物美
WU MART

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

Quality
Safety
Reliability

THIRD QUARTERLY REPORT 2008

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

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

FINANCIAL HIGHLIGHTS (UNAUDITED)

Comparison of the unaudited results between the three months and the nine months ended 30 September 2008 and the corresponding periods of 2007

	Change	Three months ended 30 September 2008 RMB'000	2007 RMB'000
Total Revenue Note 1	23.6%	**2,494,377**	2,017,404
Consolidated gross profit Note 2	37.5%	**426,951**	310,488
EBITDA	24.1%	**181,330**	146,105
Net profit	10.1%	**82,463**	74,867
Earnings per share Note 3 — *basic and diluted*	10.1%	**RMB0.07**	RMB0.06

	Change	Nine months ended 30 September 2008 RMB'000	2007 RMB'000
Total Revenue Note 1	23.6%	**7,137,794**	5,774,720
Consolidated gross profit Note 2	34.0%	**1,235,437**	922,213
EBITDA	61.0% Note 4	**737,464**	457,947
Net profit	74.2% Note 5	**409,499**	235,136
Earnings per share Note 3 — *basic and diluted*	74.2% Note 6	**RMB0.34**	RMB0.19

- Number of stores amounted to 323.
- As of 30 September 2008, the Group had aggregate net assets of approximately RMB2,361,059,000.
- For the three months ended 30 September 2008, comparable store Note 7 sales grew by 7.9%.
- For the three months ended 30 September 2008, the Group's inventory turnover was 27 days, and creditor turnover was 69 days.

Note 1: Total revenue includes turnover and other revenue.

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

Note 3: The nominal value of the Company's shares is RMB0.25 each.

Note 4: For the nine months ended 30 September 2008, EBITDA of the Group was approximately RMB737,464,000. Excluding the effect of the gain on disposal of equity of approximately RMB180,463,000 arising from the equity swap between Hangzhou Tiantian Wumart Commerce Company Limited (杭州天天物美商業有限公司) ("Hangzhou Commerce") and Yinchuan Xinhua Department Store Company Limited (銀川新華百貨商店股份有限公司) ("Xinhua Department Store"), the Group's EBITDA would have been approximately RMB557,001,000, representing an actual growth of approximately 27.2% over the EBITDA of the corresponding period of 2007 of approximately RMB437,906,000 after excluding a book gain of approximately RMB20,041,000 arising from the fair value changes in derivative financial liabilities in 2007.

Note 5: For the nine months ended 30 September 2008, net profit of the Group was approximately RMB409,499,000. Excluding the effect of the net gain on disposal of equity of approximately RMB135,348,000 arising from the equity swap between Hangzhou Commerce and Xinhua Department Store, the Group's net profit would have been approximately RMB274,151,000, representing an actual growth of approximately 27.5% over the net profit for the corresponding period of 2007 of about RMB215,095,000 after excluding a book gain of approximately RMB20,041,000 arising from the fair value changes in derivative financial liabilities in 2007.

Note 6: Excluding the effect of the net gain on disposal of equity of approximately RMB135,348,000 arising from the equity swap between Hangzhou Commerce and Xinhua Department Store, the Group's earnings per share would have been approximately RMB0.22, representing an actual growth of approximately 27.5% over the earnings per share of approximately RMB0.18 for the same period of 2007 after excluding a book gain of approximately RMB20,041,000 arising from the fair value changes in derivative financial liabilities.

Note 7: Stores that have been operating in both the third quarter of 2007 and the third quarter of 2008.

CHAIRMAN'S STATEMENT

I am pleased to present the unaudited results of Wumart Stores, Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") for the three months (the "Reporting Period") and nine months ended 30 September 2008 (excluding the results of Zhejiang Gongxiao Supermarket Company Limited (浙江供銷超市有限公司) ("Zhejiang Gongxiao Supermarket")).

FINANCIAL REVIEW

During the Reporting Period, the Group generated total revenue of approximately RMB2,494,377,000, representing a growth of approximately 23.6% as compared with the corresponding period of the previous year. Excluding merchandise sales at cost to managed and franchised stores and associated companies, total revenue would have risen by 25.3% as compared with the corresponding period of 2007. The growth in total revenue was mainly attributable to an increase in comparable store sales over the corresponding period of the previous year, sales derived from new stores, and revenue contributed by Hangzhou Commerce. An increase in comparable store sales was attributable to enhancement of product category management, optimization of pricing strategies, and improvement in quality of services, resulting in increases in transaction volume and average transaction value.

During the Reporting Period, the Group's consolidated gross profit amounted to approximately RMB426,951,000, representing a growth of approximately 37.5% as compared with the corresponding period of the previous year. The Group's consolidated gross margin was approximately 17.1%. Excluding merchandise sales at cost to managed and franchised stores and associated companies, the Group's consolidated gross margin would have increased to approximately 18.3%, representing an increase of 1.6 percentage points as compared with 16.7% recorded in the corresponding period of the previous year. An increase in consolidated gross profit was primarily attributable to the reduction of unit merchandise costs as a result of economies of scale attained through centralized procurement, and a tightened control over gross profit in a more precise manner by utilizing the WINBOX@SAP system.

During the Reporting Period, net profit of the Group was approximately RMB82,463,000, representing an increase of approximately 10.1% compared with the corresponding period of the previous year. The increase in net profit was primarily due to a growth in consolidated gross profit. The aggregate of administrative expenses, selling and distribution costs accounted for approximately 12.8% of total revenue, representing an increase of 1.2 percentage points as compared with approximately 11.6% for the corresponding period of the previous year. The increase was mainly due to an increase in operating costs arising from the opening of new stores, an one-off amortization of expenses from the closure of stores, amortization costs of the newly-added WINBOX@SAP system and a rise in total labour costs.

During the Reporting Period, rental expenses and salaries and staff benefits, the two major expenses for the Group, amounted to approximately RMB75,870,000 and RMB94,364,000, respectively, accounting for 3.0% and 3.8% of the Group's total revenue respectively (2007: approximately RMB66,436,000 and RMB60,569,000 respectively, accounting for 3.3% and 3.0% of the Group's total revenue, respectively).

During the Reporting Period, the Group's net profit margin was approximately 3.3%. Excluding merchandise sales at cost to managed stores, franchised stores and associated companies, net profit margin would have increased to approximately 3.5%.

For the nine months ended 30 September 2008, the Group recorded total revenue of approximately RMB7,137,794,000, representing an increase of approximately 23.6% compared with the corresponding period of 2007. Comparable store sales rose by approximately 11.6% over the corresponding period of the previous year. For the nine months ended 30 September 2008, the Group's selling and distribution cost and administrative expenses accounted for approximately 11.0% and 1.6% of the Group's total revenue respectively, and approximately 9.2% and 2.5% respectively during the corresponding period of 2007; while rental expenses and salaries accounted for approximately 3.1% and 3.7% of the Group's total revenue respectively, and approximately 3.1% and 2.6% respectively for the corresponding period of 2007.

For the nine months ended 30 September 2008, net profit of the Group was approximately RMB409,499,000. Excluding the effect of the net gain on disposal of equity of approximately RMB135,348,000 arising from the equity swap between Hangzhou Commerce and Xinhua Department Store, the Group's net profit would have been approximately RMB274,151,000, representing an actual growth of approximately 27.5% over the net profit of the corresponding period of 2007, after excluding a book gain of approximately RMB20,041,000 arising from the fair value changes in derivative financial liabilities in 2007.

For the nine months ended 30 September 2008, the Group recorded earnings per share of approximately RMB0.34, which was calculated on the basis of 1,220,348,000 shares in issue, up by approximately 74.2% compared to approximately RMB0.19 for the corresponding period of 2007. Excluding the net gain on disposal of equity of approximately RMB135,348,000 arising from the equity swap between Hangzhou Commerce and Xinhua Department Store, the Group's earnings per share would have been approximately RMB0.22, representing an increase of 27.5% over the earnings per share of the corresponding period of 2007, after excluding a book gain of approximately RMB20,041,000 arising from the fair value changes in derivative financial liabilities in 2007.

QUARTERLY RESULTS

The unaudited results of the Group for the three months and the nine months ended 30 September 2008, together with the comparative unaudited consolidated figures for the corresponding periods of 2007 are as follows:

	Note	For the three months ended 30 September		For the nine months ended 30 September	
		2008	2007	**2008**	2007
		RMB'000	RMB'000	**RMB'000**	RMB'000
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Total revenue	2	**2,494,377**	2,017,404	**7,137,794**	5,774,720
Cost of sales		**(2,067,426)**	(1,706,916)	**(5,902,357)**	(4,852,507)
Consolidated gross profit		**426,951**	310,488	**1,235,437**	922,213
Gain on disposal of an associate		**—**	—	**180,463**	—
Other income		**22,714**	29,193	**68,322**	81,341
Selling and distribution costs		**(288,373)**	(186,982)	**(781,880)**	(532,638)
Administrative expenses		**(30,488)**	(45,728)	**(111,184)**	(144,187)
Finance costs		**(7,305)**	(7,301)	**(17,127)**	(13,223)
Share of profit of associates/a joint venture		**3,119**	10,380	**26,709**	37,506
Profit before tax		**126,618**	110,050	**600,740**	351,012
Income tax expenses	4	**(31,973)**	(29,758)	**(145,438)**	(96,937)
Profit for the period		**94,645**	80,292	**455,302**	254,075
Attributable to:					
Equity holders of the Company		**82,463**	74,867	**409,499**	235,136
Minority interests		**12,182**	5,425	**45,803**	18,939
		94,645	80,292	**455,302**	254,075
Earnings per share — basic and diluted	6	**RMB0.07**	RMB0.06	**RMB0.34**	RMB0.19

NOTES TO THE FINANCIAL INFORMATION:

1. PRINCIPAL ACCOUNTING POLICIES

In 2008, the Group has applied the following new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These new HKFRSs are consistent with the accounting policies adopted by the Company in the year 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

In 2008, the Group has applied, for the first time, the following new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA. The adoption of these new HKFRSs had no material effect on the consolidated financial statements of the Group. Accordingly, no prior year adjustment has been required.

HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

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 (Amendment)	Business Combinations[2]
HKFRS 8	Operating Segments[1]

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

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

2. TOTAL REVENUE

The Group is principally engaged in the operation and management of superstores and mini-marts in Beijing, Tianjin and Zhejiang Province. Total revenue recognized for the three months and nine months ended 30 September 2008 is as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Sales of merchandise	**2,289,608**	1,857,035	**6,492,890**	5,281,232
Rental income from leasing of shop premises	**69,517**	39,362	**190,752**	140,607
Income from suppliers, including store display income and promotion income	**135,252**	121,007	**454,152**	352,881
	204,769	160,369	**644,904**	493,488
Total revenue	**2,494,377**	2,017,404	**7,137,794**	5,774,720

3. CONSOLIDATED REVENUE/EXPENSES FOR THE PERIOD

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Depreciation and amortization	**47,407**	28,754	**119,597**	93,712
Interest income	**(1,041)**	(1,901)	**(7,570)**	(7,059)

4. INCOME TAX EXPENSES

	For the three months ended 30 September		For the nine months ended 30 September	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
The charge comprises				
PRC income tax	**34,121**	29,758	**111,112**	97,314
Deferred tax	**(2,148)**	—	**34,326**	(377)
	31,973	29,758	**145,438**	96,937

The unaudited tax charge for the three months and nine months ended 30 September 2008 can be reconciled to the profit on the consolidated income statement as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Profit before tax	**126,618**	110,050	**600,740**	351,012
Tax at domestic income tax rate of 25% note	**31,654**	36,317	**150,185**	115,834
Tax effect of share of profit of associates/a joint venture	**(780)**	(3,425)	**(6,678)**	(12,377)
Tax effect of expenses that are not deductible in determining taxable profit	**—**	(1,662)	**—**	1,566
Tax effect of expenses that are deductible in determining taxable profit	**209**	—	**(970)**	—
Tax effect of income that is not taxable in determining taxable profit	**—**	(1,472)	**—**	(8,086)
Tax effect of tax loss not recognized	**890**	—	**2,901**	—
Income tax for the period	**31,973**	29,758	**145,438**	96,937

Note: PRC income tax is calculated at a rate of 25% of the estimated assessable profit for each period (2007: 33%).

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

5. DIVIDEND

The Board does not recommend the payment of any dividend for the nine months ended 30 September 2008 (corresponding period of 2007: Nil).

6. EARNINGS PER SHARE

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)	**2008 RMB'000 (unaudited)**	2007 RMB'000 (unaudited)
Profit for the period attributable to equity holders of the Group	**82,463**	74,867	**409,499**	235,136
Weighted average number of shares for the purposes of basic earnings per share (shares)	**1,220,348,000**	1,220,348,000	**1,220,348,000**	1,220,348,000

No difference between basic and diluted earnings per share exists as the Group had no outstanding potential shares during the Reporting Period.

7. RESERVES

Movements in the Group's reserves during the three months and nine months ended 30 September 2008 are as follows:

	For the three months ended 30 September					
	2008					2007
	Share premium RMB'000	Statutory common reserve fund RMB'000	Statutory common welfare fund RMB'000	Retained earnings RMB'000	Total RMB'000	Total RMB'000
As at 1 July	1,132,062	139,488	—	701,959	1,973,509	1,665,528
Profit for the period	—	—	—	82,463	82,463	74,867
As at 30 September	1,132,062	139,488	—	784,422	2,055,972	1,740,395

	For the nine months ended 30 September					
	2008					2007
	Share premium RMB'000	Statutory common reserve fund RMB'000	Statutory common welfare fund RMB'000	Retained earnings RMB'000	Total RMB'000	Total RMB'000
As at 1 January	1,132,062	139,488	—	533,568	1,805,118	1,590,464
Profit for the period	—	—	—	409,499	409,499	235,136
Dividend paid	—	—	—	(158,645)	(158,645)	(85,205)
As at 30 September	1,132,062	139,488	—	784,422	2,055,972	1,740,395

BUSINESS REVIEW

Expansion of Retail Network

The Group adhered to its regional development strategy, and rapidly expanded its retail network through organic growth and merger and acquisitions, resulting in an enhancement of overall operating efficiencies, expansion of operating scale and improvement in competitiveness.

On 28 August 2008, Hangzhou Commerce, a wholly-owned subsidiary of the Company, acquired 85% equity interests in Shaoxing Commerce and Supermarket Investment Company Limited (紹興縣商超投資有限公司) with a consideration of RMB151,770,000. Thereafter, Hangzhou Commerce indirectly owned 54.09% equity interests in Zhejiang Gongxiao Supermarket, which operated 87 supermarkets and mini-marts and one distribution centre as at 31 December 2007.

The aforesaid acquisition complemented regional development and acquisition strategies of the Company. Upon completion of the acquisition, the Group's market share in Zhejiang Province would further increase. After integration, operating scale of Zhejiang Gongxiao Supermarket would be expanded with an improved profitability, procuring us to become one of the major retail enterprises in Zhejiang Province.

As at 30 September 2008, the Group, its associates and a joint venture directly owned, and, through franchise agreements or management agreements, operated and managed a retail network of 323 stores, comprising 85 superstores and 238 mini-marts. The Group had an aggregate saleable area of 420,934 square metres, excluding the stores of associates and franchises.

During the Reporting Period, 2 directly-owned superstores and 2 directly-owned mini-marts were established. 4 loss-making directly-owned mini-marts were closed and the cooperation with 29 franchised stores that failed to meet our franchise standards was terminated.

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

	As at 30 September 2008	
	Number of stores	Geographical distribution
Superstores		
Direct ownership	76	Beijing, Tianjin, Zhejiang
Mini-marts		
Direct ownership	122	Beijing
Franchise	76	Beijing
Total *(Note)*	274	

Note: Excluding stores of Beijing Chao Shifa Company Limited.

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

	As at 30 September 2008	
	Number of stores	Geographical distribution
Superstores	9	Hebei, Tianjin
Mini-marts	40	Tianjin
Total	49	

Category Optimization

With the full implementation and utilization of our SAP system, the Group improved its management over its operation by integrating the concept of category optimization introduced by SAP. Capitalizing on advantages such as high sales volume, extensive market coverage and good reputation among customers, the Group successfully further reduced procurement costs and improved profitability of our merchandise. During the Reporting Period, we continued to implement category optimization, with our focus placed on products such as pork, puffing food, carbonated soft drinks, dental products, shampoo and conditioner, batteries, and cooking utensils during our phase one category optimization project. Data such as procurement volume of each category and gross margin standards were included in the SAP system, thus allowing the Group to carry out merchandise addition and replacement processes at stores via the management and control functions of the system. The Group formulated a list of merchandise and display standards for phase two category optimization, which would soon be implemented in stores. A more precise management over gross margins ensured a standardized and regulated operation. Sales volume grew substantially after category optimization.

Quality of Merchandise and Food Safety

During the Reporting Period, the Group fully utilized the advantages of its quality control system in addressing the Melamine incident. Firstly, the Group strictly monitored the supply channel, and conducted on-site inspection of raw materials and processing procedures at factories and manufacturing bases of major dairy products producers together with quality specialists. These measures were to ensure that all merchandise at our stores had passed quality inspection. The Group also requested that all dairy enterprises to provide quality certificates for each batch of products. Secondly, for melamine infected products or those failed in quality inspection, the Group would immediately remove them from shelves under our "removal in two hours" policy, in order to ensure the quality of our merchandise. For formalizing our quality management, the Group formulated management documents such as "manual for quality, safety and management (regulations)", "duties for personnel responsible for quality management of merchandise", "hygiene regulations in respect of on-site processing of raw and fresh products", "management methods on food safety during distribution" and "implementation rules".

During the Reporting Period, the Group organized an event named "smart consumption classes at shopping arcades" together with Beijing Association for Quality, during which we discussed quality of merchandise with consumers' representatives, took in advice from consumers in relation to quality, and enhanced the quality of our merchandise in all aspects.

During the Reporting Period, the Group, together with China Chain Store & Franchise Association and Beijing Association for Quality, designed and distributed 100,000 booklets named "Tips for quality safety" to consumers. This booklet provided information on selection of merchandise and food safety at home, and was highly recognized by consumers, thereby improving the Group's reputation.

Optimization of Supplier Network

The Group further removed and integrated information in connection with suppliers within our system by utilizing the SAP system, with an objective to set up a more standardized and precise management over its suppliers. During the Reporting Period, the Group enhanced its collaborations with suppliers, and proceeded with negotiations under principle of mutual benefit. These efforts were to put our key focus on category optimization and quality improvement in our collaborations with suppliers, thereby establishing a firm foundation for category optimization. During the Reporting Period, suppliers with poor performance were replaced with those with promising prospects, stable operations, and popular and fashionable merchandise, and number of intermediaries was also cut down. As at 30 September, replacement ratios for merchandise and suppliers were about 30% and 10.5% respectively, whereas new merchandise accounted for 10.4% of the total products. Continuous optimization of supplier network was to ensure supply volume and guarantee and improve the quality and safety of our products in the fullest extent. During this process, procurement costs were further reduced, and the gross margin of newly-introduced merchandise increased by about 1.5 percentage points.

Marketing Optimization

During the Reporting Period, the Group designed the membership management functions of our new system and new promotion modes, and tested for the resulting benefits. We collected substantial data from previous periods, conducted training courses in respect of all operations, prepared an operation manual, optimized our operating processes, designed new promotional campaigns, and rewarded our members with attractive incentives, thereby recruiting new members, enhancing the loyalty of our existing members, and at the same time setting a firm foothold for the optimization and improvement in marketing strategies.

During the Reporting Period, the Group actively deployed its advertisement space at stores, and sought for other revenue stream. The Group cooperated with TongCard Company for advertisements on shopping bags and shopping carts, and video displays in toilets. These efforts increased our advertisement income and attained excellent results.

During the Reporting Period, the Group optimized routes of shuttle buses, evaluated and analyzed the actual operation of shuttle buses connecting our stores, and improved our routes with reference to special situations during the Olympic Games. 23 routes were terminated, revised or with their frequencies amended, resulting in a more reasonable and effective operation of shuttle bus services and at the same time saving costs.

WINBOX@SAP

The Group increased its effort in continuous optimization and promotion of the WINBOX@SAP project strictly in accordance with our pre-determined IT strategies. During the Reporting Period, the Group successfully completed system switches for front-office Retalix POS system at 36 superstores, and implemented new promotion models such as 50% off for second item purchased and bundled promotion. During the Reporting Period, the core task of the Group was the optimization of WINBOX@SAP. In the course of promoting POS and SAP EHR, the Group completed system optimization and development of new functions which addressed the demands from business development, and 103 system programs were enhanced. The Group would strive to promote EHR software and new POS system, optimize other systems and implement new modules.

During the Reporting Period, information infrastructure of the Group was recognized by the industry. The Group was awarded the Retail CIO of the Year 2008 by China Chain Store & Franchise Association, and was a finalist for the Best Business Enabler of the MIS Asia 2008 IT Excellence Awards.

Process Optimization

During the Reporting Period, WINBOX process team continued to amend, edit and optimize the (WM-ABC: 2008 Wumart Group Operation Process Manual) (《WM-ABC: 2008 物美集團作業流程手冊》), with 28 processes supplemented, such as "filing process of major merchandise data", "automatic replenishment process at DC, automatic replenishment process at stores", "process of merchandise distribution by trolleys", "2008 notifying and monitoring process in respect of ordering and returning of merchandise", "receiving process of Baiziwan by appointment", "home appliances delivery process of Baiziwan"; and other processes upgraded and optimized, such as "bulk procurement process of superstores" and "gift management process of superstores". With the concurrent optimization of systems and processes, the professional levels and standards in respect of operation and management would be improved, thereby lowering operating costs and enhancing management efficiencies.

Logistics Optimization

During the Reporting Period, in view of the traffic control measures implemented during the Olympic Games, the supply chain management department of the Group was well-prepared for all possible challenges. We formulated detailed ordering plans to ensure adequate merchandise supply during the Olympic Games. Meanwhile, the Group enhanced its management over suppliers, and secured normal delivery schedules to distribution centres by more than two-thirds of its suppliers. We also revised ordering frequencies and carried out regular ordering processes, provided fixed delivery routes to suppliers, and actively arranged overnight unloading of merchandise at each distribution centre, so as to ensure a timely stocking of inventories. During the Reporting Period, each distribution centre secured stable supply of merchandise, with a timely delivery to meet the stores' demands, and all stores maintained their normal operations during the Olympic Games.

Human Resources Development

During the Reporting Period, with an objective to develop a professional team and satisfy the demands of talents arising from rapid business development, the Group continued with its human resources development plans, by providing training to front-line professional and technical staff at store level, and at the same time recruiting senior management and professionals. The Group's Development and Training Institute organized 49 training sessions for 1,574 staff members. The Group launched The Third 100 Division Managers Training Program (三期課長百人培訓計劃), and The Sixth Professionalism Enhancement Camp for new management personnel who joined the Group after graduating from universities, through which 135 staff members were trained. In order to match up with the launch of WINBOX@SAP, our Development and Training Institute organized 18 training sessions for 500 staff members.

Prospects

The PRC economy has continued to develop at a stable and relatively quick pace, with year-on-year growth of 9.9% in GDP and 22% in total retail sales of consumer products during the first three quarters in the year 2008. The PRC was impacted by various severe natural disasters and the global financial turbulence, however, domestic economic development maintained at a stable level. Despite a reduced growth rate, the overall economy of the PRC demonstrated a trend of continuous progress. Consuming and retail industries are facing short-term disruptions, but the determining factors for long-term development are expected to remain unchanged. From the perspective of industry cycle, the retail industry of the PRC is still in a developing stage, and the concentration ratio of the retail industry is relatively low, therefore, there is still ample room for further development.

The rapid development of retail industry poses both opportunities and challenges for the Group. Under severe market competition, the Group will continuously adhere to its stable and rapid regional development strategies, actively establish new stores, speed up merger and acquisition and integration processes that are in line with regional development strategies, quickly expand our retail network, attain an operation with economies of scale, and at the same time enhance the profitability of existing stores. With regard to operation and management, the Group shall emphasize on developing key projects, standardize and improve operating processes by utilizing the advance technologies of SAP, place more effort in reducing costs and enhancing efficiencies, thereby increasing the competitiveness of the Group and maintaining a steady growth of results.

Members of the Board and I have confidence that the Group's results will maintain a continuous and healthy growth. On behalf of the Board, I would like to express my deep gratitude to the shareholders of the Company, loyal customers and suppliers for their constant support and to express my appreciation to all employees for their hard work and devoted efforts.

Audit Committee

The audit committee of the Company comprises three independent non-executive Directors, Mr. Han Ying, Mr. Li Lu-an and Mr. Lu Jiang, with Mr. Han Ying being the Chairman of the audit committee. During the Reporting Period, the audit committee held one meeting. The members of the audit committee and the senior management reviewed the accounting principles and practices adopted by the Group, and discussed issues such as internal control and financial statements, including the review of the Company's financial statements prepared in accordance with the generally accepted accounting principles in Hong Kong.

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

As at 30 September 2008, 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 (Chapter 571 of the Laws of Hong Kong) (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 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 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)*	48,251,528	6.76	Interests of controlled corporation

Notes:

1. Dr. Wu Jian-zhong holds 70% of the share capital of Beijing Wangshang Shijie E-business Co., Ltd. (北京網商世界電子商務有限公司) ("Wangshang Shijie E-business"), one of the promoters of the Company, which has a direct interest in 160,457,744 domestic shares of the Company. By virtue of Part XV of the SFO, Dr. Wu Jian-zhong is deemed to be interested in the shares of the Company held by Wangshang Shijie E-business.

2. Dr. Meng Jin-xian holds 40% of the share capital of Beijing Junhe Investment Co., Ltd. (北京君合投資有限公司) ("Junhe Investment"), one of the promoters of the Company, which has a direct interest in 23,269,228 domestic shares of the Company. Junhe Investment also holds 50% of the share capital of Beijing Hekang Youlian Technology Company Limited (北京和康友聯技術有限公司) ("Hekang Youlian"), which has a direct interest in 24,982,300 domestic shares of the Company. By virtue of Part XV of the SFO, Dr. Meng Jin-xian is deemed to be interested in the shares of the Company held by Junhe Investment and Hekang Youlian.

Save as disclosed above, to the best knowledge of the Directors, as at 30 September 2008, none of the Directors, supervisors or chief executives of the Company or their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations 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 of the GEM Listing Rules.

As at 30 September 2008, 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 30 September 2008, the interests or short positions of persons, other than the Directors, supervisors or chief executives of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Long positions in domestic shares of the Company

Name	Number of domestic shares held *(Shares)*	Approximate percentage of total domestic share capital *(%)*
Dr. Zhang Wen-zhong (張文中博士) *(Note)*	497,932,928	69.76
Beijing Jingxi Guigu Technology Company Limited (北京京西硅谷科技有限公司) ("Jingxi Guigu") *(Note)*	497,932,928	69.76
Beijing CAST Technology Investment Company Limited (北京卡斯特科技投資有限公司) ("CAST Technology Investment") *(Note)*	497,932,928	69.76
Wumei Holdings Inc. (物美控股集團有限公司) ("Wumei Holdings") *(Note)*	497,932,928	69.76
Wangshang Shijie E-business	160,457,744	22.48

Note: 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.

Long positions in the H shares of the Company

Name	Number of H shares held (Shares)	Approximate percentage of total H share capital (%)
Arisaig Greater China Fund Limited (Note 1)	66,289,000	13.9
Arisaig Partners (Mauritius) Limited (Note 2)	66,289,000	13.9
Cooper Lindsay William Ernest (Note 3)	66,289,000	13.9
Sansar Capital Management, LLC (Note 4)	61,640,000	12.17
Sansar Capital Master Fund, LP (Note 5)	61,640,000	12.17
Pure Heart China Growth Fund (Note 6)	55,944,000	11.04
Pure Heart Asset Management Co., Ltd. (Note 7)	55,944,000	11.04
T. Rowe Price Associates, Inc. and its affiliates (Note 8)	46,984,000	9.27
JPMorgan Chase & Co. (Note 9)	40,880,000	8.07
UBS AG (Note 10)	40,446,532	7.98

Notes:

1. These 66,289,000 H shares are held by Arisaig Greater China Fund Limited in its capacity as a beneficial owner.

2. These 66,289,000 H shares are held by Arisaig Partners (Mauritius) Limited in its capacity as an investment manager.

3. These 66,289,000 H shares are held by Cooper Lindsay William Ernest through his controlled corporation.

4. These 61,640,000 H shares are held by Sansar Capital Management, LLC in its capacity as an investment manager.

5. These 61,640,000 H shares are held by Sansar Capital Master Fund, LP in its capacity as a beneficial owner.

6. These 55,944,000 H shares are held by Pure Heart China Growth Fund in its capacity as a beneficial owner.

7. These 55,944,000 H shares are held by Pure Heart Asset Management Co., Ltd. in its capacity as an investment manager.

8. These 46,984,000 H shares are held by T. Rowe Price Associates, Inc. and its affiliates in its capacity as an investment manager.

9. These 40,880,000 H shares are held by JPMorgan Chase & Co. in its capacity as a trustee company/approved lending agent.

10. 532 H shares are held by UBS AG in its capacity as a beneficial owner and 40,446,000 H shares are held by UBS AG in its capacity as a person having security interest in shares.

Save as disclosed above, no person has registered any interests or short positions in the shares or underlying shares of the Company that were required to be disclosed under Section 336 of the SFO and GEM Listing Rules.

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

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

COMPETING INTERESTS

Wumei Holdings is one of the controlling shareholders and management shareholders of the Company. 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 (see note) 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.

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).

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

Beijing, the PRC
11 November 2008