the Company.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is responsible for the preparation of accounts for the respective financial period, for the purpose of giving a true and fair view of the results and financial positions of the Group. The Directors have made cautious and reasonable judgements and assessments, and confirmed that the accounts were prepared in accordance with the Hong Kong Financial Reporting Standards.

Responsibilities of the independent auditor is set out on page 37 of this annual report.

Internal Control

1. The Board is responsible for ensuring an effective, reliable and proper internal control system is in place. For this purpose, the Board shall examine and review the Company's internal control policies. Internal control of the Group includes defining the management structure, internal control procedures and authority. The Board will review the effectiveness of the Group's internal control at least once a year;

2. Establish an organizational structure with clearly defined responsibilities and appropriately divided duties;

3. Timely publish price sensitive information, and prohibit any inappropriate use of confidential or price sensitive information;

4. Independent Directors shall discuss matters in relation to internal control;

5. Specifically set up an organization for internal control – the internal audit department, for performing internal independent review. Functions of the internal audit department and an external auditor are complementary to each other. The internal audit department plays a crucial role in monitoring the internal control of the Company;

6. The Board will, according to actual situation, implement necessary measures in tackling major contingent events. These measures include establishing special internal audit team and/or engaging external professional institutions (independent and non-independent) to assess contingencies and make judgement in respect of relevant risks and impact on the Company.

With regard to our suspension of trading, the Board set up a special internal audit team to carry out audit work in determining the integrity of assets for the period from 1 January 2003 to 30 April 2007. The Company also engaged Ernst & Young, a professional institution and an independent third party, to conduct a risk assessment of major controls of the Company, and Ernst & Young issued an "Analysis Report on Assessment of Internal Control at the Company Level for Wumart Stores, Inc.". According to analysis results and recommendations set out in the aforesaid report, the Board recommended consolidating existing internal control systems under the Company (including subsidiaries and associates), and strengthening internal risks control, with an aim to attain full control on internal control and risks of the Company by the Board and ensure the achievement of the Company's operational objectives in a safe and stable manner.

Auditor's Remuneration

The Company has regularly reviewed the performance of, and the remuneration payable to the external auditor. The remuneration for audit services payable by the Company to the external auditor amounted to approximately RMB3,950,000 during the Reporting Period. The Company had no remuneration payable to the external auditor for non-audit services.

Shareholders' Rights

Shareholders of the Company shall enjoy the following rights:

- to receive dividends and other distributions in proportion to the number of shares held by him;
- to attend or appoint proxies to attend and vote at general meetings;
- to supervise or manage the business operations of the Company and to make suggestions or to raise queries;
- to transfer his shares in accordance with applicable laws, administrative regulations and the articles of the Company;
- to receive relevant information in accordance with the articles of the Company;
- in the event of cessation or liquidation of the Company, to participate in the distribution of residual assets of the Company according to the proportion of shares held by him; and
- other rights conferred by relevant laws and administrative regulations, and the articles of the Company.

Communications with Shareholders

The Company endeavours in maintaining effective communications with shareholders. A sound communication mechanism has been established, for the purpose of making disclosures to shareholders and investors in a transparent, regular and timely manner. These communication channels are:

- The information of the Company will be timely published on the websites of GEM and the Company, including corporate information, financial results, discloseable transactions, announcements, composition of the Board/ its sub-committees and their respective scope of duties;
- Financial reports (including quarterly reports, interim reports and annual reports) will be published/dispatched, in which latest financial performance and summary in relation to the Company's business operation will be provided;
- The general meeting serves as an effective platform for exchanging views between the Board and shareholders. The Chairman, the chairman of the audit committee and the chairman of the remuneration committee will attend the general meeting and answer the questions raised by shareholders; and
- Circulars to Shareholders will be dispatched, with an aim to provide detailed data and information (including major transactions, non-exempt connected transactions, proposed share consolidation and capitalization issue, and proposed issue of corporate bonds) for Shareholders' information or action.

Procedures of Demanding a Poll by Shareholders

Voting on resolutions at a general meeting shall be conducted by a show of hands unless a poll is demanded by:

(i) the chairman of the meeting;

(ii) at least two Shareholders, present in person or by proxy, who have the right to vote; or

(iii) one or more Shareholders or his/her proxy who, alone or together, represent 10% or more of the shareholding represented at the meeting which carry the right to vote at that meeting.

Unless a poll is demanded, a declaration by the chairman based on the result of the show of hands as to whether a resolution has been passed and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the result of that vote without further proof of the number of votes recorded or the percentage of votes in favour of or against such resolution at the meeting.

On a poll taken at a meeting, a Shareholder (including his proxy) entitled to two or more votes need not cast all his votes in the same way. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting shall be entitled to an additional vote.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF WUMART STORES, INC.
(a joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Wumart Stores, Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 82, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

26 March 2008

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	NOTES	2007 RMB'000	2006 RMB'000
Revenue	5	**7,118,755**	5,159,666
Cost of sales		**(6,580,967)**	(4,812,302)
Gross profit		**537,788**	347,364
Other revenues	5	**747,050**	533,683
Investment and other income	7	**121,901**	107,113
Distribution and selling expenses		**(754,420)**	(473,118)
Administrative expenses		**(219,065)**	(185,836)
Finance costs	8	**(16,589)**	(5,654)
Share of profit of associates		**43,332**	7,148
Share of loss of a joint venture		**(2,426)**	—
Profit before tax	9	**457,571**	330,700
Income tax expense	12	**(131,992)**	(104,748)
Profit for the year		**325,579**	225,952
Attributable to:			
Equity holders of the Company		**300,078**	212,308
Minority interests		**25,501**	13,644
		325,579	225,952
Dividend			
— proposed	13	**158,645**	85,424
— paid	13	**85,424**	54,916
Earnings per share			
— basic and diluted	14	**RMB0.25**	RMB0.18

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2007

	NOTES	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	15	**1,722,560**	1,272,079
Interests in associates	16	**358,807**	330,285
Interests in a joint venture	17	**47,574**	—
Deposit paid for acquisition of property, plant and equipment		**—**	64,019
Goodwill	18	**404,711**	404,711
Land use rights	19	**28,215**	29,088
Prepaid lease payments	20	**16,766**	23,491
Deferred tax assets	30	**12,823**	14,657
		2,591,456	2,138,330
Current assets			
Inventories	21	**480,271**	367,564
Prepaid lease payments	20	**27,971**	25,880
Held-for-trading investments		**—**	5,486
Trade and other receivables	22	**412,234**	488,121
Amounts due from related parties	23	**370,657**	647,516
Pledged deposits	24	**—**	93,067
Bank balances and cash	25	**815,179**	725,093
		2,106,312	2,352,727
Current liabilities			
Trade and other payables	26	**2,086,319**	2,260,544
Amounts due to related parties	23	**48,051**	1,039
Derivative financial liabilities	27	**—**	20,041
Tax liabilities		**46,097**	39,826
Bank loans	28	**275,460**	175,460
Obligations under finance leases	31	**5,110**	—
		2,461,037	2,496,910
Net current liabilities		**(354,725)**	(144,183)
Total assets less current liabilities		**2,236,731**	1,994,147

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2007

	NOTES	2007 RMB'000	2006 RMB'000
Capital and reserves			
Share capital	29	**305,087**	305,087
Reserves		**1,805,118**	1,590,464
Equity attributable to equity holders of the Company		**2,110,205**	1,895,551
Minority interests		**120,354**	93,360
Total equity		**2,230,559**	1,988,911
Non-current liabilities			
Deferred tax liabilities	30	**1,056**	5,236
Obligations under finance leases	31	**5,116**	—
		6,172	5,236
		2,236,731	1,994,147

The consolidated financial statements on pages 39 to 82 were approved by the Board of Directors and authorised for issue on 26 March, 2008 and are signed on its behalf by:

Wu Jian-Zhong
DIRECTOR

Meng Jin-Xian
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

	Attributable to equity holders of the Company							
	Share capital RMB'000	Share premium RMB'000	Statutory common reserve fund (Note) RMB'000	Statutory common welfare fund (Note) RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 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)
Incorporation of a subsidiary	—	—	—	—	—	—	9,800	9,800
Dividend paid by the Company	—	—	—	—	(54,916)	(54,916)	—	(54,916)
Dividend paid by subsidiaries	—	—	—	—	—	—	(427)	(427)
Acquisition of subsidiaries	—	—	—	—	—	—	47,586	47,586
Profit for the year and total recognised income	—	—	—	—	212,308	212,308	13,644	225,952
Profit appropriations	—	—	59,355	(24,084)	(35,271)	—	—	—
At 31 December 2006	305,087	1,132,062	107,806	—	350,596	1,895,551	93,360	1,988,911
Dividend paid by the Company	—	—	—	—	(85,424)	(85,424)	—	(85,424)
Dividend paid by subsidiaries	—	—	—	—	—	—	(1,657)	(1,657)
Contribution from minority shareholders	—	—	—	—	—	—	3,150	3,150
Profit for the year and total recognised income	—	—	—	—	300,078	300,078	25,501	325,579
Profit appropriations	—	—	31,682	—	(31,682)	—	—	—
At 31 December 2007	305,087	1,132,062	139,488	—	533,568	2,110,205	120,354	2,230,559

Note: Pursuant to the relevant People's Republic of China ("PRC") regulations and the Articles of Association of the companies within the Group, each of them is required to transfer 10% of its profit, as determined under the PRC accounting regulations, to the statutory common reserve fund until the fund aggregates to 50% of its registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

The statutory common reserve fund shall only be used to make good previous year's losses or to increase its capital. Upon approval by a resolution of shareholders' general meeting, each of them may convert its statutory common reserve fund into share capital/registered capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided the balance of the reserve fund after such issue is not less than 25% of the registered capital.

Pursuant to the changes of the relevant PRC regulations, starting from the year ended 31 December 2006, the Company and its subsidiaries are no longer required to appropriate their profit to the statutory common welfare fund. The balance of the statutory common welfare fund was transferred to the statutory common reserve fund during the year ended 31 December 2006.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	NOTES	2007 RMB'000	2006 RMB'000
OPERATING ACTIVITIES			
Profit for the year		325,579	225,952
Adjustments for:			
Income tax expense		131,992	104,748
Finance costs		16,589	5,654
Share of profit of associates		(43,332)	(7,148)
Share of loss of a joint venture		2,426	—
Depreciation for property, plant and equipment		117,898	80,504
Amortization of Prepaid lease payments		4,634	5,688
Amortisation for land use right		873	873
Gain on disposal of an associate		—	(784)
Loss on disposal of property, plant and equipment		3,718	125
Fair value changes on derivative financial liabilities		(20,041)	(12,635)
Impairment for deposit paid for acquisition of an associate		—	18,336
Interest income		(10,380)	(11,928)
Operating cash flows before movements in working capital		529,956	409,385
Increase in inventories		(112,707)	(31,828)
Decrease (increase) in trade and other receivables		75,887	(45,621)
Decrease (increase) in amounts due from related parties		276,859	(171,560)
Decrease in held-for-trading investment		5,486	26,060
(Decrease) increase in trade and other payables		(174,225)	455,309
Increase in amounts due to related parties		47,012	(12,872)
Cash generated from operations		648,268	628,873
Interest received		10,380	11,928
Income tax paid		(128,067)	(91,715)
NET CASH FROM OPERATING ACTIVITIES		530,581	549,086
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(494,049)	(138,718)
Deposit paid for acquisition of property, plant and equipment		—	(64,019)
Proceeds from disposal of property, plant and equipment		390	1,680
Deposit paid for acquisition of associates		—	(23,336)
Acquisition of subsidiaries		—	(200,494)
Acquisition of an associate		(338)	(177,290)
Investment in a joint venture		(50,000)	—
Proceed from disposal of an associate		—	4,850
Decrease (increase) in pledged deposits		93,067	(93,067)
Dividend received from associates		15,148	3,528
NET CASH USED IN INVESTING ACTIVITIES		(435,782)	(686,866)

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	NOTES	2007 RMB'000	2006 RMB'000
FINANCING ACTIVITIES			
New bank loans raised		**275,460**	100,000
Repayments of bank loans		**(175,460)**	(24,292)
Repayment to a related party		**—**	(35,780)
Payment for finance leases		**(4,193)**	—
Interest paid		**(16,589)**	(5,654)
Proceeds from issue of shares		**—**	465,767
Expenses on issue of shares		**—**	(7,623)
Dividend paid		**(85,424)**	(54,916)
Dividend paid to minority shareholders of subsidiaries		**(1,657)**	(427)
Contribution by minority shareholders upon incorporation of a subsidiary		**3,150**	9,800
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(4,713)**	446,875
NET INCREASE IN CASH AND CASH EQUIVALENTS		**90,086**	309,095
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**725,093**	415,998
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash		**815,179**	725,093

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

1. GENERAL

The Company is registered in the PRC as a joint stock company with limited liability and its H shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "SEHK"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the operation of superstores and mini-marts.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

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

In the current year, 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 1 January 2007.

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

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective. The directors of the Company 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. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ('HKFRSS") (Continued)

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKAS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC) — Int 12	Service Concession Arrangements[4]
HK(IFRIC) — Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) — Int14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 July 2009

3 Effective for annual periods beginning on or after 1 March 2007

4 Effective for annual periods beginning on or after 1 January 2008

5 Effective for annual periods beginning on or after 1 July 2008

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the SEHK and by the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

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

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

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

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of a subsidiary or an associate after 1 January 2002, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired (See the accounting policy below).

Goodwill arising on acquisitions on or after 1 January 2005

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Goodwill arising on acquisitions on or after 1 January 2005 (Continued)

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

On subsequent disposal of the relevant cash-generating unit or a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

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

Revenue recognition

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

Revenue from the sales of merchandise is recognised when the merchandise is delivered and title has passed.

Rental income from leasing of shop premises is recognised on a straight-line basis over the relevant lease term.

Service income is recognised when services are rendered.

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

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

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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

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

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Land use right

Land use right represents the excess of the fair value over the carrying amount of the prepaid lease payments of leasehold interest in land in the PRC at the acquisition date of business combination. Such land use right is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for land use right is provided on a straight-line basis over the original lease term.

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

Inventories

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable and deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is recongised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leasing

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

The Group as lessor

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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

Borrowing costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

Payments to state-managed retirement benefits schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets at fair value through profit or loss

Financial assets at FVTPL represent financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including trade and other receivables, amounts due from related parties, pledged deposits and bank balances are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the loans and receivables have been impacted. The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Trade receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of loans and receivables (Continued)

An impairment loss of loans and receivables is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

The carrying amount of the loans and receivables is reduced by the impairment loss directly with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL represents derivative that is not designated and effective as a hedging instrument. At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

Other financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Equity instruments

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

Derecognition

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumption concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, the carring amount of goodwill was RMB404,711,000 and no impairment loss has been provided. Details of the recoverable amount calculation are disclosed in note 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

5. REVENUE AND OTHER REVENUES

Revenue and other revenues recognised during the year are as follows:

	2007 RMB'000	2006 RMB'000
Revenue		
Sales of merchandise	7,118,755	5,159,666
Other revenues		
Rental income from leasing of shop premises	199,246	156,685
Income from suppliers, including store display income and promotion income	547,804	376,998
	747,050	533,683
Total revenue	7,865,805	5,693,349

6. 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.

7. INVESTMENT AND OTHER INCOME

	2007 RMB'000	2006 RMB'000
Government subsidies (Note)	4,014	4,981
Interest income	10,380	10,356
Delivery service income	20,799	29,269
Gain on disposal of an associate	—	784
Fair value changes of held-for-trading investments	39,540	25,460
Fair value changes on derivative financial liabilities	20,041	12,635
Others	27,127	23,628
	121,901	107,113

Note:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

8. FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interests on:		
— Bank loans wholly repayable within five years	15,902	5,654
— Finance lease	687	—
	16,589	5,654

9. PROFIT FOR THE YEAR

	2007 RMB'000	2006 RMB'000
Profit before tax has been arrived at after charging (crediting):		
Impairment of deposit paid for acquisition of an associate	–	18,336
Auditor's remuneration	3,950	4,800
Depreciation for property, plant and equipment	117,898	80,504
Amortisation of prepaid lease payments	4,634	5,688
Amortisation for land use right	873	873
Increase in fair value of held-for-trading investments	–	(2,621)
Operating lease rentals in respect of rented premises	238,285	147,624
Staff costs:		
Directors' emoluments	1,660	1,652
Other staff costs		
— Salaries and other benefits	227,882	138,636
— Retirement benefits scheme contributions	22,188	21,980
	251,730	162,268
Share of tax of associates (included in share of profit of associates)	22,394	4,821
Loss on disposal of property, plant and equipment	3,718	125

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the six (2006: six) directors were as follows:

2007	Wu Jian-zhong China RMB'000	Meng Jin-xian China RMB'000	Xu Ying China RMB'000 Note (b)	Han Ying China RMB'000	Li Lu-an China RMB'000	Lv Jiang China RMB'000	Total RMB'000
Fees	—	—	—	60	60	60	180
Other emoluments							
Salaries and other benefits	434	612	332	—	—	—	1,378
Contributions to retirement benefits schemes	34	34	34	—	—	—	102
Total emoluments	468	646	366	60	60	60	1,660

2006	Zhang Wen-zhong China RMB'000 Note (a)	Wu Jian-zhong China RMB'000	Meng Jin-xian China RMB'000	Han Ying China RMB'000	Li Lu-an China RMB'000	Lv Jiang China RMB'000	Total RMB'000
Fees	—	—	—	60	60	60	180
Other emoluments							
Salaries and other benefits	466	357	547	—	—	—	1,370
Contributions to retirement benefits schemes	34	34	34	—	—	—	102
Total emoluments	500	391	581	60	60	60	1,652

Notes:

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

(b) Madam Xu Ying was appointed as an executive Director of the Company during the year ended 31 December 2007.

The amounts disclosed above included directors' fees of RMB180,000 (2006: RMB180,000) payable to independent non-executive directors. No other emoluments were paid to the independent non-executive directors during the year.

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

No directors waived any emoluments during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

11. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals included three (2006: three) directors of the Company for the year (details of whose emoluments are set out in note 10 above), the emoluments of the remaining two (2006: two) highest paid individuals for the year were as follows:

	2007 RMB'000	2006 RMB'000
Salaries and other benefits	**2,713**	523
Retirement benefits scheme contributions	**34**	31
	2,747	554

Their emoluments were within the following bands:

	2007 No. of employees	2006 No. of employees
HK$ nil to HK$1,000,000	**1**	2
HK$2,000,001 to HK$2,500,000	**1**	—

No emoluments were paid by the Group to any of the five highest paid individuals as a discretionary bonus or an inducement to join or upon joining the Group or as a compensation for loss of office for the year.

12. INCOME TAX EXPENSE

	2007 RMB'000	2006 RMB'000
The charge (credit) comprises:		
PRC income tax	**134,338**	117,212
Deferred tax (note 30)		
Current year	**(6,112)**	(12,464)
Attributable to a change in tax rate	**3,766**	—
	(2,346)	(12,464)
	131,992	104,748

PRC income tax is calculated at 33% (2006: 33%) of the estimated assessable profit for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

12. INCOME TAX EXPENSE (Continued)

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate applicable to the Group from 33% to 25% at once effective 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

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

	2007 RMB'000	2006 RMB'000
Profit before tax	457,571	330,700
Taxation at the PRC income tax rate of 33%	150,998	109,131
Tax effect of tax rate changes	3,766	—
Tax effect of share of profit of associates and a joint venture	(13,499)	(2,359)
Effect of government subsidies that are not assessable in determining taxable profit	—	(1,644)
Tax effect of income that is not taxable in determining taxable profit	(6,614)	(4,170)
Tax effect of expenses that are not deductible in determining taxable profit	1,252	2,079
Tax effect of unrecognised tax losses	4,025	1,871
Tax effect of additional tax deductible expense in determining taxable profit	(6,859)	—
Tax effect of utilisation of tax losses not previously recognised	(1,077)	(160)
Income tax for the year	131,992	104,748

13. DIVIDEND

	2007 RMB'000	2006 RMB'000
Domestic shares and H shares:		
Proposed final dividends of RMB0.13 (2006: RMB0.07) per share	158,645	85,424
Dividends paid of RMB0.07 (2006: RMB0.045) per share	85,424	54,916

The proposed final dividends of RMB0.13 (2006: RMB0.07) is subject to approval by the shareholders in general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

14. EARNINGS PER SHARE

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

	2007 RMB'000	2006 RMB'000
Profit for the year attributable to equity holders of the Company	300,078	212,308
	'000	'000
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	1,220,348	1,206,137

No difference between basic and diluted earnings per share exists as the Company did not have any potential ordinary shares outstanding during both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RMB'000	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
COST							
At 1 January 2006	4,836	608,763	184,578	162,253	29,927	2,931	993,288
Additions	28,674	1,159	68,088	29,899	10,278	620	138,718
Additions upon acquisition of subsidiaries	1,922	142,122	75,595	97,589	10,370	10,049	337,647
Transfer	(14,769)	9,767	3,171	1,831	–	–	–
Disposals	–	–	–	(2,504)	(406)	(112)	(3,022)
At 31 December 2006	20,663	761,811	331,432	289,068	50,169	13,488	1,466,631
Additions	206,775	181,528	87,747	55,895	39,742	800	572,487
Transfer	(225,105)	187,404	34,673	2,474	554	–	–
Disposals	–	–	(1,484)	(3,273)	(1,862)	(201)	(6,820)
At 31 December 2007	2,333	1,130,743	452,368	344,164	88,603	14,087	2,032,298
DEPRECIATION							
At 1 January 2006	–	13,563	44,085	44,144	12,805	668	115,265
Provided for the year	–	16,938	24,654	30,192	8,092	628	80,504
Eliminated on disposals	–	–	–	(717)	(406)	(94)	(1,217)
At 31 December 2006	–	30,501	68,739	73,619	20,491	1,202	194,552
Provided for the year	–	27,348	40,440	37,656	11,138	1,316	117,898
Eliminated on disposals	–	–	(471)	(637)	(1,539)	(65)	(2,712)
At 31 December 2007	–	57,849	108,708	110,638	30,090	2,453	309,738
CARRYING VALUES							
At 31 December 2007	2,333	1,072,894	343,660	233,526	58,513	11,634	1,722,560
At 31 December 2006	20,663	731,310	262,693	215,449	29,678	12,286	1,272,079

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	2.5%—4%
Leasehold improvements	10%—20%
Furniture, fixtures and equipment	6.47%—19.4%
Electronic equipment	19.4%
Motor vehicles	9.7%

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

The net book value of electronic equipment includes an amount of RMB12,769,000 (2006: Nil) in respect of assets held under finance lease.

16. INTERESTS IN ASSOCIATES

	2007 RMB'000	2006 RMB'000
Cost of investments in associates		
Listed in the PRC	210,304	209,966
Unlisted	103,189	103,189
Share of post-acquisition profits, net of dividend received	45,314	17,130
	358,807	330,285
Market value of listed shares	986,269	356,307

Included in the cost of investment in associates at 31 December 2007 was goodwill of RMB97,368,000 (2006: RMB97,368,000 (restated)). The carrying amount of the goodwill represents goodwill arising from acquisition of Beijing Chao Shifa Company Limited ("Chao Shifa") and Yinchuan Xinhua Department Store Co., Ltd. ("Xinhua Department Store") of RMB57,525,000 (2006: RMB57,525,000) and RMB39,843,000 (2006: RMB39,843,000 (restated)) respectively. The movement of goodwill is set out below.

	RMB'000
At 1 January 2006	57,525
Acquisition of an associate	34,499
At 31 December 2006	
— as originally stated	92,024
— adjustment to goodwill of the acquisition of Xinhua Department Store	5,344
At 31 December 2006 (restated) and 31 December 2007	97,368

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

16. INTERESTS IN ASSOCIATES (Continued)

During the year, Xinhua Department Store paid employee compensation of RMB26,316,000 to its employees according to relevant government circulars related to the change of the status of Xinhua Department Store from a state owned enterprise to a privately held enterprise in the past. Such an amount related to condition existed on the date of acquisition of Xinhua Department Store but was not determinable until the current year (within 12 months from date of acquisition). As a result, the fair value of identifiable assets and liabilities of Xinhua Department Store as at the acquisition date reduced by RMB18,276,000 after deducting tax effect of RMB8,040,000. Consequently, the goodwill arising from the acquisition was increased by RMB5,344,000 during the year.

As at 31 December 2007, the Group had interests in the following associates:

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Class of share held	Proportion of nominal value of issued capital/ registered capital held by the Group 2007	2006	Principal activities
Chao Shifa	Incorporated	PRC	PRC Beijing	Ordinary	25.03%	25.03%	Superstores
Xinhua Department Store	Incorporated	PRC	PRC Ningxia	Ordinary	29.27% (Note)	29.24%	Department stores and superstores
Beijing Chongwenmen Vegetable Market Supermarket Company Limited	Incorporated	PRC	PRC Beijing	Ordinary	49%	49%	Superstores and mini-marts
Beijing Meiyijia Marketing Limited	Incorporated	PRC	PRC Beijing	Ordinary	25%	25%	Design, production agency and distribution of advertisements in the PRC

Note: On 4 June 2007, the Group acquired additional 0.03% equity interest of Xinhua Department Store for a cash consideration of approximately RMB338,000 by virtue of exercising the Put Options mentioned in note 27. As at 31 December 2007, approximate 74.28% (2006: 62.83%) equity shares of Xinhua Department Store were tradable on the Shanghai Stock Exchange (“Shanghai Exchange”). Among the shares held by the Group, only 6,213,852 (2006: Nil) shares are tradable shares, representing a market capitalization of approximately RMB169,576,000 at the balance sheet date, while the remaining 29,926,450 (2006: 36,100,000) shares held by the Group will not be tradable until the expiry of the lock-up period on 1 September 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

16. INTERESTS IN ASSOCIATES (Continued)

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

	2007 RMB'000	2006 RMB'000
Total assets	2,316,957	2,345,727
Total liabilities	(1,458,882)	(1,569,671)
Net assets	858,075	776,056
Group's share of net assets of associates	261,439	238,261
Revenue	4,578,164	2,799,803
Profit for the year	145,533	18,067
Group's share of result of associates for the year	43,332	7,148

17. INTERESTS IN A JOINT VENTURE

	2007 RMB'000	2006 RMB'000
Cost of unlisted investment in a jointly controlled entity	50,000	—
Share of post-acquisition loss	(2,426)	—
	47,574	—

As at 31 December 2007, the Group had interests in the following significant jointly controlled entity:

Name of entity	Form of business structure	Place of incorporation operation	Registered Capital RMB'000	Proportion of registered capital held by the Group 2007	2006	Proportion of voting power held 2007	2006	Principal activity
Beijing Aoshikai Wumart Company Ltd.	Incorporated	PRC	100,000	50%	—	50%	—	Superstores and mini-marts

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

17. INTERESTS IN A JOINT VENTURE (Continued)

The summarised financial information in respect of the Group's jointly controlled entity which is accounted for using the equity method is set out below:

	2007 **RMB'000**	2006 RMB'000
Current assets	**81,696**	—
Non-current assets	**158,657**	—
Current liabilities	**145,205**	—
Net assets	**95,148**	—
Group's share of net assets of joint venture	**47,574**	—
Non-current liabilities	**—**	—
Income	**50,870**	—
Expenses	**55,722**	—
Loss for the year	**(4,852)**	—
Group's share of result of a joint venture for the year	**(2,426)**	—

18. GOODWILL

	RMB'000
COST	
At 1 January 2006	144,564
Additions on acquisition of subsidiaries	260,147
At 31 December 2006 and 31 December 2007	404,711
CARRYING VALUES	
At 31 December 2006 and 31 December 2007	404,711

The directors of the Company consider that each subsidiary represents a separate cash generating unit ("CGU") for the purpose of goodwill impairment testing. These CGUs include two (2006: two) subsidiaries in superstores and two (2006: two) subsidiaries in mini-marts. The carrying amounts of goodwill as at 31 December 2007 allocated to these units are as follows:

	2007 **RMB'000**	2006 RMB'000
Superstores	**403,707**	403,707
Mini-marts	**1,004**	1,004
	404,711	404,711

18. GOODWILL (Continued)

During the year ended 31 December 2007, directors of the Group determine that there are no impairments of any of its CGUs containing goodwill. The recoverable amounts of the CGUs are determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate and growth rate. The Group prepared cash flow forecasts derived from the one year financial budgets and extrapolates cash flows for the following nine years based on an estimated growth rate of 5% and a discount rate of 7.47% (2006: 6%). The growth rate used does not exceed the average long-term growth rate for the relevant markets. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the past performance of each CGUs and management's expectations for the market development. Directors believe that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of each CGUs.

19. LAND USE RIGHT

	RMB'000
COST	
At 1 January 2006, 31 December 2006 and 2007	30,834
AMORTISATION	
At 1 January 2006	873
Provided for the year	873
At 31 December 2006	1,746
Provided for the year	873
At 31 December 2007	2,619
CARRYING VALUES	
At 31 December 2007	28,215
At 31 December 2006	29,088

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

20. PREPAID LEASE PAYMENTS

	2007 RMB'000	2006 RMB'000
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in the PRC	7,029	7,214
Prepaid lease rentals	37,708	42,157
	44,737	49,371
Analysed for reporting purposes as:		
Current assets	27,971	25,880
Non-current assets	16,766	23,491
	44,737	49,371

21. INVENTORIES

	2007 RMB'000	2006 RMB'000
At cost:		
Merchandise for resale	474,236	364,255
Consumables	6,035	3,309
	480,271	367,564

22. TRADE AND OTHER RECEIVABLES

	2007 RMB'000	2006 RMB'000
Trade receivables	24,745	105,167
Prepayments to suppliers	59,619	54,384
Deductible input value added tax	196,050	199,744
Deposits and other receivables	131,820	128,826
	412,234	488,121

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. Before accepting any new franchised store and store managed by the Group, the Group will assess the potential credit quality and defines credit limits by store. Credit limits attributed to franchised stores and stores managed by the Group are reviewed twice a year. All of the trade receivables are neither past due nor impaired at the balance sheet date. The Group's retail sales to customers are mainly conducted on cash basis, including payments by cash and credit cards.

22. TRADE AND OTHER RECEIVABLES (Continued)

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

	2007 RMB'000	2006 RMB'000
0—30 days	18,990	65,820
31—60 days	5,755	39,347
	24,745	105,167

Comparative figures in respect of current portion of prepaid lease payment are reclassified from trade and other receivables to prepaid lease payment.

23. AMOUNTS DUE FROM/TO RELATED PARTIES

	2007 RMB'000	2006 RMB'000
Loan to an associate	100,000	100,000
Amounts due from associates and a joint venture	70,022	109,837
Amounts due from subsidiaries of a Company's shareholder which has significant influence over the Company ("Company's Controlling Shareholder")	175,656	411,806
Amounts due from minority shareholders of subsidiaries	24,979	25,873
	370,657	647,516
Amount due to associates	15,603	—
Amount due to subsidiaries of the Company's Controlling Shareholder	32,448	1,039
	48,051	1,039

Loan to an associate represents an loan granted to an associate due within one year. The loan carries fixed interest rate of 6.12% (2006: 5.85%) per annum.

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

	2007 RMB'000	2006 RMB'000
0—30 days	120,537	203,881
31—60 days	83,259	163,434
61—90 days	41,882	154,328
	245,678	521,643

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

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

The amounts due from minority shareholders of subsidiaries are non-trade in nature, interest free and have no fixed repayment terms.

The amounts due to associates and subsidiaries of the Company's Controlling Shareholder are trade in nature, unsecured and non-interest bearing. The average aging is 60 days.

Included in those balances that are trade in nature are debtors with a carrying amount of RMB41,882,000 (2006: RMB154,328,000) which are past due at the balance sheet date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

24. PLEDGED DEPOSITS

The pledged deposits of RMB93,067,000 as at 31 December 2006 have been fully released by the banks during the year.

An amount of RMB100,000,000 as at 31 December 2006 included in pledged deposits has been reclassified as amounts due from related parties to conform with current year presentation.

25. BANK BALANCES AND CASH

Bank balances and cash comprise short-term bank deposits with an original maturity of three months or less and cash held by the Group. The bank deposits carry interests at market rates which range from 0.72% to 1.71% (2006: 0.72% to 1.44%) per annum.

26. TRADE AND OTHER PAYABLES

	2007 RMB'000	2006 RMB'000
Trade payables	1,466,118	1,776,731
Other payables, deposits and accruals	620,201	483,813
	2,086,319	2,260,544

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

	2007 RMB'000	2006 RMB'000
0–30 days	907,729	772,472
31–60 days	380,310	830,308
61–90 days	99,369	122,191
Over 90 days	78,710	51,760
	1,466,118	1,776,731

The average credit period on purchase of merchandises is 60 days (2006: 60 days).

27. DERIVATIVE FINANCIAL LIABILITIES

	2007 RMB'000	2006 RMB'000
Put options	–	20,041

On 9 April 2006, the Company entered into the share transfer contract with Yinchuan Xinhua Department Store ("Share Transfer Contract") for the acquisition of Xinhua Department Store. The shares of Xinhua Department Store are listed on the Shanghai Exchange. Pursuant to the relevant regulations of the PRC, Xinhua Department Store as a PRC listed company was 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 Department Store.

On 9 August 2006 the share reform proposal of Xinhua Department Store ("Share Reform Proposal") was approved by the shareholders of Xinhua Department Store. Pursuant to the Share Reform Proposal, on 31 August 2006, the Company granted irrevocable rights ("Put Options") to the shareholders of Xinhua Department Store who held shares of Xinhua Department Store which were 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 were 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 Department Store pursuant to the right issue under the Share Reform Proposal ("Adjusted Exercise Price")) per Tradable Share on 31 May 2007. The fair value of the Put Options is calculated using the Black-Scholes-Marton Option Pricing Model.

On 31 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 acquired such Tradable Shares for an aggregate consideration of about RMB338,000 inclusive of, inter alia, transfer fee and stamp duty. All Put Options which had not been exercised on 31 May 2007 expired and the obligation of the Company in connection with the Put Options was released.

Change in fair value between 1 January 2007 and the exercise date of RMB20,041,000 was recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

28. BANK LOANS

	2007 RMB'000	2006 RMB'000
Secured	75,460	75,460
Unsecured	200,000	100,000
	275,460	175,460

The loans are repayable within one year and carry interests at fixed rates ranging from 6.48% to 7.29% (2006: 6.21% to 6.48%) per annum.

As at 31st December, 2007, the secured bank loan of RMB75,460,000 (2006: RMB75,460,000) was secured by the pledge of leasehold land and building with a carrying amount of RMB105,126,000 (2006: RMB107,821,000). The unsecured bank loan is guaranteed by the Company's controlling shareholder (2006: by a subsidiary of the Company's controlling shareholder).

29. SHARE CAPITAL

	Number of Domestic Shares '000	Number of H Shares '000	Value RMB'000
Authorised, issued and fully paid:			
Ordinary shares of RMB1 each 1 January 2006	178,445	105,542	283,987
Issue of H shares (Note a)	—	21,100	21,100
Share subdivision (Note b)	535,335	379,926	—
Ordinary shares of RMB0.25 each at 31 December 2006 and 31 December 2007	713,780	506,568	305,087

Notes:

(a) On 7 February 2006, an aggregate of 21,100,000 H shares of HK$21.4 per share were placed. The net proceeds of approximately RMB465,767,000 were intended to be used for possible acquisition and/or investment of retail network. These shares rank pari passu with the existing H shares in issue in all respects.

(b) Pursuant to an ordinary resolution passed on 25 October 2005 and the approval of the China Securities Regulatory Commission on 28 August 2006, the Company's issued shares (both Domestic shares and H shares) of RMB1 each were subdivided into 4 new shares of RMB0.25 each ("Share Subdivision"). The Share Subdivision took effect on 26 October 2006.

(c) Domestic shares and H shares are all ordinary shares in the share capital of the Company. However, H shares may only be subscribed for by, and traded in currencies other than RMB between, legal or natural persons of Hong Kong, the Macau Special Administrative Region, Taiwan or any country other than the PRC. Domestic shares must be subscribed for and traded only by PRC citizen 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 5 December 2002. This period expired on 4 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

30. DEFERRED TAX ASSETS/LIABILITIES

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

	Impairment for deposit paid for acquisition of an associate RMB'000	Effective rent RMB'000	Fair value adjustments of properties RMB'000	Fair value change of investments held-for-trading RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2006	—	—	—	—	1,997	1,997
Acquisition of a subsidiary	—	10,959	(15,999)	—	—	(5,040)
Credited (charged) to income statement for the year	6,049	4,839	133	(865)	2,308	12,464
At 31 December 2006	6,049	15,798	(15,866)	(865)	4,305	9,421
Credited (charged) to income statement for the year	—	5,687	426	865	(866)	6,112
Effect of change in tax rate	(1,467)	(5,208)	3,743	—	(834)	(3,766)
At 31 December 2007	4,582	16,277	(11,697)	—	2,605	11,767

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

	2007 RMB'000	2006 RMB'000
Deferred tax assets	**12,823**	14,657
Deferred tax liabilities	**(1,056)**	(5,236)
	11,767	9,421

At 31 December 2007, the Group had unused tax losses of RMB27,781,000 (2006: RMB21,473,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB10,420,000 (2006: RMB13,045,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB17,361,000 (2006: RMB8,428,000) due to unpredictability of future profit stream.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

31. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its electronic equipments under finance leases. The average lease term is 3 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates at 8.62% per annum.

	Minimum lease payments		Present value of minimum lease payments	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Amounts payable under finance leases				
Within one year	5,388	—	5,110	—
In more than one year but not more than two years	5,388	—	4,695	—
In more than two years but not more than five years	508	—	421	—
	11,284	—	10,226	
Less: future finance charges	(1,058)	—	N/A	N/A
Present value of lease obligations	10,226	—		
Less: Amount due for settlement with 12 months (shown under current liabilities)			(5,110)	—
Amount due for settlement after 12 months			5,116	—

The Group's obligations under financial lease are secured by lessor's charge over the related leased assets.

32. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes bank loans and obligations under finance leases and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

33. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2007 RMB'000	2006 RMB'000
Financial assets		
Held for trading investments	–	5,486
Loans and receivables (including cash and cash equivalents)		
Trade receivables	24,745	105,167
Deposits and other receivables	131,820	128,826
Amounts due from related parties	370,657	647,516
Bank balances and cash	815,179	725,093
Pledged deposits	–	93,067
	1,342,401	1,699,669
	1,342,401	1,705,155
Financial liabilities		
Derivative financial liability	–	20,041
Amortised costs		
Trade payables	1,466,118	1,776,731
Accruals and other payables	410,333	351,215
Amounts due to related parties	36,063	1,039
Bank Loan	275,460	175,460
Obligation under finance leases	10,226	—
	2,198,200	2,304,445
	2,198,200	2,324,486

(b) Financial risk management objectives and policies

The Group's major financial instruments include held-for-trading investments, bank loans, cash and bank balances, trade and other receivables, trade and other payables. Amounts due from/to related parties, derivative financial liabilities and obligations under finance lease. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk

The Group's activities expose it primarily to the market risks of changes in interest rate risk and other price risk. Market risk exposures are further measured by sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk. The Group's market risk exposure is minimal. Details of each type of market risks are described as follows:

Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate loan to an associate, bank loans and obligations under finance lease (see note 23, note 24, note 28 and 31 respectively for details) and the Group's cash flow interest rate risk relates primarily to floating-rate bank balances (see note 25 for details).

The Group aims at keeping majority of its borrowings at fixed-rate of interest and also aims at keeping its fixed-rate borrowings on a short-term basis so as to minimise the interest rate risk. In order to achieve this result, the borrowings made by the Group are all within one year period. The Group currently does not have interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk section of this note.

Interest rate sensitivity

No sensitivity analysis is presented as management consider the sensitivity on interest rates is insignificant.

Foreign currency risk

Foreign currency risk refers to the risk of movement in foreign currency exchange rate which will affect the Group's financial results and cash flows. The management considers the Group does not expose to significant foreign currency risk as majority of its operations and businesses are transacted in functional currency of Renminbi and denominated in Renminbi.

Other price risk

The Group is exposed to equity price risk through its held-for-trading investments in listed equity securities and derivative financial liability (see note 27 for details). The management manages this exposure by controlling the scale of the relevant investments and financial liability. The Group's equity price risk is mainly concentrated on equity securities quoted in the Shanghai Exchange and Shenzhen Stock Exchange. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposures if need.

Other price risk sensitivity

No sensitivity analysis is presented as management consider the sensitivity on equity price risk is insignificant in relation to the financial instruments outstanding at year end.

33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk

At the respective balance sheet dates, the Group's maximum exposure to credit risk which will cause financial loss to the Group due to failure to perform an obligations by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debtors. In addition, the Group reviews the recoverable amount of each individual trade debtor at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group's credit risk is concentrated with a few related parties. As at 31 December 2007, amount due from related parties was approximately RMB370,657,000 (2006: RMB647,516,000) comprised over 17.6% (2006: 27.5%) of the Group's current assets. The management closely monitors the subsequent settlement of the amount due from related parties. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other than concentration of credit risk on amount due from related parties, the Group does not have significant concentration of credit risk. The credit risk on liquid fund is limited because the Group's pledged deposits and bank balances are deposited with authorised banks in the PRC with high credit-ratings.

Liquidity risk

At 31 December 2007, the Group had net current liabilities amounting to RMB354,725,000 (2006: RMB144,183,000), respectively with short-term bank loans of RMB275,460,000 (2006: RMB175,460,000) which the directors of the Company believe could be renewed on an annual basis. The Group is exposed to liquidity risk of being unable to raise sufficient funds to meet its financial obligations when they fall due.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on cash generated from operating activities as a significant source of liquidity. For the year ended 31 December 2007, the Group have cash generated from operating activities of approximately RMB530,581,000 (2006: RMB549,086,000). Other than the cash generated from operating activities, the Group's management is responsible to maintain continuing of funding from bank loans and the management also monitors the utilisation of bank loans and ensures compliance with loan covenants.. The directors believe that the Group will have sufficient funds available to meet its financial obligations in the foreseeable future based on management working capital forecast.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The following tables detail the Group's contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Less than 1 month RMB'000	1-3 months RMB'000	3 months to 1 year RMB'000	1-5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at year end RMB'000
At 31 December 2007							
Non-derivative financial liabilities							
Trade and other payables	–	566,650	1,169,261	140,540	–	1,876,451	1,876,451
Amount due to related parties	–	36,063	–	–	–	36,063	36,063
Bank loans							
– fixed rate	6.96	1,526	3,053	282,367	–	286,946	275,460
Obligation under finance lease	8.62	–	1,347	4,041	5,896	11,284	10,226
		604,239	1,173,661	426,948	5,896	2,210,744	2,198,200
At 31 December 2006							
Non-derivative financial liabilities							
Trade and other payables	–	675,468	1,335,936	116,542	–	2,127,946	2,127,946
Amount due to related parties	–	1,039	–	–	–	1,039	1,039
Bank loans							
– fixed rate	6.27	1,245	1,810	181,545	–	184,600	175,460
		677,752	1,337,746	298,087	–	2,313,585	2,304,445
Derivative financial liability		–	–	647,718	–	647,718	20,041
		677,752	1,337,746	945,805	–	2,961,303	2,324,486

(c) Fair value

The fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model (for example, the Black-Scholes-Marton option pricing model).

The directors consider that the carrying amounts of all financial assets and financial liabilities recorded at amortised cost at the respective balance sheet dates approximated their corresponding fair values.

34. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of RMB14,419,000.

35. 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:

	2007 RMB'000	2006 RMB'000
Within one year	243,791	220,186
In the second to fifth year inclusive	899,045	824,256
Over five years	1,773,322	1,404,266
	2,916,158	2,448,708

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:

	2007 RMB'000	2006 RMB'000
Within one year	121,364	110,536

36. CAPITAL COMMITMENTS

	2007 RMB'000	2006 RMB'000
Capital expenditure		
in respect of property, plant and equipment	18,720	200,074
in respect of interest in a joint venture	50,000	—
	68,720	200,074

37. LITIGATION

On 20 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 22 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 21 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 and the Acquisition Agreement are 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 the Acquisition Agreement; and (d) an order requiring the defendants, including the Company, to bear all costs relating to the Claim.

On 20 December 2007, Beijing Municipal High-Level People's Court announced the judgment of first trial in respect of the Claim that the Trust Agreement and the Acquisition Agreement are valid and that Chao Shifa Shareholder should bear all costs relating to the Claim. Chao Shifa Shareholder disputed the judgment and had appealed to The Supreme People's Court of the P.R.C.

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 appeal by Chao Shifa Shareholder has not commenced as at the date of approval of these financial statements.

38. POST BALANCE SHEET EVENT

On 23 January 2008, the Company and Wumei Holdings Inc. entered into an agreement in respect of the exchange of the Company's holding of 29.27% equity interest of Xinhua Department Store for the 100% equity interest in Hangzhou Tiantian Wumart Commerce Company Limited ("Hangzhou Commerce") currently owned by Wumei holding Inc. on a non-cash transaction. After completion of the Acquisition, Hangzhou Commerce will become a wholly-owned subsidiary of the Company and the Company will relinquish all its interests in Xinhua Department Store. Details of the transaction are set out in the Group's circular dated on 20 February 2008. The transaction is subject to the independent shareholders' approval by means of a poll at a general meeting of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

39. RELATED PARTY TRANSACTIONS

(a) Apart from the amounts due from and to related companies as disclosed in note 23, during the year, the Group had the following related party transactions:

	2007 RMB'000	2006 RMB'000
Sales to associates and a joint venture	262,732	196,717
Sales to subsidiaries of the Company's Controlling Shareholder	440,821	706,770
Purchase from a subsidiary of the Company's Controlling Shareholder	8,969	5,257
Purchase from associates	62,659	23,539
Service fee income from subsidiaries of the Company's Controlling Shareholder in respect of merchandise delivery services	13,100	18,295
Service fee income from associates and a joint venture in respect of merchandise delivery services	3,453	2,532
Management fee income from subsidiaries of the Company's Controlling Shareholder	1,300	649
Rental expense to a subsidiary of the Company's Controlling Shareholder	3,605	1,039

As at 31 December 2007, the Company's controlling shareholder provided a guarantee free of charge for the Company's unsecured bank loan of RMB200,000,000.

(b) Compensation of key management personnel

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

	2007 RMB'000	2006 RMB'000
Short-term benefits	5,876	2,854
Post-employment benefits	225	184
	6,101	3,038

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

40. PARTICULARS OF THE COMPANY'S SUBSIDIARIES

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

Name	Registered and fully paid capital	Proportion of nominal value of registered capital held by the Company Directly	Indirectly	Principal activities
	RMB	%	%	
Beijing Wumart Bolante Convenience Stores Company Limited	10,000,000	80	—	Mini-marts
Beijing Wumart Stores Company Limited	10,000,000	80	16	Superstores
Beijing Mencheng Wumart Shangcheng Company Limited	1,000,000	70	—	Superstores
Beijing Wumart Tongfu Commerce Company Limited	1,000,000	55	—	Superstores
Beijing Wumart Tianxiang Convenience Stores Company Limited	1,000,000	60	—	Mini-marts
Beijing Tongtang Wumart Convenience Stores Company Limited	1,000,000	60	—	Mini-marts
Beijing Wumart Jingxi Convenience Stores Company Limited	1,000,000	75	—	Mini-marts
Beijing Wumart Gulou Commerce and Trading Company Limited	10,000,000	65	—	Superstores
Beijing Wumart Convenience Stores Company Limited	50,000,000	80	—	Mini-marts
Beijing Jiahe Wumart Commerce Company Limited	10,000,000	80	14.4	Superstores
Tianjin Wumart WeiLai Commercial Development Company Limited	1,000,000	80	19.2	Superstores
Baoding Wumart Stores Company Limited	1,000,000	80	19.2	Superstores
Beijing Wumart Hypermarket Commercial	10,000,000	95	4.8	Superstores

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

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

Name	Registered and fully paid capital	Proportion of nominal value of registered capital held by the Company		Principal activities
		Directly	Indirectly	
	RMB	%	%	
Beijing Wumart Jingbei Dashijie Commercial and Trading Company Limited	20,000,000	95	4.8	Superstores
Beijing Wumart Distribution Technology Company Limited	8,000,000	80	20	Superstores
Beijing Wumart Home Appliance Co., Ltd.	20,000,000	51	—	Home appliance wholesales
Beijing Merrymart Chainstores Development Company Limited	52,480,000	75	—	Superstores

FINANCIAL SUMMARY

	For the year ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Revenue	**7,118,755**	5,159,666	3,539,319	2,380,203	1,439,320
Cost of sales	**(6,580,967)**	(4,812,302)	(3,289,216)	(2,212,956)	(1,312,774)
Gross profit	**537,788**	347,364	250,103	167,247	126,546
Other revenues	**747,050**	533,683	379,279	217,080	135,542
Investment and other income	**121,901**	107,113	67,281	58,842	21,873
Distribution and selling expenses	**(754,420)**	(473,118)	(325,770)	(191,872)	(117,801)
Administrative expenses	**(219,065)**	(185,836)	(144,039)	(86,319)	(64,184)
Finance costs	**(16,589)**	(5,654)	(5,895)	(692)	(1,384)
Loss on disposal of subsidiaries	**—**	—	—	—	(74)
Share of profit of associates	**43,332**	7,148	11,883	5,633	7,931
Share of loss of a joint venture	**(2,426)**	—	—	—	—
Profit before tax	**457,571**	330,700	232,842	169,919	108,449
Income tax expense	**(131,992)**	(104,748)	(63,179)	(57,529)	(35,097)
Profit for the year	**325,579**	225,952	169,663	112,390	73,352
Attributable to:					
Equity holders of the Company	**300,078**	212,308	164,533	107,937	71,596
Minority interests	**25,501**	13,644	5,130	4,453	1,756
	325,579	225,952	169,663	112,390	73,352

	As at 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	**4,697,768**	4,491,057	2,748,638	1,843,814	1,146,964
Total liabilities	**(2,467,209)**	(2,502,146)	(1,445,866)	(659,113)	(336,641)
Minority interests	**(120,354)**	(93,360)	(22,757)	(18,101)	(14,813)
Equity attributable to equity holders of the Company	**2,110,205**	1,895,551	1,280,015	1,166,600	795,510