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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

ANNUAL REPORT 2008

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

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COMPANY INFORMATION

BOARD OF DIRECTORS

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

SUPERVISORY COMMITTEE
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)*

COMPANY SECRETARY
Ms. Xie Dong

AUDIT COMMITTEE
Mr. Han Ying *(Chairman)*
Mr. Li Lu-an
Mr. Lu Jiang

REMUNERATION COMMITTEE
Dr. Wu Jian-zhong *(Chairman)*
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:
DLA Piper Hong Kong

As to PRC Law:
Haiwen & Partners

PRINCIPAL BANKERS
Agricultural Bank of China
Industrial and Commercial Bank of China Limited
China Merchants Bank Co., Ltd.
China Minsheng Banking Corp., Ltd.

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
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STOCK CODE
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CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present the report on the audited results of Wumart Stores, Inc. (the "Company") and its subsidiaries (collectively the "Group" or "Wumart Group") for the year ended 31 December 2008 (the "Reporting Period").

In 2008, a global financial crisis broke out in scale unprecedented for decades, and China was duly affected. Thanks to the immense support of shareholders and suppliers as well as dedicated efforts by its staff, the Group overcame challenges and competition to achieve its development goal of being "faster, higher and stronger", as it continued to maintain its leading position in Beijing with increased market share in the Capital area by covering a strong one third of the market. On behalf of the board of Directors (the "Board"), I would like to express my sincere gratitude to the Company's investors, loyal customers, suppliers and the general public for their unfailing support.

PERFORMANCE REVIEW

- Total revenue[Note 1] amounted to approximately RMB9,749,790,000, representing a growth of 24.0% over 2007;
- Consolidated gross profit[Note 2] amounted to approximately RMB1,762,457,000, representing a growth of 37.2% over 2007;
- Net profit[Note 3] amounted to approximately RMB490,343,000, representing a growth of 63.4% over 2007, or after excluding Net Gain on Disposal of an Associate and Net Book Gain from the Fair Value Changes in 2007, an actual growth of approximately 26.8% over 2007;
- Net profit margin[Note 4] was approximately 5.0%, or approximately 3.7% after excluding Net Gain on Disposal of an Associate;
- Our retail network comprised 434 outlets;
- Comparable store sales (revenue recognized by a particular store in respect of different periods of time) increased by 8.1% over 2007; and
- Proposed final dividend of RMB0.15 (inclusive of tax) per share[Note 5].

Note 1: Total revenue includes revenue and other revenue.

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

Note 3: For the year ended 31 December 2008, the Group's net profit was approximately RMB490,343,000. Ignoring the effect of the net gain on disposal of an associate of approximately RMB129,004,000 arising from the equity swap (the "Net Gain on Disposal of an Associate") 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 net profit would have been approximately RMB361,339,000, representing an actual growth of approximately 26.8% over the net profit of 2007, after excluding the net book gain of approximately RMB15,031,000 arising from the fair value changes in derivative financial liabilities (the "Net Book Gain from the Fair Value Changes") in 2007.

Note 4: Net profit margin is the ratio between net profit and total revenue.

Note 5: Nominal value of the Company's shares is RMB0.25 each.

CHAIRMAN'S STATEMENT

During the Reporting Period, the Group achieved substantial improvements in operation efficiency, cost reductions and accelerated integration with acquired entities for greater synergies with the establishment of an integrated retailing, finance and logistics management and information system following the successful go-live of the SAP system in Wumart stores and distribution centres located in Beijing and Tianjin.

The Group continued to expand its retail network through organic growth and merger and acquisitions. In April 2008, the Group completed the acquisition of the entire equity interests in Hangzhou Commerce held by Wumei Holdings, Inc. (物美控股集團有限公司) ("Wumei Holdings") to build a solid development platform for the Group's expansion of operations in the eastern China region.

Leveraging on the platform provided through Hangzhou Commerce, the Group secured indirect ownership of 54.09% interests in Zhejiang Gongxiao Supermarket Company Limited (浙江供銷超市有限公司) ("Zhejiang Gongxiao Supermarket") by acquiring 85% equity interests in Shaoxing Commerce and Supermarket Investment Company Limited (紹興縣商超投資有限公司) in August 2008. Zhejiang Gongxiao Supermarket has 162 stores and 1 distribution centre, of which 19 are superstores, 74 are directly-owned mini-marts and 69 franchised mini-marts. In addition to further profit contributions, the acquisition also gave a major boost to the Group's development in Zhejiang with benefits in terms of its presence, market share and exposure in the eastern China region.

PROSPECTS

The PRC economy sustained growth, despite the ripple effects of the global financial crisis on China. In 2008, GDP rose by 9.0% over the previous year. Total retail sales of consumer goods for the year posted a growth of 21.6%, representing an increase of 4.8 percentage points in growth rate over the previous year. The overall domestic economy continued to develop trends of sustained growth, stable prices and optimal structure.

Facing the enormous challenges, competition as well as opportunities brought about by the global financial crisis and given sustained economic growth of China in 2009, the Group will adopt "system optimization and performance enhancement" as its core principles, with priorities given to the enhancement of core competitiveness and overall competitive advantages of the Group. We will strive to establish the five advantages of our corporate core competitiveness of the Group: highly effective and flexible system mechanism (system advantage), powerful procurement capability (procurement advantage), refined professional operating management technology (technology advantage), lower than industry average of operating management costs (cost advantage) and first-class operation management team (team advantage).

CHAIRMAN'S STATEMENT

In 2009, the Group will further adopt a pragmatic approach and dedicate intense efforts for elimination of and genuine solutions to intrinsic problems in the operations and management of the Group. These efforts should combine to lay a solid foundation for the long-term sustainable and stable development of the Group on its course to realise the dream of creating a "centennial shop" patronised by and intertwined with the daily livelihood of our fellow citizens.

I would like to express my sincere gratitude to all members of the Board, the management team and all employees for their persistent efforts in the past year.

Dr. Wu Jian-zhong
Chairman

Beijing, the PRC
24 March 2009

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Financial Highlights

	2008 RMB'000	2007 RMB'000	Percentage of year-on-year increase (%)
Total revenue	**9,749,790**	7,865,805	24.0
Consolidated gross profit	**1,762,457**	1,284,838	37.2
Net profit	**490,343**	300,078	63.4
Basic earnings per share(note 1)	**0.40**	0.25	63.4
Net profit after excluding non-recurring items(note 2)	**361,339**	285,047	26.8
Basic earnings per share after excluding non-recurring items(note 3) (RMB)	**0.30**	0.23	26.8

Note 1: The calculation of basic earnings per share is based on the net profit and on the 1,220,348,000 shares in issue.

Note 2: This item refers to the Net Gain on Disposal of an Associate in 2008 and the Net Book Gain from the Fair Value Changes in 2007.

Note 3: Basic earnings per share is calculated on the basis of net profit after excluding non-recurring items and 1,220,348,000 shares in issue.

Total Revenue by Activities

	2008 RMB'000	Percentage of total revenue (%)	2007 RMB'000	Percentage of total revenue (%)
Revenue	**8,759,263**	**89.8**	7,118,755	90.5
Income from suppliers	**709,911**	**7.3**	547,804	7.0
Rental income from leasing of shop premises	**280,616**	**2.9**	199,246	2.5
Total revenue	**9,749,790**	**100.00**	7,865,805	100.00

Total Revenue

For the Reporting Period, the Group recorded an audited total revenue of approximately RMB9,749,790,000 (2007: RMB7,865,805,000), up by 24.0% over last year. The growth in total revenue was derived from sales generated by newly-opened stores, revenue contributed by Hangzhou Commerce and Zhejiang Gongxiao Supermarket since 1 May 2008 and 1 October 2008 respectively, and year-on-year growth in comparable store sales and increases in income from supplier and rental income. Despite obvious declines in food prices during the Reporting Period, comparable store sales grew by 8.1%. Increase in comparable store sales was attributable to an increase in the number of customers and transaction amount per customer driven by the continuous enhancement of store images and shopping environment, optimization of store layouts, strengthened merchandise category management and optimized pricing according to the requirements of customers, and improvement in services quality. Increase in income from suppliers reflected the Group's bargaining powers brought by the Group's regional development

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advantages and centralized procurement. Growth in rental income was primarily attributable to the increase in lease-out area, increase in rental income from premium tenants as a result of improvements in store images and shopping environment, and upwardly revised rental upon lease renewal of lease-out area for certain stores.

Cost of Sales and Consolidated Gross Profit Margin

For the years ended 31 December 2008 and 31 December 2007, audited costs of sales of the Group were approximately RMB7,987,333,000 and RMB6,580,967,000 respectively, while the Group's consolidated gross profit margins were 18.1% and 16.3%, respectively. Excluding the sales at cost to managed stores and related companies, the Group's consolidated gross profit margins were 19.4% and 18.0% respectively. The increase in gross profit margin was primarily attributable to the following three factors: (1) reduction in unit costs of merchandise as a result of economies of scale attained through centralized procurement; (2) a more reasonable pricing policy and continuous optimization of selective items for promotion; and (3) enhanced control over gross profit on the back of more sophisticated technologies following the successful go-live and application of WINBOX@SAP and Retalix POS systems. Continued increases in gross profit margin reflected further improvements in the Group's operating capabilities.

Distribution and selling expenses

For the Reporting Period, the Group recorded audited distribution and selling expenses of about RMB1,003,014,000, accounting for approximately 10.3% of the total revenue, and approximately 9.6% for 2007. Distribution and selling expenses primarily included staff costs of approximately RMB251,176,000 and rental expenses of approximately RMB295,516,000, representing approximately 2.6% and 3.0% of total revenue respectively. The increase in distribution and selling expenses was mainly attributable to rising in labour costs and rental expenses, one-off amortization expenses on closure of stores, additional amortization costs of the WINBOX@SAP system, and distribution and selling expenses from Hangzhou Commerce and Zhejiang Gongxiao Supermarket attributable to the Group since 1 May 2008 and 1 October 2008, respectively.

Administrative Expenses

For the Reporting Period, audited administrative expenses of the Group were approximately RMB272,873,000, accounting for approximately 2.8% of the total revenue, at almost the same level as 2007. Administrative expenses primarily included labour costs of approximately RMB122,348,000.

Finance Costs

For the Reporting Period, audited finance costs of the Group amounted to approximately RMB20,406,000, and approximately RMB16,589,000 for 2007. The rise in finance costs was due to an increase in loan amount in 2008.

Net Profit

For the Reporting Period, audited net profit of the Group was approximately RMB490,343,000. Excluding the Net Gain on Disposal of an Associate of about RMB129,004,000, the Group's net profit would have been approximately RMB361,339,000, representing an actual growth of approximately 26.8% over 2007 after excluding the Net Book Gain from the Fair Value Changes in 2007 of approximately RMB15,031,000.

For the Reporting Period, the Group's net profit margin was 5.0%. Excluding sales at cost to managed stores and related companies, the Group's net profit margin would have risen to approximately 5.4%. Meanwhile, excluding the Net Gain on Disposal of an Associate, the Group's margin in respect of net profit would have been 4.0%, remained as the same net profit margin for 2007 after excluding sales at cost to managed stores and related companies and the Net Book Gain from the Fair Value Changes in 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

During the Reporting Period, the Group's liquidity continued to remain stable with funds mainly sourced from cash income from operations. As at 31 December 2008, the Group's audited total equity was approximately RMB2,636,830,000 with a gearing ratio of 23.6% (31 December 2007: 12.30%). Gearing ratio is the ratio between total debts and total equity of the Group.

As at 31 December 2008, the Group had audited non-current assets of approximately RMB3,319,028,000, which mainly included property, plant and equipment of approximately RMB2,093,622,000, interests in associates of approximately RMB140,852,000, interests in a jointly controlled entity of approximately RMB47,599,000, and goodwill of approximately RMB843,708,000.

As at 31 December 2008, the Group recorded audited net current liabilities of approximately RMB647,966,000. Audited current assets amounted to approximately RMB3,047,006,000, which mainly comprised cash and bank balances of approximately RMB1,348,349,000, inventories of approximately RMB733,210,000, trade and other receivables of approximately RMB560,479,000, and amounts due from related parties of approximately RMB276,058,000. Current liabilities amounted to approximately RMB3,694,972,000, mainly comprising trade and other payables of approximately RMB2,929,710,000, amounts due to related parties of approximately RMB27,108,000, and tax liabilities of approximately RMB110,134,000.

During the Reporting Period, the Group's average trade payable turnover was 75 days (2007: 89 days) and inventory turnover was 27 days (2007: 23 days).

Capital Structure

As at 31 December 2008, the Group's borrowings, cash and cash equivalents were denominated in RMB. Audited bank loans of the Group as at 31 December 2008 were approximately RMB622,910,000, which are repayable within one year and carry interests at fixed rates ranging from 5.31% to 7.84% per annum.

BUSINESS REVIEW

Expansion of Retail Network

In expanding its retail network through organic growth and merger and acquisition, the Company adhered strictly to its regional development strategy. As at 31 December 2008, the Group had a retail network of 434 stores comprising 104 superstores and 330 mini-marts, which were either directly owned or operated and managed through franchise agreements or management agreements by the Group, its associates and a jointly controlled entity. The Group had an aggregate saleable area of 451,524 square metres, excluding stores under associates and franchises.

MANAGEMENT DISCUSSION AND ANALYSIS

Stores operated and managed, which were directly owned by the Group, its associate and jointly controlled entity and through franchise agreements, were as follows:

	As at 31 December 2008	
	Number of Stores	**Geographical Distribution**
Superstores		
Directly-owned	96	Beijing, Zhejiang, Tianjin
Mini-marts		
Directly-owned	194	Beijing, Zhejiang
Franchised	96	Beijing, Zhejiang
Total[(Note)]	386	

Note: Excluding stores under Beijing Chao Shifa Company Limited ("Chao Shifa").

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

	As at 31 December 2008	
	Number of Stores	**Geographical Distribution**
Superstores	8	Hebei, Tianjin
Mini-marts	40	Tianjin
Total	48	

Category Optimization

During the Reporting Period, the Group formulated business promotion policies in respect of category optimization, merchandise procurement, pricing policies and space planning on the basis of market research and sales performance analysis. With further perfections in merchandise structure and layout of stores, revenue and profit margin for all categories were improved, and the brand image and operating efficiencies of the Group were enhanced.

During the Reporting Period, the Group launched a promotional campaign for the optimization of key categories, and conducted optimization in respect of more than 200 sub-categories. The merchandise structure and lists of key categories were trimmed and the layout principle was redefined and applied throughout our retail network.

During the Reporting Period, the Group issued merchandise planning guidelines for 2008, covering strategies for top five categories at stores, regular merchandise procurement plan, seasonal merchandise procurement plan and gross margin targets. At the end of 2008, adjustments to merchandise procurement had been controlled within our planned scope.

Given the close association of merchandise mix adjustments with the display of merchandise, the Group conducted display at the renovated stores and newly-opened stores in strict accordance with its strategies for the top five categories. Category strategies for stores and merchandise allocation were revised and rationalized on an ongoing basis during the course of planning, taking into account past experience and market surveys. In adjusting the merchandise mix, replacements and additions of merchandise was conducted strictly on a one-for-one basis if

MANAGEMENT DISCUSSION AND ANALYSIS

merchandise allocation requirements were fully matched by the existing inventory, or if inventory levels fell short of requirements, the merchandising department would be asked to procure inventory within a given timeframe to rationalize the merchandise structure. In addition to merchandise introduced on the basis of day-to-day negotiations with suppliers and market surveys, best-selling items on the market were also identified from time to time and put on stack swiftly, while slow-moving items were removed in a timely manner on the basis of monthly statistical reviews. By adopting such one-in-one-out principle over merchandise flow, the stores were able to display the latest and best items with limited resources, thereby improving the Group's revenue.

Optimization of Suppliers

During the Reporting Period, the Group adopted the SAP system which enabled the Group to further standardize and refine its supplier management by clearing out and integrating suppliers' information in the system, checking transaction records and sorting out information in the voluminous supplier database accordingly.

The Group continued to optimize its supplier network by replacing underperforming suppliers with new wholesalers and manufacturers that promised quality. With reduced intermediaries, the Group actively improved the cooperation with suppliers and worked with manufacturers to advance strategic purchases, joint purchases and direct purchases from production bases. Through the replacement of suppliers and the integration and optimization of supplier network, the Group were able to reduce the procurement costs further while generating stronger sales as we enhanced customers' satisfaction with higher quality assurance and a richer and more fashionable merchandise mix. On the other hand, we were also able to share the benefits of reduced intermediaries with consumers while improving gross profit of the Group.

Marketing Optimization

During the Reporting Period, the Group organized various large scale promotional campaigns, such as "Shanxi Feature Products Bazaar" with the Agricultural Division of Shanxi Province, "Peach Fair" with the government of Pinggu District, "Organic Chestnut Festival" with the government of Miyun District, "Jinmen Liquor Expo" with Jinmen Kaoliang Liquor of Taiwan, and "Doritos Products Expo" with PepsiCo. In addition, a number of promotional activities were conducted to step up the Group's social responsibility initiatives, for example, the organization of "Lemon Charity Sale" with the government of Sichuan Province after the "5.12" earthquake, and "Safe Egg Campaign" with Gegeda Egg Company after the melamine incident. With all these campaigns, the Group's image and brand recognition were enhanced in line with increases in sales. During the Olympic Games, the Group launched Olympic-related marketing activities, such as paper torch with a local newspaper and Olympic Greetings Lucky Draw, resulting in an enhancement of the Group's brand effect.

Backed by our SAP System and Retalix POS system, various bundled promotions were implemented for better facilitation of marketing initiatives. During the Reporting Period, a dozen of new promotion initiatives were developed and utilized, such as 50% off for seconds, buy-one-get-one-free, a dollar for an extra item, A+B bundled price, overall discount on total check-out and topped-up purchases, which were widely welcomed by consumers with significant boost in revenue.

During the Reporting Period, substantial efforts were placed in creating new advertising resources, including placement of advertisements on cashier receipts, cashier counter billboards, "Cool Screen" mounted on the walls of store passageways and stickers on floors and staircases, resulting in substantial increases in advertising income.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, marketing activities were conducted on a regional basis, in particular, for superstores, where the Group re-designed the promotions categories of the stores according to regional features and provided ample support in terms of merchandise and campaigns to highly competitive regions, so as to improve the competitiveness of stores.

Store Optimization

During the Reporting Period, the Group organized a number of immersion training sessions covering every aspect in fresh food operation, with an aim to substantially raise the operating standards of fresh food. Rotational trainings on different frontline positions of fresh food were given to division leaders and managers of fresh food department, store managers and regional managers, so that officers of the Group acquired hands-on knowledge and understanding of the frontline operations. Frontline fresh food workers were offered opportunities to be promoted to technicians by way of examination and appraisal, which laid a solid foundation for optimizing the workflow of fresh food processing and improving efficiencies. Stability in the frontline team with fresh food processing skills was also maintained so that our foundational team of skilled staff was further expanded, which gave assurance to our fresh food processing standards and our ability to retain customers. Meanwhile, training, inspection and improvement measures were conducted in respect of capabilities for basic operations such as the inventory, sales, storage and preservation of goods. The organization of fresh food departments at stores was re-assessed to ensure improvements and enhancements in operating standards while streamlining our structure.

The Group advanced efforts in the quality control of fresh food products, with particular focus on enhancing its quality. A centralized merchandise quality was established jointly through cooperation among the operational, delivery and procurement functions, where the stores were responsible for the quality of merchandise displayed, the distribution centres for inspection upon receipt of goods, and the procurement department for requiring suppliers to guarantee the standards of merchandise. In compliance with the centralized merchandise specifications, the Group optimized the qualities of vegetables and fruits and improved the display of merchandise at stores. In addition, store employees were given training in the admission of merchandise to conduct preliminary quality checks and sort out high-quality goods for customers.

Operating process standards were streamlined, amended and augmented with the successful go-live of the SAP system. A series of measures were formulated for standard management and implementation at store level and support for standardized operations. A price monitoring team was set up to review our pricing policies, monitor the implementation of purchase and selling prices, inspect and analyze purchase and selling prices, and make suggestions for improvements. The establishment of this team enabled the Group to offer more competitive pricing and provided stringent guidelines and precise requirements over the management standard of store operation. During the Reporting Period, irregularities in store inventory levels were controlled with full efforts and the intake and out-of-stock of normal and new items were monitored. The processing of high-, negative- and zero-inventory items, slow-moving items, replaced items and deleted items was closely monitored. Irregularities at the stores were corrected and remedied in a timely manner, so as to enhance our overall operating capabilities.

Commencing September 2008, monthly customer seminars had been held at each superstore as close interaction platforms between customers and stores that reflected our “Customer-Oriented” service concept. At the seminars, information on areas for improvements desired were collected, collated and analysed for rectification. Blind spots of service at stores would be cleared gradually through store efforts under the supervision of the headquarters to raise service standards of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

WINBOX@SAP

During the Reporting Period, in line with the goals of "successful go-live without affecting sales performance" and enhancement of results by "roll-out + optimization", the WINBOX@SAP team completed the cutover of all IT systems at all Wumart stores and distribution centres in Beijing and Tianjin into the SAP system through six waves of cutover. In particular, the last two waves were done by key users themselves, their experience and ability are solid foundation for further acquisition and system integration. A variety of new condition promotion functions were deployed by successful go-live of Retalix POS at superstores (such as 'product redemption'), which enriched promotion methods and got an outstanding performance by increasing sales.

During the cutover, key users of WINBOX@SAP team implemented data immigration independently, which proved infrastructure of Wumart was scalable and controllable. The team accomplished upgrade of POS DM by itself, which was a large progress in terms of 'system manipulation'. The successful of 'Server Division' of OA (Office Automation) solved the bottleneck of speed and efficiency. Besides, the SAP EHR system were rolled out to stores located in Beijing and regional HQs. After the last wave of cutover, the optimization of WINBOX@SAP became the theme of the Team, who carried out system optimization and developed new applications according to the requirements of business development and completed 168 system optimization projects.

It was the first time that our superstores, mini-marts and distribution centres were all integrated under unique ERP system, thus realizing our initial objective of system integration under WINBOX@SAP. This initiative heralded a milestone in the Group's information system development as it solved the problem of "information isolation" at its source by completely changing the co-existence of multi-systems within the Group due to its multi-formats.

The success of WINBOX@SAP project was widely recognized. Dr. Yu Jian-bo, chief of WINBOX@SAP project and Vice President of the Company, was honoured as one of the best CIOs for the year by China Chain Store & Franchise Association in June 2008. The Group was one of the finalists for the Best Business Enabler in Asia by MIS Asia in August 2008. At the end of 2008, WINBOX@SAP was selected as the top five global references by SAP as an example of their successful achievements worldwide.

Process Optimization

During the Reporting Period, the Group continued to promote the process reengineering with an aim to attain the simplified and effective business management process system, that is "centralized procurement/category optimization + demand forecast-driven supply chain + simplified store sales model" in accordance with the design of the WINBOX@SAP system.

During the Reporting Period, the WINBOX@SAP process team processed amendments, edits and optimization of the 2008 Wumart Group Operation Process Manual (《2008物美集團流程作業手冊》), adding 109 processes such as the norm for application of chart of accounts, management process for chart of accounts, closing process for general ledger, settlement process for group purchases, norm for monitoring related party transactions, process for bank reconciliations, process for maintaining key staff data, filing process for key merchandise data, application process for membership cards of superstores, automatic replenishment process at stores, and automatic replenishment process at DC. Meanwhile, an aggregate of 51 processes were upgraded and optimized, such as the operating rules on group purchases at superstores, authorization process for the use of seals of group finance, preparation process for operation budget, operating process for adjustment to operation budget, norm for settlement of accounts, performance appraisal system, audit process for construction and equipment expenditure, and management methods on appraisals and leaves at headquarters. The optimization of processes led to a stable transition of operations during the launch of our system, as well as simplification and standardization of store operations. With the optimization of finance processes, our operations were better interwoven with the system,

MANAGEMENT DISCUSSION AND ANALYSIS

and financial security and effectiveness of support from headquarters were duly enhanced, resulting in reduced administrative expenses. After the launch of HR system, the current HR-ABC process system was upgraded, functions of the system were fully realized, and efficiencies in human resources management were enhanced.

Supply Chain Optimization

The Reporting Period was a period of significant transition, transformation and optimization for the Group's supply chain.

With the SAP ERP system going live, the Group has also established a new distribution centre namely WINDC and WINDC team, which is responsible for the development of a central distribution centre, currently under construction, that could support our development for 5 to 10 years. In addition, project teams of inventory management (IM), warehouse management (WM) and WINDC cooperated to jointly reform the business and operation models of existing distribution centres, improve the performance and operating efficiency of the supply chain and establish a solid foundation for converting our supply chain from a cost centre to a profit centre. Business model of WINDC can be summarized as "distribution+logistics". Based on this model, strategic cooperation from top management, marketing planning, prompt distribution by DC and various promotion methods at store can be integrated in order to contract the space and time of supply chain, and then increase our turnover and margin.

The inventory management (IM) department was established as a centralized body for managing orders and returns, stocktaking and receipt of merchandise from suppliers. With the support of the SAP system, the Group centralized the management and control on orders and returns and through these controls reduced unreasonable inventories at stores. The standards and accuracy of business operations were ensured as the authority to alter invoices was centralized and all incorrect invoices of business departments were required to be submitted to finance department for its review, with centralized alteration being performed by the supply chain department thereafter.

During the Reporting Period, cooperation with and management of suppliers were strengthened. By developing a vendor relationship management (VRM) platform, the Group placed its orders via the internet instead of physical copies, which effectively saved delivery labour, materials and facsimile transmission expenses. On the other hand, the supply chain initiated cooperation with multinational companies in developing electronic data interchange (EDI) system, resulting in further enhancement of operating efficiencies of the Group and its suppliers. The outstanding trial results attracted more suppliers to opt for the EDI system. In addition, the average delivery accuracy rate by suppliers increased and the average number of delivery days decreased as the Group implemented effective management, communication, training and collaboration with our suppliers. With the support of our SAP system, multi-deliveries were made to stores by distribution centres with improvement in satisfaction of store orders, and reduction of delivery cycles.

During the Reporting Period, the trial for cross-docking model was successfully launched at distribution centres, which set a sound foundation for its future promotion within the Group.

At the end of 2008, the Group's distribution centres successfully launched the TMS of SAP in implementing further precise management over transportation costs. Through inventory reductions and storage bin optimization, more storage space was made available to provide ample resources for receiving major suppliers and merchandise.

The Group successfully enhanced operating efficiencies and controlled cost effectively with continuous improvements in internal logistics achieved through ongoing realignments, changes and innovations in business and operation models.

MANAGEMENT DISCUSSION AND ANALYSIS

Quality of Merchandise and Food Safety

In line with its emphasis on the quality of merchandise, the Group is committed to the ongoing improvement of its quality control system to ensure compliance with requisite standards and to generally enhance its brand image.

During the Reporting Period, the Group continued to develop and improve its system for quality control standard, with further specifications on the responsibilities of the quality control team at headquarters and relevant personnel of merchandise quality control at store level. Ongoing specialized training was provided to quality control personnel at store level with 43 employees obtaining CCFA-CIEH, an internationally recognized qualification certificate. More than 70 training sessions were organized by the Group's Development and Training Institute for frontline processors of fresh food at store level, covering operation processes such as food safety, which significantly improved the food safety awareness and practical operation skills of frontline staff and cultivated a unique training style in respect of quality of merchandise management within the Group.

During the Reporting Period, the "manual for quality, safety and management (regulations)" was compiled and published by the Group's quality control team on the basis of the Group's management standards for merchandise quality, with necessary supplements and amendments. The manual provides easy reference on relevant national standards for business departments as they supervise the quality control of merchandise.

The Group strengthened its quality control over suppliers and imposed stringent review prior to their acceptance as suppliers. During the Reporting Period, the Group carried out stringent examination of the competency of suppliers and started random inspection since March 2008. At the end of 2008, all suppliers passed our random inspection on competency.

The Group effected quick responses towards merchandise that failed in random inspection by actively communicating with related government departments to establish a "green channel" for external communications that ensured swift receipt of all orders and information from government departments and speedy dissemination to stores via the headquarters, such that we can respond quickly to any merchandise quality issues and ban upon receipt of regulatory orders. Our speedy response in the melamine incident won strong approval from government departments, as Wumart became the only supermarket operator named among the "Top 100 Enterprises of Moral Commitments in Practice" (百家企業踐行道德承諾) in a campaign co-organized by seven government authorities including the Propaganda Department of the CPC Central Committee, Civilization Office of the Central Government, Ministry of Industry and Information Technology, State-owned Assets Supervision and Administration Commission of the State Council, State Administration For Industry and Commerce, General Administration of Quality Supervision, Inspection and Quarantine and All-China Federation of Industry and Commerce to honour business integrity and denounce unscrupulous profiteering. The brand image of Wumart Group has been further enhanced as a result.

The Group actively participated in drafting and amending relevant national standards and regulations with government departments and bodies, such as China Chain Store & Franchise Association, the Ministry of Commerce, China Quality Standard Research Centre and National People's Congress. Our head of the quality control team has assumed various responsibilities such as "deputy chairman of Food Safety Committee of China Chain Store & Franchise Association (中國連鎖經營協會食品安全委員會)", "committee member of National Technical Committee for Standardization of the PRC (中華人民共和國專業標準化技術委員會)", and "committee member of Services Quality Controller Committee of China General Chamber of Commerce (中商聯服務質量管理師評審委員會)". The Group's enormous efforts in advancing the quality control standards of the industry underpin its strong commitment to social responsibility.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group actively participated in various campaigns, such as random inspection to purge counterfeit merchandise and Olympics logo protection, organized by relevant governmental regulatory authorities. We worked with government departments to compile information statistics on merchandise operations. Free booklets entitled "Tips on food safety" were distributed to consumers for active promotion of relevant information on food safety and merchandise quality. Various events were organized to discuss topics of food safety and merchandise quality control with consumers' representatives, who rendered high commendation to the Group for its quality control over merchandise. In recognition of our long term commitments to and notable emphasis on merchandise quality and food safety, the Group was named one of the "National Top Brands in Customer Satisfaction" (全國顧客最滿意品牌)" in the "National Customer Satisfaction Evaluation 2008 (二零零八年全國顧客滿意度測評)" organized by China General Chamber of Commerce.

Human Resources

To be "people-oriented" is one of the corporate principles of Wumart Group and a core value in the Wumart culture. The Group strives to provide a fair, equitable and open environment for staff development and a platform where the staff can fully utilize their intelligence and talents, and where the efficiency of human resources and the development of the human resources system will be enhanced.

During the Reporting Period, the Group continued with its human resources development plans and organized 215 training sessions for 7,637 staff members with the aim of building up a professional team and satisfying the demands of talents for business development. 35 potential candidates were selected and assessed for store managers under the Group's "Centurion Programme" (百人計劃) and would be qualified as store-manager designates upon passing the assessment. 51 staff participated in training and appraisal for division leaders. The Group designed a training curriculum for all procurement staff based on their qualifications, with monthly lectures and tutorials by internal and external professional lecturers. In addition to realizing the vision of staging "Wumart-trained" executives, the internal training and selection of staff also provided a sound platform for staff development and reinforced the solidarity of our team.

The Group is also committed to perfect the building of its training structure as well as focusing on key training projects. Wumart has developed a comprehensive training system for the headquarters and stores through gradual implementation of procedures such as selection for training, practical store training, mentor system, behavioural training, theoretical training, on-site practices, position acting and tracking revisits. Our training became more professional by incorporating job orientation, competency training, designate promotion and appraisal improvement into system management and control.

The Group has fully launched and operated the WINBOX-EHR system on-line in order to improve the efficiency of human resources, with the functions of the Group's human resources department in 5 major aspects: standardization of key staff data which significantly improved the efficiency of filing management in respect of human resources; standardization of human resources operation which provided a standardized network platform for labour issues such as management of organizational structure, re-deployment, substantive appointment and resignation and basically realized a paperless operation; implementation of systematic time management in respect of human resources which optimized the shift rotation rules and routine of store staff, resulting in a more reasonable operational organization and human resources deployment and a more refined management style; simplification of salaries and wages calculation which effectively integrated organizational, human resource, appraisal and financial management and simplified audit procedures for salaries and wages with the realization of standardized management; and reporting format for human resources analysis which greatly improved our efficiency and accuracy.

MANAGEMENT DISCUSSION AND ANALYSIS

With a view to enhancing the development of its own human resources system, the Group increased its efforts in the development of shared services centre for human resources. Recruitment channels and the development of internship bases of all branches under the Group were centralized, assessment on recruitment agencies was conducted in strict compliance with KPI standards, and related status was readily updated according to assessment results. Meanwhile, the recruitment authority for stores was centralized at the headquarters level, with a view to meeting recruitment requests while improving the quality of recruits. Tasks related to staff services, such as social security services, post-retirement issues and filing management, of branches located in Beijing were centralized and processed by the shared services centre at the headquarters. This initiative streamlined the number of relevant staff and improved the standard of professional services.

During the Reporting Period, the Group made an upward adjustment on salary for its staff at basic level thanks to the exercise of scientific and effective control over human resources expenses, adoption of an optimal organizational structure and system, enhancement of work-hour and roster management, effective control over recruitment and optimization of related procedures, coupled with market salary surveys and analysis on staff income at all levels. The productivity of the Group has been improved as a result.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Dr. Wu Jian-zhong, aged 51, 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) ("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. Dr. Wu joined Wumei Holdings in 1994. When the Company was established in August 2000, he was appointed as Director. In November 2002, he was appointed Vice Chairman of the Company. Since July 2003, Dr. Wu has 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 52, Executive Director and Vice President of the Company. Dr. Meng earned his doctorate at the Beijing University of Science & Technology. He joined Wumei Holdings as Vice President in 1997 till 2000, mainly responsible for business development and operations. He has served as Vice President of the Company from August 2000, responsible for operation management, and procurement and logistics management. Since November 2002, he has acted as Director of the Company, and is currently responsible for standard keeping, new business development and operations.

Madam Xu Ying, aged 44, 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 jointly controlled entity 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. Madam Xu joined the Company in 2004 and was appointed as Director in June 2007.

Non-executive Director

Mr. Wang Jian-ping, aged 45, 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 74, 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 a representative of the 10th, 11th and 12th National Congress of the 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 65, Independent Non-executive Director. Mr. Li served as chairman with several companies such as CITS Group Corporation, 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. Lu Jiang, aged 52, Independent Non-executive Director, chairman and general manager of Beijing Yongtuo Accountants Co., Ltd, chairman of Beijing Yongtuo Engineering Co., Ltd, and a committee member of Beijing Registered Accountants Association. Mr. Lu has years of experience in accounting, auditing, assets valuation and management. He serves as a researcher of the Academic Committee under China Academy of Management Science, chief supervisor of the Beijing Afforestation Foundation, executive director of Beijing Non-Governmental Enterprises Association (北京民營企業協會) and Beijing Council for International Investment Promotion (北京國際投資促進會). In September 2004, he was appointed as Independent Non-executive Director.

SUPERVISORS

Supervisor Nominated by Employees

Ms. Yan Li-xia, aged 43, graduated from Beijing University of Technology. Before joining the Company, she worked with human resources department of Beijing Kraft Food Company Limited as supervisor. She served as customer service supervisor at the Company's stores 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. In February 2006, Ms. Yan was promoted to vice director of Staff Administration Department under convenience store department of the Company and was promoted to director in August 2007. In November 2005, she was appointed as Supervisor of the Company.

Independent Supervisors

Mr. Fan Kui-jie, aged 45, 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 45, 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 general manager of Beijing Dingge Capital Assessment Co., Ltd. since 1998. She has served as finance evaluation expert of the Administration Committee of Zhongguancun Science Park under the Beijing Municipal Science & Technology Commission since 2003. In July 2003, she was appointed as Independent Supervisor of the Company.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Zhu You-nong, aged 56, President of the Company. From 1988 to 1992, Mr. Zhu served as deputy general manager of Beijing Ya Du Manmade Environment Technology Company. From 1993 to 2000, he served as chairman of Beijing Duo Ling Duo Investment Company Limited. From 2000 onwards, Mr. Zhu served as director and general manager of Beijing MerryMart Chainstores Development Co., Ltd. (北京美廉美連鎖商業有限公司). Since October 2007, Mr. Zhu has served as President of the Company.

Dr. Yu Jian-bo, aged 43, Vice President of the Company and chief of SAP-ERP WINBOX Project team. He oversees the supply chain, information centre, new distribution centre (WINDC) under construction and stores' orders division (LCC). Dr. Yu received his doctoral degree from Chinese Academy of Social Sciences. From 1991 to 1998, Dr. Yu served at the Institute of Contemporary China Studies (當代中國研究所) as a senior researcher. From 1998 to May 2005, Dr. Yu served as director and executive president of Jin-Ri Investment (今日投資), and vice president of OBI in China region. Dr. Yu joined the Company in May 2005.

Mr. Xu Shao-chuan, aged 37, 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 their annual report for the year ended 31 December 2008 to the shareholders.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the chain retail business of operating and managing superstores and mini-marts in Beijing, Zhejiang, Tianjin and Hebei. Against the objective of "developing China's retail industry and improving the public's quality of life" (發展民族零售產業，提升大眾生活質量), the Group adheres to the strategy of regional development. The principal activities of the Group are set out in Note 39 to the consolidated financial statements.

Annual results and financial information of the Group for the Reporting Period, which are prepared in accordance with the Hong Kong Financial Reporting Standards, are 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 5 largest customers also accounted for less than 30% of its total revenue.

During the Reporting Period, none of the Directors, the supervisors, their associates, or any shareholders which, to the best knowledge of the Board 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)	**Approximate 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

Details of the movements in the share capital of the Company during the Reporting Period are set out in Note 28 to the consolidated financial statements.

FIXED ASSETS

During the Reporting Period, details of the movements in the fixed assets of the Group are set out in Note 15 to the consolidated financial statements.

REPORT OF THE BOARD

DISTRIBUTABLE RESERVE

The distributable reserve of the Company as at 31 December 2008 amounted to approximately RMB809,945,000 (2007: approximately RMB533,568,000).

DIVIDEND APPROPRIATION

The Board recommended the payment of a final dividend of RMB0.15 (inclusive of tax) per share to shareholders whose names appear on the register of members on the date of the 2008 annual general meeting ("AGM"), subject to the passing of an ordinary resolution at the AGM.

Pursuant to the provisions of the Enterprise Income Tax Law of the People's Republic of China and the Implementing Regulations of the Enterprise Income Tax Law of the People's Republic of China, effective 1 January 2008, any PRC domestic enterprise shall withhold enterprise income tax upon distribution of dividends in respect of accounting periods beginning on or after 1 January 2008 to shareholders, being non-resident enterprises (i.e. legal person shareholder), and the payer shall have the obligation to serve as the withholding agent. Subject to the passing of the resolution on dividend payment at the AGM, the final dividend payable to all non-resident enterprise shareholders registered in the name of non-natural person (including HKSCC Nominees Limited, other corporate nominees or trustees, or all other entities and organisations) whose names appear on the register of H shareholders as at the date of the AGM, will be subject to a withholding tax of 10%. Final dividends payable to natural person shareholders whose names appear on the register of H shareholders will not be subject to a withholding tax of 10%.

Separate announcements in respect of the date of the AGM and the closure dates of the register of members will be made by the Company in due course.

Dividends payable to holders of domestic shares of the Company will be in Renminbi, and to holders of H shares in Hong Kong dollars.

SUBSIDIARIES

During the Reporting Period, details of the subsidiaries of the Company are set out in Note 39 to the consolidated financial statements.

FUTURE INVESTMENT PLANS

As at 31 December 2008, the Group did not have any significant investment plans.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has been in compliance with all code provisions set out in "Code on Corporate Governance Practices" contained in the GEM Listing Rules, and adopted the recommended best practices where applicable.

PLEDGE OF ASSETS

As at 31 December 2008, bank loans of RMB282,910,000 were secured by the pledge of land and buildings with a carrying amount of approximately RMB394,215,000.

EXCHANGE RATE RISK

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

REPORT OF THE BOARD

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less further costs expected to be incurred to completion and selling and distribution costs. These estimates are based on the historical experiences of the existing market and production and sales of similar products. Cost is calculated using the weighted average method.

As at 31 December 2008, audited inventories balance was approximately RMB733,210,000 (2007: RMB480,271,000) and costs included in the Reporting Period was approximately RMB7,987,333,000 (2007: RMB6,580,967,000).

CONTINGENT LIABILITY

As at 31 December 2008, the Group issued financial guarantees to banks in respect of banking facilities granted to a third party with an aggregate amounts of RMB45,000,000 (2007: nil). At the same time, the third party pledged its assets to the Group in respect of such financial guarantees. The directors of the Company consider that the event does not and would not have a material adverse impact on the results and financial position of the Group.

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

As at 31 December 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 (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 Rule 5.46 of the GEM Listing Rules were as follows:

LONG POSITIONS IN DOMESTIC SHARES

Name	Number of domestic shares held (shares)	Approximate percentage of total issued domestic share capital (%)	Approximate percentage of total capital (%)	Type of interests
Dr. Wu Jian-zhong (吳堅忠博士)*(note 1)*	160,457,744	22.48	13.15	Interests of controlled corporation
Dr. Meng Jin-xian (蒙進暹博士)*(note 2)*	48,251,528	6.76	3.95	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. Dr. Wu Jian-zhong is deemed, by virtue of Part XV of the SFO, to be interested in the shares held by Wangshang Shijie E-business in 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 of the Company. Junhe Investment also holds 50% of the share capital of Hekang Youlian, which has a direct interest in the 24,982,300 domestic shares of the Company. Dr. Meng Jin-xian is deemed, by virtue of Part XV of the SFO, to be interested in the shares held by Junhe Investment and Hekang Youlian in the Company.

REPORT OF THE BOARD

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 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 corporation 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 Rule 5.46 of the GEM Listing Rules.

As at 31 December 2008, none of the Company, any of its subsidiaries, holding companies or fellow subsidiaries was a party to any arrangement to enable the Directors or Supervisors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the interests or short positions of persons other than Directors, Supervisors and 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

Name	Number of domestic shares held (shares)	Approximate percentage of total domestic share capital (%)	Approximate percentage of total capital (%)
Dr. Zhang Wen-zhong (張文中博士)*(Note 1)*	497,932,928	69.76	40.80
Beijing Jingxi Guigu Technology Company Limited (北京京西硅谷科技有限公司)("Jingxi Guigu")*(Note 1)*	497,932,928	69.76	40.80
Beijing CAST Technology Investment Company (北京卡斯特科技投資有限公司)("CAST Technology Investment")*(Note 1)*	497,932,928	69.76	40.80
Wumei Holdings*(Note 2)*	497,932,928	69.76	40.80
Xinhua Department Store*(Note 3)*	497,932,928	69.76	40.80
Wangshang Shijie E-business	160,457,744	22.48	13.15

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 of the Company held by Wumei Holdings.

2. As at the date hereof, Xinhua Department Store is owned as to 29.27% by Wumei Holdings. Pursuant to the share transfer agreement (please refer to the Company's announcement on 24 July 2008) entered into between Wumei Holdings and Xinhua Department Store, Wumei Holdings is entitled to control the exercise of one-third or more of the voting power at general meetings of Xinhua Department Store subsequent to the completion of the share transfer agreement. Accordingly, Wumei Holdings is deemed to be interested in the shares of the Company held by Xinhua Department Store subsequent to the completion of the share transfer agreement.

REPORT OF THE BOARD

3. According to the share transfer agreement entered into between Wumei Holdings and Xinhua Department Store, approximately 69.76% of the domestic shares of the Company would be held by Xinhua Department Store directly. As the share transfer agreement is not yet completed, the percentage of domestic shares of the Company held by Xinhua Department Store is yet to be determined.

Long Positions in H shares

Name	Number of H shares held (shares)	Approximate percentage of total issued H share capital (%)	Approximate percentage of total share capital (%)
Arisaig Greater China Fund Limited(Note 1)	60,722,000	11.99	4.98
Arisaig Partners (Mauritius) Limited(Note 2)	60,722,000	11.99	4.98
Cooper Lindsay William Ernest(Note 3)	60,722,000	11.99	4.98
Pure Heart China Growth Investment Fund(Note 4)	55,944,000	11.04	4.58
Pure Heart Asset Management Co. Limited(Note 5)	55,944,000	11.04	4.58
JPMorgan Chase & Co.(Note 6)	51,042,000	10.08	4.18
T. Rowe Price Associates, Inc. and its affiliates(Note 7)	50,738,000	10.01	4.16
The Capital Group Companies, Inc.(Note 8)	40,996,384	8.09	3.36
Invesco Hong Kong Limited (in its capacity as manager/advisor of various accounts)(Note 9)	25,360,000	5.01	2.08

Notes:

1. These 60,722,000 H shares are held by Arisaig Greater China Fund Limited in its capacity as a beneficial owner.

2. These 60,722,000 H shares are held by Arisaig Partners (Mauritius) Limited in its capacity as an investment manager.

3. These 60,722,000 H shares are held by Cooper Lindsay William Ernest through his interests in controlled corporation.

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

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

6. Among these shares held by JPMorgan Chase & Co. 500 H Shares, 5,046,000 H shares and 45,496,000 H shares are held in its capacities as a beneficial owner, an investment manager and a trustee company/approved lending agent respectively.

7. These 50,738,000 H Shares are held by T. Rowe Price Associates, Inc. and its affiliates in its capacity as an investment manager.

8. These 40,996,384 H Shares are held by The Capital Group Companies, Inc. in its capacity as an investment manager.

9. These 25,360,000 H Shares are held by Invesco Hong Kong Limited in its capacity as a beneficial owner.

REPORT OF THE BOARD

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

SUFFICIENT PUBLIC FLOAT

Based on the information publicly available to the Company as at 24 March 2009, the latest practicable date prior to this annual report, not less than 25% of the issued share capital of the Company (being the minimum public float applicable to the shares of the Company) was held by the general public at all times.

DETAILS OF DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

All Directors and supervisors of the Company have entered into service contracts with the Company for a term commencing from 26 June 2008 and ending on the date of the conclusion of the 2010 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/letter of appointment above and those set out in Note 11 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 any time during the Reporting Period.

Directors' remunerations are determined on a fair basis to provide incentives, with reference to prevailing market level and management roles undertaken (if any) by the Directors within the Company.

INDEPENDENCE OF INDEPENDENT DIRECTORS

During the Reporting Period, the Company received from each of the Independent Non-executive Directors a written confirmation of his independence as required under Rule 5.09 of the GEM Listing Rules.

EMPLOYEES, REMUNERATION POLICIES AND LONG-TERM INCENTIVE PLANS

As of 31 December 2008, the Group had 17,437 full-time employees.

Remuneration package of the Group includes monetary rewards such as salaries, subsidies and bonuses; and non-monetary rewards in the form of working experience and career opportunities, self-development and training programmes, and paid leaves.

On the basis of maintaining fairness, both internally and externally, and providing incentives, related remunerations are determined in accordance with the operating results of the Company, employee costs within the retail industry, nature of responsibilities assumed by particular employees, and average remuneration prevailed in the labour market. A differentiated reward system is in place: for senior management and special professionals, a competitive strategy is adopted, with their total remuneration pegged against prevailing salary level in the labour market, management responsibilities, individual performances and the Company's profitability; for middle management and other employees, income improvements are facilitated through the provision of stable career opportunities, training programmes and promotion opportunities and are offered to, and room for self-development coupled with created for them, with stable increases in income level and enhancement in efficiency, apart from remuneration at a level comparable to market average.

REPORT OF THE BOARD

The Group did not have any long-term incentive plans.

PENSION SCHEMES

Pursuant to the provisions of the relevant PRC laws and regulations, full-time employees of the Group are required to participate in a number of defined contribution retirement benefit schemes established by the relevant provincial and city governments of the PRC. During the relevant period, the Group and its employees are required to make monthly contributions, at certain percentages of employees' salaries, in accordance with such scheme.

AUDIT COMMITTEE

The audit committee comprises Mr. Han Ying (Chairman), Mr. Li Lu-an and Mr. Lu 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 the effectiveness of internal control.

During the Reporting Period, six meetings were held by the audit committee, during which it reviewed the accounting principles and methods adopted by the Group, approved the annual results for 2007 and the quarterly and interim accounts for 2008, discussed 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.

The audited financial report and results for the year ended 31 December 2008 of the Group has been reviewed by the audit committee.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS

Regarding the securities transactions by Directors, the Company has adopted a set of code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard as set out in the GEM Listing Rules. Upon specific enquiries with all Directors in accordance with the code of conduct, the Company confirmed that the Directors were in compliance with the code of conduct regarding securities transactions by Directors during the Reporting Period.

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 following transactions of the Company constituted continuing connected transactions and/or connected transactions of the Company under Chapter 20 of the GEM Listing Rules during the Reporting Period:

Continuing connected transaction — Entrusted Operation and Management

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.

REPORT OF THE BOARD

Wumei Holdings, one of the promoters and a controlling shareholder of the Company, controls the exercise of more than 30% of voting rights in general meetings of each of the Tianjin Affiliates. Pursuant to the GEM Listing Rules, Wumei Holdings and Tianjin Affiliates are connected parties of the Company. Accordingly, the Entrusted Operation and Management Agreements and all the transactions contemplated thereunder constituted continuing connected transactions of the Company. Pursuant to the requirements of Chapter 20 of the GEM Listing Rules, the transaction was subject to the reporting, announcement and independent shareholders' approval requirements, which had been fulfilled by the Company and were approved by independent shareholders at the general meeting held on 28 December 2007.

The above continuing connected transactions of the Group had been reviewed by the Company's auditor, who issued a letter to the Board and confirmed the said transactions:

(1) have received the approval of the Board;

(2) have been entered into in accordance with the terms of the relevant agreement governing such transactions; and

(3) have not exceeded the relevant cap amount for the financial year ended 31 December 2008 as set out in the circular of the Company dated 12 November 2007.

Connected transaction entered into during the Reporting Period — Acquisition of Hangzhou Commerce

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 Commerce held by Wumei Holdings (the "Acquisition") for a consideration payable by means of the Company's holding of 29.27% of the shares in Xinhua Department Store.

The Directors were of the view that the Acquisition was in line with the Group's focus of its development strategy of engaging in supermarket chains operation. Meanwhile, by paying the shares in Xinhua Department Store it held as consideration, the Group were able to generate savings in cash outflows, reduce costs in financing and retain substantial cash for the expansion and development of the Group. Hangzhou Commerce, one of the largest retail chain enterprises in Zhejiang province, enjoyed excellent local reputation. Accordingly, the acquisition of Hangzhou Commerce would lay a solid development platform for the Group's expansion of operations in eastern China with Zhejiang province as the base.

The Acquisition constituted a connected transaction of the Company. Pursuant to the requirements of Chapter 20 of the GEM Listing Rules, the transaction was subject to the reporting, announcement and independent shareholders' approval requirements, which had been fulfilled by the Company. The Acquisition was considered and approved by independent shareholders at the general meeting held on 8 April 2008. Wumei Holdings and its associates abstained in the vote in respect of all the said resolutions at the general meeting.

The independent non-executive Directors considered that the above continuing connected transactions and connected transactions were conducted in the ordinary and usual course of business of the Company during the Reporting Period and on normal commercial terms, were fair and reasonable and in the interests of the shareholders of the Company as a whole. The Directors confirmed that the Company was in compliance with disclosure provisions in respect of connected transactions under the GEM Listing Rules.

REPORT OF THE BOARD

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).

COMPETING INTERESTS

Wumei Holdings operates retail chain business mainly in Tianjin, Yinchuan, Shanghai and Jiangsu.

The Group mainly expands its supermarket chain business in Beijing, Zhejiang, Hebei and Tianjin. The Company entered into the non-competition agreement and the trademark licensing agreement with Wumei Holdings on 29 October 2003, and the 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 the Entrusted Operation and Management Agreements in order to avoid business competition with the Group to the fullest extent.

Save 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). The 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 31 December 2008, the verdict was yet to be announced.

Chao Shifa is an associate of the Company, and its results are accounted for in the Group's consolidated financial performance using equity method. The number of Wumart stores excludes those under Chao Shifa. Accordingly, the Directors are of the opinion that the verdict of the Appeal will not have material impact on the Group. In light of this, no further disclosure will be made by the Company in subsequent results reports or announcements.

MATERIAL ADVERSE CHANGE

As at 31 December 2008, the Board confirmed that there was no material adverse change in the Group's financial or operational position.

REPORT OF THE BOARD

SUBSEQUENT EVENTS

On 24 July 2008, Wumei Holdings entered into a share transfer agreement with Xinhua Department Store, pursuant to which Wumei Holdings would transfer its holding of 497,932,928 domestic shares of the Company, representing approximately 40.80% of the total issued share capital of the Company, to Xinhua Department Store for a consideration to be satisfied by Xinhua Department Store issuing not more than 200,000,000 new shares to Wumei Holdings. On 16 January 2009, Xinhua Department Store announced that, due to uncertainties as a result of market changes, its board of directors was unable to issue the notice of a general meeting within six months of the first announcement of the board resolutions. Accordingly, pursuant to the "Regulations in Relation to Regulating Issues Arising from Material Assets Reorganization of Listed Companies" (《關於規範上市公司重大資產重組若干問題的規定》) issued by the China Securities Regulatory Commission, Xinhua Department Store would re-convene a board meeting to consider the said share transfer.

AUDITOR

The accompanying consolidated financial statements are audited by Deloitte Touche Tohmatsu. The Company has not changed its auditor in the past three years.

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

Beijing, the PRC
24 March 2009

REPORT OF THE SUPERVISORY COMMITTEE

Dear all shareholders,

The members of the Supervisory Committee (the "Supervisory Committee") of the Company have performed in good faith their duties of supervising the Company's affairs for the protection of interests of shareholders and the Group in accordance with the Company Law of the PRC and the GEM Listing Rules and the requirements of the articles of the Company.

During the Reporting Period, the Supervisory Committee held two meetings to consider the 2007 financial statements of the Company, and to consider and approve the report of the Supervisory Committee for 2007. The Supervisory Committee has examined the Group's accounting system and financial reports and is of the view that the information contained in the Group's financial reports is true and reliable, and that the auditor's opinion is objective and impartial.

The Supervisors have attended board meetings from time to time so as to gain insight into the Company's development plans, expansion of retail network, and improvements to its internal control system. The Supervisors have consulted with some senior management members, in order to have a better understanding of the Company's operating approaches and enforcement of the Board's resolutions. Meanwhile, the Supervisory Committee has carried out supervision over the Group's operations, covering areas such as financial control, operation control, compliance control and risks control. The Supervisory Committee is of the view that the Group has established a sound internal control system that can effectively control major operating risks.

The Supervisory Committee has also monitored the performance of duties by Directors and senior management. We are of the view that members of the Board and other senior managers have performed their duties with high standards of integrity according to resolutions of general meetings. They have worked diligently and served in good faith the best interests of the Company when performing their duties. They have carried out their work pursuant to the Company's articles in a regulated manner and there has been no significant abuse of powers undermining the interests of the Company or infringing the interests of shareholders and employees.

The Supervisory Committee has also conducted examination over material acquisition and merger activities of the Group and is of the view that the terms and prices of all transactions have been fair and reasonable and in line with the Group's long-term development strategies.

The Supervisory Committee has carried out supervision in respect of the Group's connected transactions, and confirms that those connected transactions have been in compliance with the GEM Listing Rules and on commercial terms determined on an arm's length basis. No insider dealings or compromising of the interests of the shareholders, in particular the minority shareholders, have been identified. The respective annual caps of the continuing connected transactions have not exceeded the caps under the waiver granted by the Stock Exchange.

REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee is satisfied with the major tasks and results accomplished in 2008, and expresses its gratitude to the Board for its dedication and efforts to improve corporate governance.

Looking ahead, the Supervisory Committee shall continue to fulfil its duties vigorously and act proactively to protect the interests of the Group and shareholders, to maximize the shareholders' interests, and to contribute to the sustained development of the Company. We are fully confident in the development prospect of the Company.

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

Beijing, the PRC
24 March 2009

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

It has been the stated objective of the Company to ensure sound corporate governance, and to that ends it has been seeking to regulate its operations with ongoing improvements in the area in strict accordance with the requirements under relevant PRC and overseas laws and regulations. The Directors are convinced that, by implementing sound corporate governance practices, the transparency of the Company's business and results will be enhanced, the rights of shareholders, employees and business partners will be safeguarded, and investors' confidence will be boosted. The Board confirms that the Company had been in compliance with all code provisions set out in "Code on Corporate Governance Practices" contained in Appendix 15 of the GEM Listing Rules, and had adopted the recommended best practices in various aspects of corporate governance throughout 2008.

THE BOARD

Roles and Responsibilities

The Board undertakes the responsibility to lead and monitor the Group and assumes as a body the duty of overseeing and supervising the Company's affairs to secure positive results for the Company. The primary functions of the Board are:

1. to formulate overall strategies, goals and business plans of the Group, and to monitor their implementation;

2. to discuss and exercise control over key operational management and financial performance, and to approve significant investments;

3. to formulate appropriate policies and control systems in order to avoid and manage exposure to risks in the course of attaining defined strategies and goals of the Group; and

4. to prepare accounts of the Company and to assess the Group's performance, financial position and prospects.

Composition of the Board

Members of the Third Session of the Board, comprising Dr. Wu Jian-zhong as the Chairman; Dr. Meng Jin-xian and Madam Xu Ying as Executive Directors; Mr. Wang Jian-ping as a Non-executive Director; and Mr. Han Ying, Mr. Li Lu-an and Mr. Lu Jiang as Independent Non-executive Directors, were elected at the annual general meeting held on 26 June 2008. The term of office of the current session of the board of directors shall expire upon the conclusion of the 2010 annual general meeting of the Company. Biographies of the Directors are set out on pages 17 to 18 in this annual report.

The Executive Directors of the Company have extensive management experience and expertise in the industry, while the non-executive Directors have extensive knowledge and experience in various sectors and are capable of making judgements in respect of these sectors, including Mr Lu Jiang who has appropriate accounting qualifications.

Proceedings of Board Meetings

Regular board meetings are convened four times a year. A notice of at least 14 days will be given in respect of each regular meeting.

Clear written policies have been formulated by the Board to provide for matters to be reported by the management to the Board and for which prior Board approval is required before any decisions or commitments on behalf of the Group can be made in respect thereof.

CORPORATE GOVERNANCE REPORT

Minutes of meetings of the Board and its committees are being prepared to record in detail matters discussed and concerns raised during these meetings, including any queries raised by Directors and voting results. The minutes of meetings are kept by the secretary to the Board and are available for inspection by the Directors at all times.

The Board and its committees have access to sufficient resources for the discharge of their respective duties, including the engagement of independent professional advice when required at the Company's expense.

If Directors or any of their associates have declared a conflict of interest or have a material interest in a proposed transaction or a matter to be considered by the Board, such Directors shall not be counted in the quorum of the meeting, and shall abstain from voting on resolutions in this regard.

In addition to regular meetings, non-executive Directors also meet regularly to discuss corporate governance issues without the presence of the management.

Each Director is provided with a copy of the "Proceedings of Board Meetings", which entails guidelines of conduct for the Directors and reminders on obligations they are required to fulfil, including timely disclosure of personal interests, potential conflicts of interest and changes in personal particulars. The "Proceedings of Board Meetings" is updated regularly to reflect relevant changes in applicable regulations and the GEM Listing Rules.

Board Committees

The audit committee and the remuneration committee, each with specified terms of reference, have been set up under the Board. The rules of proceeding of meetings of each committee, which set out their responsibilities, authorities and duties, have been posted on the website of the Company.

Audit Committee

The audit committee comprises Mr. Han Ying (Chairman), Mr. Li Lu-an and Mr. Lu Jiang, all of which are Independent Non-executive Directors.

The primary duties of the audit committee are to review the Group's financial performance and effectiveness of internal control.

In 2008, the audit committee met six times to review and/or approve the following:

- Accounting principles and methods adopted by the Group;

- Financial report of 2007 and quarterly and interim reports of 2008 of the Group;

- Recommendations to the Board in relation to the appointment of the external auditor.

Remuneration Committee

The remuneration committee comprises Dr. Wu Jian-zhong (Chairman), an Executive Director, and Mr. Han Ying and Mr. Li Lu-an, both of whom are independent non-executive Directors. The primary duties of the remuneration committee are to assist the Board in the management of the overall remuneration structure of the Company, in particular, in determining and reviewing the remuneration packages of Directors and senior management. During the Reporting Period, the remuneration committee met 3 times to recommend remunerations for Directors, review the remunerations of senior management of the Group for 2008 and recommend their remunerations for 2009.

CORPORATE GOVERNANCE REPORT

Directors' attendance at relevant meetings of the Board and its committees in 2008

	Number of meetings attended/held in 2008		
	Board	Audit Committee	Remuneration Committee
Meetings held during the year	15	6	3
Executive Directors			
Wu Jian-zhong	15/15	–	3/3
Meng Jin-xian	14*/15	–	–
Xu Ying	14*/15	–	–
Non-Executive Director			
Wang Jian-ping	15/15	–	–
Independent Non-Executive Directors			
Han Ying	15/15	6/6	3/3
Li Lu-an	15/15	6/6	3/3
Lu Jiang	15/15	6/6	–

* One of the meetings was held at the request of the Chairman for the purpose of meeting the Non-executive Directors (including Independent Non-executive Directors) in the absence of the executive Directors.

DIRECTORS

Nomination, Appointment, Re-election and Removal of Directors

The Board is responsible for identifying and nominating suitable candidates and recommending them to shareholders, as well as nominating candidates to fill causal vacancies of the Board, if necessary.

During the Reporting Period, candidates for three executive and one non-executive directorships of the Third Session of the Board were nominated by shareholders, and qualifications of these candidates were reviewed by the Board accordingly. At the same time, three candidates for the offices of independent non-executive Directors were recommended by the Board to shareholders and all these nominations and recommendations were submitted to the general meeting for consideration.

The Board would consider certain criteria including, inter alia, his/her personal integrity, occupation, accomplishments, experience, professional and academic background and his/her level of commitment (including the time he/she is able to devote) in the selection of candidates for directorship.

In accordance with the articles of the Company, a Director shall be appointed and removed by general meetings, with a term of office of not more than three years, and shall be eligible for re-election. Subject to the relevant laws and administrative regulations, a Director may be removed from office by shareholders in general meetings by way of ordinary resolutions prior to the completion of his/her term of appointment.

Detailed rules in respect of appointment, re-election and removal of Directors are set out in the articles of the Company.

CORPORATE GOVERNANCE REPORT

Independence of Independent Directors

None of the Independent Non-executive Directors holds any office in the Company or any of its subsidiaries or any equity interests of the Group, nor are they connected with each other and with members of the senior management in any financial, business or family capacity.

Each of the Independent Non-executive Directors has confirmed his/her independence to the Stock Exchange upon their appointment. The Board makes written enquiries to each Independent Non-executive Director to confirm his/her independence on a regular basis.

Responsibilities of Directors

Each Director fully understands his/her duties as a Director of the Company and the way of operation, business activities and development of the Company. During their terms of office, all Directors perform their duties with dedication and diligence to facilitate ongoing improvements of the Company's results.

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 code of practice for securities dealings by Directors on terms no less exacting than those required by the GEM Listing Rules. The Company confirms, after making specific enquiries with the Directors in accordance with the code, that all the Directors have complied with the standards and code of practice in relation to securities dealings by Directors during the Reporting Period.

Provision and Application of Information

To ensure that Directors are able to fully perform their duties and responsibilities, the Company delivers complete and true documents in relation to meetings of Board and its committees to all Directors prior to the meetings so that the Directors can make informed decisions in fulfilment of their duties and responsibilities as Directors of the Company.

Delegation of Authority of the Board

The responsibilities and authorities between the Board and the management are clearly distinguished. The Board or its committees are responsible for such matters as strategic development, risk policies, internal audit, connected transactions, and management remuneration of the Company; while the management team is responsible for organising and executing 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 to the long-term development strategies of the Company. The Board shall reasonably select and appoint senior management, and establish a rational performance assessment mechanism for examining and evaluating the performance of the management, which will enable the Company to operate and develop in a sustainable manner.

CORPORATE GOVERNANCE REPORT

Chairman and President

Dr. Wu Jian-Zhong is the Chairman of the Company, whereas Mr. Zhu You-nong assumes the position of the President of the Company. The office of the Chairman and that of the President of the Company are fully segregated, each with specific functions but mutually complementary.

The Chairman and the President are not connected with each other. The Chairman is responsible for the operation of the Board, while the President is responsible for the operations and management of the Company and relevant duties designated by the Board.

	Chairman	President
Primary Duties	Provides leadership over the Board to ensure its effective operation and performs other duties as required	Oversees day-to-day operations and management
	Ensures all Directors receive accurate, complete and clear information and data of the Company in a timely manner	Implements the Company's annual operational plans and investment proposals
	Ensures the Board and the management maintain effective communication and discussion of all material matters in a timely manner	Formulates the internal organizational structure and basic management system of the Company
	Ensures sound corporate governance codes and procedures of the Company	Undertakes other duties designated by the Company's articles and the Board

Directors' Remuneration

The Board is assisted by the remuneration committee in determining the remuneration structure and policy of the Company, including incentive mechanism.

Details of the remuneration of each Director is set out on page 62 of the Annual Report.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is responsible for the preparation of accounts for the respective financial periods to give a true and fair view of the results and financial positions of the Group.

CORPORATE GOVERNANCE REPORT

The annual, and interim and quarterly results of the Company are published in a timely manner within three months and 45 days respectively after the end of the relevant periods. The reports aim to present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects. The Board is of the opinion that high quality, transparent and timely corporate reports are crucial in fostering confidence between the Company and the shareholders.

In preparing the accounts for the year ended 31 December 2008, the Directors confirmed that:

1. all HKFRSs had been adopted;

2. suitable accounting policies had been selected and applied consistently; and

3. judgements and estimates had been prudently and reasonably made and the accounts had been prepared on a going-concern basis.

Internal Control

The planning and implementation of internal control procedures is mainly the responsibility of the management of the Company, while the Board and the audit committee are responsible for monitoring measures adopted by the management and the effectiveness of such internal control procedures. This ensures the effective, stable and proper operation of the internal control system.

The control processes of the Company are summarized as follows:

1. the establishment of an organizational structure with clearly defined responsibilities and appropriately assigned duties;

2. the design of an effective accounting and information system to ensure a complete, accurate and timely disclosure of information;

3. the publication of price sensitive information in a timely manner and prohibition of any inappropriate use of confidential or price sensitive information;

4. the establishment of a dedicated organization for internal control — the internal audit department and internal control centre — for performing internal independent review. The internal audit department complements the external auditor in function and plays a crucial role in monitoring the internal governance of the Company;

5. the adoption of a reporting system to encourage internal reporting on gross misconduct;

6. the adoption of necessary measures by the Board based on actual situations in response to material contingent events, including the establishment of a special internal audit team and/or engagement of external professional institutions to assess contingencies and make judgement on its risks and effects on the Company.

The internal control system is subject to review and modification by the Board from time to time to ensure that it remains efficient and effective.

CORPORATE GOVERNANCE REPORT

Auditor's Remuneration

The Company regularly reviews the performance of, and the remuneration payable to the external auditor. The remuneration for audit services payable by the Group to the external auditor amounted to RMB5,500,000 in 2008. The Group did not pay to the external auditor any remuneration for non-audit services.

Relationship with Shareholders and Investors

The Company maintains a high level of transparency with shareholders as a core principle of corporate governance. Shareholders are entitled to attend and vote at general meetings, and communicate with the Directors and senior management directly. A separate resolution is being tabled at the general meeting in respect of each significant matter, including the election of Directors and Supervisors.

To increase shareholders' and investors' understanding of the Company's business and latest business initiatives, the Company maintains effective communications with shareholders on a best-effort basis and establishes a sound communication mechanism comprising the publication of quarterly, interim and annual reports, issuance of circulars and letters to shareholders, publication of detailed information that need to be brought to the attention of shareholders on the websites of the GEM and the Company, meetings with investors and media, attendance of the Chairman of the Board and the chairman of the audit committee and the remuneration committee at general meetings to answer questions raised by shareholders, and timely publication of voting results of general meetings.

Procedures of Demanding a Poll by Shareholders

According to the articles of the Company, 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.

During the Reporting Period, the latest general meeting (i.e., the 2007 annual general meeting) was held at the Conference Room, 10th Floor, Yuquan Building, 3 Shijingshan Road, Shijianshan District, Beijing, the PRC on 26 June 2008. At the meeting, resolutions in relation to the following matters were considered and approved: the audited consolidated financial statements and independent auditor's report of 2007, profit distribution plan of 2007, Reports of the Board and the Supervisory Committee of 2007, appointment of domestic and overseas auditors, election of members of the Third Session of the Board and the Supervisory Committee, remunerations of Directors and Supervisors, issuance of additional H shares and/or domestic shares and authorizations of the Board to deal with related matters, authorization of the Board to declare pay and propose interim dividend and/or special dividend of 2008, amendments to the articles of the Company relating to our business scope, and approval in respect of the transfer of listing of our H shares from the GEM to the Main Board of the Stock Exchange.

CORPORATE GOVERNANCE REPORT

Each of the aforesaid matters was considered and approved by way of resolution on an individual basis and voting was conducted by way of poll. The voting results of the 2007 annual general meeting have been published on the websites of the GEM and the Company.

Shareholding Structure

As at 31 December 2008, the shareholding structure of the Company was as follow:

Name of shareholders	Class of shares	Number of shares (shares)	Percentage of total share capital (%)
Wumei Holdings, Inc.(物美控股集團有限公司)	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)	Domestic shares	24,982,300	2.05%
Beijing Junhe Investment Co., Ltd.(北京君合投資有限公司)	Domestic shares	23,269,228	1.91%
Beijing Wangshang Shijie E-business Co., Ltd. (北京網商世界電子商務有限公司)	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		1,220,348,000	100.00%

As at 31 December 2008, the market capitalization of the Company's publicly held shares was approximately HK$2,909,912,000, based on the closing price of the Company's H shares of HK$5.76 on that date.

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 42 to 89, which comprise the consolidated balance sheet as at 31 December 2008, 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 2008 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

24 March 2009

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	NOTES	2008 RMB'000	2007 RMB'000
Revenue from sales of goods	5	**8,759,263**	7,118,755
Cost of sales		**(7,987,333)**	(6,580,967)
Gross profit		**771,930**	537,788
Other revenues	5	**990,527**	747,050
Investment and other income	7	**253,061**	121,901
Distribution and selling expenses		**(1,003,014)**	(754,420)
Administrative expenses		**(272,873)**	(219,065)
Share of profit of associates	19	**27,731**	43,332
Share of profit (loss) of a jointly controlled entity	20	**25**	(2,426)
Finance costs	8	**(20,406)**	(16,589)
Profit before tax		**746,981**	457,571
Income tax expense	9	**(190,013)**	(131,992)
Profit for the year	10	**556,968**	325,579
Attributable to:			
Equity holders of the Company		**490,343**	300,078
Minority interests		**66,625**	25,501
		556,968	325,579
Dividends			
— proposed	13	**183,052**	158,645
— paid	13	**158,645**	85,424
Earnings per share			
— basic (RMB yuan per share)	14	**0.40**	0.25

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2008

	NOTES	2008 RMB'000	2007 RMB'000
Non-current Assets			
Property, plant and equipment	15	**2,093,622**	1,722,560
Prepaid lease payments	16	**73,652**	16,766
Goodwill	17	**843,708**	404,711
Intangible assets	18	**100,430**	28,215
Interests in associates	19	**140,852**	358,807
Interests in a jointly controlled entity	20	**47,599**	47,574
Deferred tax assets	29	**19,165**	12,823
		3,319,028	2,591,456
Current Assets			
Inventories	21	**733,210**	480,271
Loan receivables	22	**90,000**	—
Trade and other receivables	23	**560,479**	412,234
Amounts due from related parties	24	**276,058**	370,657
Prepaid lease payments	16	**38,910**	27,971
Bank balances and cash	25	**1,348,349**	815,179
		3,047,006	2,106,312
Current Liabilities			
Trade and other payables	26	**2,929,710**	2,086,319
Amounts due to related parties	24	**27,108**	48,051
Tax liabilities		**110,134**	46,097
Bank loans	27	**622,910**	275,460
Obligations under finance leases	30	**5,110**	5,110
		3,694,972	2,461,037
Net Current Liabilities		**(647,966)**	(354,725)
Total assets less Current Liabilities		**2,671,062**	2,236,731
Capital and Reserves			
Share capital	28	**305,087**	305,087
Share premium and reserves		**2,137,127**	1,805,118
Equity attributable to equity holders of the Company		**2,442,214**	2,110,205
Minority interests		**194,616**	120,354
Total equity		**2,636,830**	2,230,559
Non-current liabilities			
Deferred tax liabilities	29	**12,704**	1,056
Obligations under finance leases	30	**462**	5,116
Other payables	26	**21,066**	—
		34,232	6,172
		2,671,062	2,236,731

The consolidated financial statements on pages 42 to 89 were approved and authorised for issue by the Board of Directors on 24 March 2009 and are signed on its behalf by:

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

	Attributable to equity holders of the Company							
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory common reserve fund (Note) RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2007	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 to minority shareholders	–	–	–	–	–	–	(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
Dividend paid by the Company	–	–	–	–	(158,645)	(158,645)	–	(158,645)
Dividend paid to minority shareholders	–	–	–	–	–	–	(34,413)	(34,413)
Acquisition of additional interests in subsidiaries	–	–	311	–	–	311	(10,111)	(9,800)
Increase in minority interests as a result of acquisition of a subsidiary	–	–	–	–	–	–	52,161	52,161
Profit for the year and total recognised income	–	–	–	–	490,343	490,343	66,625	556,968
Profit appropriations	–	–	–	55,321	(55,321)	–	–	–
At 31 December 2008	305,087	1,132,062	311	194,809	809,945	2,442,214	194,616	2,636,830

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.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	NOTE	2008 RMB'000	2007 RMB'000
OPERATING ACTIVITIES			
Profit for the year		556,968	325,579
Adjustments for:			
Income tax expense		190,013	131,992
Finance costs		20,406	16,589
Share of profit of associates		(27,731)	(43,332)
Share of (profit) loss of a jointly controlled entity		(25)	2,426
Depreciation for property, plant and equipment		169,469	117,898
Release of prepaid lease payments		30,035	25,880
Amortisation for intangible assets		3,154	873
Gain on disposal of an associate		(182,233)	—
Loss on disposal of property, plant and equipment		11,287	3,718
Fair value changes on derivative financial liabilities		—	(20,041)
Interest income		(10,492)	(10,380)
Operating cash flows before movements in working capital		760,851	551,202
Increase in inventories		(146,590)	(112,707)
(Increase) decrease in trade and other receivables		(54,856)	75,887
(Increase) decrease in amounts due from related parties		(5,401)	276,859
Decrease in held-for-trading investment		—	5,486
Increase in prepaid lease payment		(71,173)	(21,246)
Increase (decrease) in trade and other payables		419,044	(174,225)
(Decrease) increase in amounts due to related parties		(20,943)	47,012
Cash generated from operations		880,932	648,268
Interest received on bank deposit		10,492	10,380
Income tax paid		(158,294)	(128,067)
NET CASH FROM OPERATING ACTIVITIES		733,130	530,581
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(321,187)	(494,049)
Proceeds from disposal of property, plant and equipment		6,313	390
Acquisition of subsidiaries	33	(9,518)	—
Acquisition of an associate		—	(338)
Investment in a jointly controlled entity		—	(50,000)
Payment for acquisition of additional interests in a subsidiary		(9,800)	—
Repayment of loan by an associate		100,000	—
Decrease in pledged deposits		—	93,067
Dividend received from associates		4,900	15,148
NET CASH USED IN INVESTING ACTIVITIES		(229,292)	(435,782)

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 RMB'000	2007 RMB'000
FINANCING ACTIVITIES		
New bank loans raised	**542,910**	275,460
Repayments of bank loans	**(295,460)**	(175,460)
Payment for finance leases	**(4,654)**	(4,193)
Interest paid	**(20,406)**	(16,589)
Dividend paid	**(158,645)**	(85,424)
Dividend paid to minority shareholders of subsidiaries	**(34,413)**	(1,657)
Contribution by minority shareholders upon incorporation of a subsidiary	**–**	3,150
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**29,332**	(4,713)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**533,170**	90,086
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**815,179**	725,093
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash	**1,348,349**	815,179

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

1. GENERAL

The Company is registered in the PRC as a joint stock company with limited liability and its H shares are 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 consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

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

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

In the current year, the Group has applied the following new amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective:

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK (IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions
HK (IFRIC) — Int 12	Service Concession Arrangements
HK (IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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.

In addition, the Group has early applied HK (IFRIC) — Int 13 "Customer Loyalty Programmes" that has been issued and is effective for annual periods beginning on or after 1 July 2008.

The application of HK (IFRIC) — Int 13 resulted in a change to the revenue recognition policy of the Group for its customer loyalty programme. The customer loyalty programme operated for the benefit of its customers falls within the scope of HK (IFRIC) — Int 13. Under the customer loyalty programme, the customers are entitled to receive bonus points which can be used to obtain discounts on subsequent purchases. In the past, the Group has accounted for the customer loyalty programme by recognising the full consideration from sales as revenue, with a separate liability for the estimated cost of the outstanding bonus points. However, HK (IFRIC) — Int 13 requires that such transactions be accounted for as 'multiple element revenue transactions' and that the consideration received in the initial sales transaction be allocated between the sales of goods and the cost of bonus points that are earned by the customers.

The Directors of the Company have assessed the impact and determined that the application of the above interpretations does not have material impact on the results and financial position of the Group for the current and prior accounting periods. Accordingly, no prior period adjustment has been required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

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

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK (IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK (IFRIC) — Int 15	Agreements for the Construction of Real Estate[2]
HK (IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK (IFRIC) — Int 17	Distribution of Non-cash Assets to Owners[3]
HK (IFRIC) — Int 18	Transfer of Assets from customers[6]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments toHKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods ending on or after 30 June 2009
5 Effective for annual periods beginning on or after 1 October 2008
6 Effective for transfers of assets from customers received on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Change in interests in subsidiaries that do not result in a change of control

Change in the Group's interest in a subsidiary after control is obtained that do not result in a change of control is accounted for as transactions between equity holders in their capacity as equity holders. No gain or loss is recongnised in profit or loss on such changes. The carrying amount of the non-controlling interest is adjusted to reflect the change in the Group's interest in the subsidiary's net assets. Any difference between the amount by which the non-controlling interest is so adjusted and the fair value of the consideration paid or received, if any, is recongnised directly in equity and attributed to equity holders of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

All associates prepare their financial information using accounting policies in conformity with the accounting policies adopted by the Group. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 goods is recognised when the goods are delivered and title has passed.

Sales of goods that result in award credits for customers, under the Group's customer loyalty programme, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods sold and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value. Such consideration is not recognised as revenue at the time of the initial sale transaction, but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

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 provided.

Government subsidies are recognised as other income when the conditions relating to the subsidies have been fulfilled and there are no related costs to be incurred in the future which the subsidies are intended to compensate.

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.

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.

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 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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.

Inventories

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

Taxation

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

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

Deferred tax is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date. Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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 remaining lease term.

Operating lease contracts

Operating lease contracts represent the fair value of rental saving amount of operating lease contracts hold by the acquiree which are under favorable terms relative to market terms at the acquisition date of business combination. Such rental saving on operating lease contracts is carried at cost, represented by its fair value at the acquisition date of business combinations, less accumulated amortisation and any accumulated impairment losses. Amortisation for operating lease contract is provided on a straight-line basis over the remaining lease term.

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

Impairment 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

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

The Group as lessor

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

The Group as lessee

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.

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.

Borrowing costs

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

Retirement benefit costs

The employees of the Group are members of state-managed retirement benefit schemes, the obligations of the Group under which are equivalent to those arising in a defined contribution retirement benefit plan. Contributions to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss ("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 and 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.

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).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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 2008, the carrying amount of goodwill was RMB843,708,000 (2007: RMB404,711,000) and no impairment loss has been provided. Details of the recoverable amount calculation are disclosed in note 17.

Deferred tax assets

As at 31 December 2008, a deferred tax assets of RMB19,165,000 (2007: RMB12,823,000) in relation to temporary timing differences and unused tax losses have been recognised in the consolidated balance sheet. The recognition of the deferred tax assets mainly depends on whether sufficient taxable temporary differences or future assessable profits will be available in the future. In cases where the actual future assessable profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the consolidated income statement in the period such a reversal takes place.

Useful lives of property, plant and equipment

The Group determines the estimated useful lives of its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

The Group will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Estimated impairment of trade and other receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2008, the carrying amount of trade and other receivable is RMB560,479,000 (net of allowance for doubtful debts of RMB18,328,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

5. REVENUE AND OTHER REVENUES

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

	2008 RMB'000	2007 RMB'000
Revenue		
Sales of goods	**8,759,263**	7,118,755
Other revenues		
Rental income from leasing of shop premises	**280,616**	199,246
Income from suppliers, including store display income and promotion income	**709,911**	547,804
	990,527	747,050
Total revenue	**9,749,790**	7,865,805

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

	2008 RMB'000	2007 RMB'000
Government subsidies	**7,043**	4,014
Interest income	**10,492**	10,380
Delivery service income	**13,782**	20,799
Gain on disposal of an associate	**182,233**	—
Fair value changes of held-for-trading investments	**8,589**	39,540
Fair value changes on derivative financial liabilities	**—**	20,041
Others	**30,922**	27,127
	253,061	121,901

8. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interests on:		
— Bank loans wholly repayable within five years	**19,672**	15,902
— Finance lease	**734**	687
	20,406	16,589

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

9. INCOME TAX EXPENSE

	2008 RMB'000	2007 RMB'000
The charge (credit) comprises:		
PRC income tax	**192,413**	134,338
Deferred tax (note 29)		
Current year	**(2,400)**	(6,112)
Attributable to a change in tax rate	**—**	3,766
	(2,400)	(2,346)
	190,013	131,992

PRC income tax is calculated at 25% (2007: 33%) of the estimated assessable profit for the year.

On 16 March 2007, the People's Republic of China 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. Under the New Law and Implementation Regulations, the Enterprise Income Tax rate of the Group was reduced from 33% to 25% from 1 January 2008 onwards.

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

	2008 RMB'000	2007 RMB'000
Profit before tax	**746,981**	457,571
Taxation at the PRC income tax rate of 25% (2007: 33%)	**186,745**	150,998
Tax effect of tax rate changes	**—**	3,766
Tax effect of share of profit of associates and a jointly controlled entity	**(6,939)**	(13,499)
Tax effect of income that is not taxable in determining taxable profit	**—**	(6,614)
Tax effect of expenses that are not deductible in determining taxable profit	**2,907**	1,252
Tax effect of unrecognised tax losses	**2,047**	4,025
Tax effect of additional tax deductible expense in determining taxable profit	**(238)**	(6,859)
Tax effect related to disposal of an associate	**7,671**	—
Tax effect of utilisation of tax losses not previously recognised	**(2,180)**	(1,077)
Tax charge for the year	**190,013**	131,992

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

10. PROFIT FOR THE YEAR

	2008 RMB'000	2007 RMB'000
Profit for the year has been arrived at after charging:		
Depreciation for property, plant and equipment	169,469	117,898
Release of prepaid lease payments	30,035	25,880
Amortisation for intangible assets	3,154	873
Total depreciation and amortisation	202,658	144,651
Operating lease rentals in respect of rented premises	295,516	238,285
Auditor's remuneration	5,500	3,950
Staff costs:		
Directors' emoluments	1,896	1,660
Other staff costs		
— Salaries and other benefits	341,262	227,882
— Retirement benefits scheme contributions	30,366	22,188
	373,524	251,730
Share of tax of associates and a jointly controlled entity (included in share of profit of associates and a jointly controlled entity)	10,681	22,394
Loss on disposal of property, plant and equipment	11,287	3,718

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the six (2007: six) directors were as follows:

	Wu. Jian-zhong China RMB'000	Meng. Jin-xian China RMB'000	Xu Ying China RMB'000	Han Ying China RMB'000	Li Lu-an China RMB'000	Lu Jiang China RMB'000	Total RMB'000
2008							
Fees	—	—	—	60	60	60	180
Other emoluments							
Salaries and other benefits	524	624	458	—	—	—	1,606
Retirement benefits scheme contributions	35	38	37	—	—	—	110
Total emoluments	559	662	495	60	60	60	1,896
2007							
Fees	—	—	—	60	60	60	180
Other emoluments							
Salaries and other benefits	434	612	332	—	—	—	1,378
Retirement benefits scheme contributions	34	34	34	—	—	—	102
Total emoluments	468	646	366	60	60	60	1,660

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

11. DIRECTORS' EMOLUMENTS (Continued)

The amounts disclosed above included directors' fees of RMB180,000 (2007: 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.

12. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals included three (2007: three) directors of the Company for the year (details of whose emoluments are set out in note 11 above), the emoluments of the remaining two (2007: two) highest paid individuals for the year were as follows:

	2008 RMB'000	2007 RMB'000
Salaries and other benefits	**1,480**	2,713
Retirement benefits scheme contributions	**72**	34
	1,552	2,747

Their emoluments were within the following bands:

	2008 No. of employees	2007 No. of employees
RMB nil to RMB1,000,000	**1**	1
RMB1,000,001 to RMB1,500,000	**1**	—
RMB2,000,001 to RMB2,500,000	**—**	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

13. DIVIDENDS

	2008 RMB'000	2007 RMB'000
Domestic shares and H Shares:		
Proposed final dividends of RMB0.15 (2007: RMB0.13) per share	**183,052**	158,645
Dividends paid of RMB0.13 (2007: RMB0.07) per share	**158,645**	85,424

The final dividends of RMB0.15 (2007: RMB0.13) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

14. EARNINGS PER SHARE

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

	2008 RMB'000	2007 RMB'000
Profit for the year attributable to equity holders of the Company	**490,343**	300,078

	2008 '000	2007 '000
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	**1,220,348**	1,220,348

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Electronic equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2007	761,811	331,432	289,068	50,169	13,488	20,663	1,466,631
Additions	181,528	87,747	55,895	39,742	800	206,775	572,487
Transfer	187,404	34,673	2,474	554	—	(225,105)	—
Disposals	—	(1,484)	(3,273)	(1,862)	(201)	—	(6,820)
At 31 December 2007	1,130,743	452,368	344,164	88,603	14,087	2,333	2,032,298
Additions	48,722	166,799	68,892	22,026	11,003	—	317,442
Purchase from a related party	—	—	2,244	100	1,401	—	3,745
Acquired on acquisition of subsidiaries	146,063	37,284	11,766	39,559	2,272	—	236,944
Transfer	—	2,333	—	—	—	(2,333)	—
Disposals	—	(15,419)	(15,789)	(3,973)	(2,421)	—	(37,602)
At 31 December 2008	1,325,528	643,365	411,277	146,315	26,342	—	2,552,827
DEPRECIATION							
At 1 January 2007	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
Provided for the year	40,599	60,338	49,223	16,945	2,364	—	169,469
Eliminated on disposals	—	(6,244)	(8,857)	(3,221)	(1,680)	—	(20,002)
At 31 December 2008	98,448	162,802	151,004	43,814	3,137	—	459,205
CARRYING AMOUNTS							
At 31 December 2008	1,227,080	480,563	260,273	102,501	23,205	—	2,093,622
At 31 December 2007	1,072,894	343,660	233,526	58,513	11,634	2,333	1,722,560

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

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.

At 31 December 2008, the net book value of electronic equipment includes an amount of RMB10,395,000 (2007: RMB12,769,000) in respect of assets held under finance lease.

At 31 December 2008, included in the leasehold land and buildings is a building acquired upon acquisition of a subsidiary during the year with net book value of approximately RMB8,500,000 (2007: nil) whereby the Group is still on the progress of obtaining the Housing Ownership Certificate.

16. PREPAID LEASE PAYMENTS

	2008 RMB'000	2007 RMB'000
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in the PRC	32,098	7,029
Prepaid lease rentals	80,464	37,708
	112,562	44,737
Analysed for reporting purposes as:		
Current assets	38,910	27,971
Non-current assets	73,652	16,766
	112,562	44,737

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

17. GOODWILL

	2008 RMB'000	2007 RMB'000
COST		
At 1 January	**404,711**	404,711
Arising on acquisition of subsidiaries	**438,997**	—
At 31 December	**843,708**	404,711
CARRYING AMOUNTS		
At 31 December	**843,708**	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 three (2007: two) subsidiaries in superstores and three (2007: two) subsidiaries in mini-marts. The carrying amounts of goodwill as at 31 December 2008 allocated to these units are as follows:

	2008 RMB'000	2007 RMB'000
Superstores	**754,093**	403,707
Mini-marts	**89,615**	1,004
	843,708	404,711

During the year ended 31 December 2008, 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% to 10% and a discount rate of 7.47% (2007: 7.47%). 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 CGU.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18. INTANGIBLE ASSETS

	Land use right	Operating lease contracts	Total
	RMB'000	RMB'000	RMB'000
COST			
At 1 January 2007 and 31 December 2007	30,834	—	30,834
Acquired on acquisition of subsidiaries	59,893	15,476	75,369
At 31 December 2008	90,727	15,476	106,203
AMORTISATION			
At 1 January 2007	1,746	—	1,746
Provided for the year	873	—	873
At 31 December 2007	2,619	—	2,619
Provided for the year	1,316	1,838	3,154
At 31 December 2008	3,935	1,838	5,773
CARRYING AMOUNTS			
At 31 December 2008	86,792	13,638	100,430
At 31 December 2007	28,215	—	28,215

All above intangible assets were acquired on acquisition of subsidiaries.

All above intangible assets have definite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Land use right	40 years
Operating lease contracts	1–19 years

19. INTERESTS IN ASSOCIATES

	2008 RMB'000	2007 RMB'000
Cost of investments in associates		
Listed in the PRC	–	210,304
Unlisted	103,389	103,189
Share of post-acquisition profits, net of dividend received	37,463	45,314
	140,852	358,807
Market value of listed shares	–	986,269

As at 31 December 2008 and 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 2008	2007	Principal activities
Beijing Chao Shifa Company Limited	Incorporated	PRC	PRC Beijing	Ordinary	25.03%	25.03%	Operation of superstores
Yinchuan Xinhua Department Store Co., Ltd	Incorporated	PRC	PRC Ningxia	Ordinary	– (Note)	29.27%	Operation of department stores and superstores
Beijing Chongwenmen Vegetable Market Supermarket Company Limited	Incorporated	PRC	PRC Beijing	Ordinary	49%	49%	Operation of superstores and mini-marts
Beijing Meiyijia Marketing Limited	Incorporated	PRC	PRC Beijing	Ordinary	25%	25%	Operation of design, production agency and distribution of advertisements in the PRC
Anji mini-mart Limited	Incorporated	PRC	PRC Zhejiang	Ordinary	20%	–	Operation of mini-mart

Note: As at 30 April 2008, the Group acquired 100% of the equity interest of Hangzhou Commerce with the consideration payable by means of its holding of 29.27% of the interest in Yinchuan Xinhua Department Store Co., Ltd ("Xinhua"). The fair value of the 29.27% equity interest in Xinhua at the date of the disposal was RMB423,219,000 based on the quoted bid price of the shares of Xinhua on that date and adjusted for marketability of these shares as some of these shares have lock up periods. The disposal resulted in a gain of RMB182,233,000 (note 7). The details of the transaction are disclosed in note 33(a). After the transaction, the Group does not hold any equity interest in Xinhua.

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19. INTERESTS IN ASSOCIATES (Continued)

Included in the cost of investment in associates at 31 December 2008 was goodwill of RMB57,525,000 (2007: RMB97,368,000). The carrying amount of the goodwill represents goodwill arising from acquisition of Beijing Chao Shifa Company Limited ("Chao Shifa") and Xinhua of RMB57,525,000 (2007: RMB57,525,000) and RMB nil (2007: RMB39,843,000) respectively. The movement of goodwill is set out below.

	RMB'000
At 1 January 2007 and 31 December 2007	97,368
— Eliminated on disposal of Xinhua	(39,843)
At 31 December 2008	57,525

The summarised financial information in respect of the Group's associates is set out below:

	2008 RMB'000	2007 RMB'000
Total assets	1,004,716	2,316,957
Total liabilities	(750,115)	(1,458,882)
Net assets	254,601	858,075
Group's share of net assets of associates	83,327	261,439
Revenue	3,207,693	4,578,164
Profit for the year	93,952	145,533
Group's share of profit of associates for the year	27,731	43,332

20. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	2008 RMB'000	2007 RMB'000
Cost of unlisted investment in a jointly controlled entity	50,000	50,000
Share of post-acquisition loss	(2,401)	(2,426)
	47,599	47,574

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20. INTERESTS IN A JOINTLY CONTROLLED ENTITY (Continued)

As at 31 December 2008, the Group had interests in the following significant jointly controlled entity:

Name of entity	Form of business structure	Place of incorporation/ operation	Registered capital	Proportion of registered capital held by the Group		Proportion of voting power held		Principal activity
			RMB'000	2008	2007	2008	2007	
Beijing Aoshikai Wumart Company Ltd.	Incorporated	PRC	100,000	50%	50%	50%	50%	Operation of superstores

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:

	2008 RMB'000	2007 RMB'000
Current assets	39,119	40,848
Non-current assets	81,258	79,329
Current liabilities	(72,778)	(72,603)
Net assets of a jointly controlled entity attributable to the Group's interest therein	47,599	47,574
Income	92,156	25,435
Expenses	92,131	27,861
Group's share of profit (loss) of a jointly controlled entity for the year	25	(2,426)

21. INVENTORIES

	2008 RMB'000	2007 RMB'000
At cost:		
Merchandise for resale	728,618	474,236
Consumables	4,592	6,035
	733,210	480,271

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22. LOAN RECEIVABLES

	2008 RMB'000	2007 RMB'000
Fixed-rate loan receivables	**90,000**	—

The loan receivables at 31 December 2008 are due within one year and carry fixed interest rates of 5.31% to 7.47% per annum.

23. TRADE AND OTHER RECEIVABLES

	2008 RMB'000	2007 RMB'000
Trade receivables	**83,692**	24,745
Prepayments to suppliers	**48,169**	59,619
Deductible input value added tax	**227,740**	196,050
Deposits and other receivables	**200,878**	131,820
	560,479	412,234

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.

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

	2008 RMB'000	2007 RMB'000
0–30 days	**50,675**	18,990
31–60 days	**33,017**	5,755
	83,692	24,745

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24. AMOUNTS DUE FROM/TO RELATED PARTIES

	2008 RMB'000	2007 RMB'000
Loan to an associate (note a)	—	100,000
Amounts due from associates and a jointly controlled entity (note b)	72,555	70,022
Amounts due from subsidiaries of a Company's shareholder which has significant influence over the Company ("Company's Controlling Shareholder") (note b)	203,503	175,656
Amounts due from minority shareholders of subsidiaries (note c)	—	24,979
	276,058	370,657
Amount due to associates (note d)	16,109	15,603
Amount due to subsidiaries of the Company's Controlling Shareholder (note d)	10,257	32,448
Amounts due to key management	742	—
	27,108	48,051

(a) The loan to an associate is repayable within one year and carries fixed interest rate of 6.12% to 6.57% (2007: 6.12%) per annum. The loan has been fully repaid in the year.

(b) The amounts due from associates and a jointly controlled entity and subsidiaries of the Company's Controlling Shareholder are mainly trade in nature, unsecured and non-interest bearing. The remainder are non-trade in nature, interest free and have no fixed repayment terms. The average credit period for trade in nature balances is 30 to 60 days. The aged analysis of trade in nature balances are as follows:

	2008 RMB'000	2007 RMB'000
0–30 days	105,434	120,537
31–60 days	75,994	83,259
61–90 days	21,275	41,882
	202,703	245,678

Included in those trade in nature balances is an amount of RMB21,275,000 (2007: RMB41,882,000) which is 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 this balance.

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

(d) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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 0.36% to 1.53% (2007: 0.72% to 1.71%) per annum.

26. TRADE AND OTHER PAYABLES

	2008 RMB'000	2007 RMB'000
Trade payables	**1,926,225**	1,466,118
Other payables, deposits and accruals	**1,024,551**	620,201
	2,950,776	2,086,319
Less: amount due for settlement within 12 months	**(2,929,710)**	(2,086,319)
Amount due for settlement after 12 months	**21,066**	—

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

	2008 RMB'000	2007 RMB'000
0–30 days	**1,253,452**	907,729
31–60 days	**402,390**	380,310
61–90 days	**146,031**	99,369
Over 90 days	**124,352**	78,710
	1,926,225	1,466,118

The average credit period on purchase of merchandises is 60 days (2007: 60 days).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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27. BANK LOANS

	2008 RMB'000	2007 RMB'000
Secured	**372,910**	75,460
Unsecured	**250,000**	200,000
	622,910	275,460

The loans are repayable within one year and carry interests at fixed rates ranging from 5.31% to 7.84% (2007: 6.48% to 7.29%) per annum.

As at 31 December 2008, among the secured bank loans, the loans of RMB282,910,000(2007: RMB75,460,000) are secured by the pledge of Group's leasehold land and buildings with a carrying amount of RMB394,215,000 (2007: RMB105,126,000), the remaining balance of RMB90,000,000 (2007: nil) are secured by the pledge of leasehold land buildings of a subsidiary's minority shareholder's. Among the unsecured bank loan, a loan of RMB200,000,000 (2007: RMB200,000,000) are guaranteed by the Company's Controlling Shareholder.

28. SHARE CAPITAL

	Number of Domestic Shares '000	Number of H Shares '000	Value RMB'000
Authorised, issued and fully paid:			
Ordinary shares of RMB0.25 each at 31 December 2006, 2007 and 2008	713,780	506,568	305,087

Note: 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

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29. DEFERRED TAXATION

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

	Impairment for deposit paid for acquisition of an associate	Effective rent	Tax losses	Pre-operating expenses	Discrepancy with tax depreciation	Fair value adjustments on business combination	Fair value change of investments held-for-trading	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	6,049	15,798	4,305	—	—	(15,866)	(865)	9,421
Credited (charged) to income statement for the year	—	5,687	(866)	—	—	426	865	6,112
Effect of change in tax rate	(1,467)	(5,208)	(834)	—	—	3,743	—	(3,766)
At 31 December 2007	4,582	16,277	2,605	—	—	(11,697)	—	11,767
Acquired on acquisition of subsidiaries	—	6,493	—	1,202	(2,201)	(13,200)	—	(7,706)
Credited (charged) to income statement for the year	—	2,564	(566)	(299)	(207)	908	—	2,400
At 31 December 2008	4,582	25,334	2,039	903	(2,408)	(23,989)	—	6,461

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:

	2008	2007
	RMB'000	RMB'000
Deferred tax assets	19,165	12,823
Deferred tax liabilities	(12,704)	(1,056)
	6,461	11,767

At 31 December 2008, the Group had unused tax losses of RMB24,985,000 (2007: RMB27,781,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB8,156,000 (2007: RMB10,420,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB16,829,000 (2007: RMB17,361,000) due to unpredictability of future profit stream.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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30. 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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases				
Within one year	**5,388**	5,388	**5,110**	5,110
In more than one year but not more than two years	**508**	5,388	**462**	4,695
In more than two years but not more than five years	**–**	508	**–**	421
	5,896	11,284	**5,572**	10,226
Less: future finance charges	**(324)**	(1,058)	**N/A**	N/A
Present value of lease obligations	**5,572**	10,226		
Less: Amount due for settlement with 12 months (shown under current liabilities)			**(5,110)**	(5,110)
Amount due for settlement after 12 months			**462**	5,116

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

31. 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 profits.

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
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32. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2008 RMB'000	2007 RMB'000
Financial assets		
Loans and receivables		
(including cash and cash equivalents)		
Loan receivables	90,000	—
Trade receivables	83,692	24,745
Deposits and other receivables	200,878	131,820
Amounts due from related parties	276,058	370,657
Bank balances and cash	1,348,349	815,179
	1,998,977	1,342,401
Financial liabilities		
Amortised costs		
Trade payables	1,926,225	1,466,118
Accruals and other payables	526,360	410,333
Amounts due to related parties	24,329	36,063
Bank loan	622,910	275,460
Obligation under finance leases	5,572	10,226
	3,105,396	2,198,200

(b) Financial risk management objectives and policies

The Group's major financial instruments include bank loans, cash and bank balances, trade and other receivables, trade and other payables, amounts due from/to related parties 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 and interest rate 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.

32. 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. 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:

(a) 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 24, note 27 and 30 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 on cash flow interest rate risk is presented as management consider the sensitivity on interest rates is insignificant.

(b) 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.

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 obligation by the counterparties and financial guarantees provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet and the amount of contingent liabilities in relation to financial guarantees issued by the Group as disclosed in note 34.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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32. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk (Continued)

The Group's credit risk is concentrated on a few related parties. As at 31 December 2008, amount due from related parties was approximately RMB276,058,000 (2007: RMB370,657,000) comprised over 13.81% (2007: 27.61%) of the Group's financial 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 bank balances are deposited with authorised banks in the PRC with high credit-ratings.

Liquidity risk

At 31 December 2008, the Group had net current liabilities amounting to RMB647,966,000 (2007: RMB354,725,000), respectively with short-term bank loans of RMB622,910,000 (2007: RMB275,460,000) 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 2008, the Group have cash generated from operating activities of approximately RMB733,130,000 (2007: RMB530,581,000). 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.

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32. 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	1-3 months	3 months to 1 year	1-5 years	Total undiscounted cash flows	Carrying amount at year end
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2008							
Non-derivative financial liabilities							
Trade and other payables	—	721,406	1,530,738	179,375	22,766	2,454,285	2,452,585
Amount due to related parties	—	24,329	—	—	—	24,329	24,329
Bank loans							
— fixed rate	6.46	3,460	86,364	561,473	—	651,297	622,910
Obligation under finance leases	8.62	—	1,347	4,041	508	5,896	5,572
		749,195	1,618,449	744,889	23,274	3,135,807	3,105,396
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 leases	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

(c) Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices or rates from observable current market transactions dealer quotes for similar Instruments.

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.

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33. ACQUISITION OF SUBSIDIARIES

(a) As at 30 April 2008, the Group acquired 100% equity interests of Hangzhou Commerce from its Controlling shareholder, Wumei Holdings, Inc., with the consideration payable by means of its holding of 29.27% of the interest in Xinhua. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB350,386,000.

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

	Acquiree's carrying amount before combination RMB'000	**Fair value adjustments** RMB'000	**Fair value** RMB'000
Net assets acquired:			
Property, plant and equipment	72,808	—	72,808
Deferred tax asset	7,695	—	7,695
Other intangible assets	—	12,346	12,346
Inventories	47,797	—	47,797
Trade and receivables	46,203	—	46,203
Bank balances and cash	18,809	—	18,809
Trade and other payable	(106,440)	—	(106,440)
Tax liability	(23,299)	—	(23,299)
Deferred tax liability	—	(3,086)	(3,086)
	63,573	9,260	72,833
Goodwill			350,386
Total consideration satisfied by			
Equity interests in Xinhua (Note)			423,219
			423,219
Net cash inflow arising on acquisition			
Bank balances and cash acquired			18,809

Note: As the consideration for the acquisition, the fair value of the 29.27% of equity interests in Xinhua, valued by an independent firm of professional valuers at the date of the acquisition, amounted to RMB423,219,000 (see in note 19).

33. ACQUISITION OF SUBSIDIARIES (Continued)

(a) (Continued)

The goodwill arising on the acquisition is mainly attributable to the benefit of expected synergies, revenue growth and future market development.

Hangzhou Commerce contributed RMB26 million to the Group's profit for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, total group revenue for the year would have been RMB10,100 million, and profit for the year would have been RMB573 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

(b) As at 30 September 2008,the Hangzhou Commerce acquired 85% of the equity interests of Shaoxing Commerce and Supermarket Investment Company Limited ("Shaoxing Investment") for a consideration of RMB150,070,000. Immediately following completion of the acquisition, Hangzhou Commerce indirectly holds an effective interest of 54.09% in Zhejiang Gongxiao Supermarket Company Limited ("Zhejiang Gongxiao") through the 63.64% equity interest in Zhejiang Gongxiao held by Shaoxing Investment. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB88,611,000.

According to the acquisition contract, the consideration should be payable by Hangzhou Commerce in cash in four instalments while the second and third instalments will be reduced based on the formula set in the acquisition contract if the audited net profit after tax for 2008 of Zhejiang Gongxiao does not exceed that for 2007 by 10% and the audited net profit after tax for 2009 does not exceed that for 2008 by 10%. At the Acquisition date, the management considered it was probable that Zhejiang Gongxiao would meet the profit target. Therefore, RMB150,070,000 was taken as the consideration and then, basing on it, to calculate the goodwill.

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33. ACQUISITION OF SUBSIDIARIES (Continued)

(b) (Continued)

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

	Acquiree's carrying amount before combination RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Net assets acquired:			
Property, plant and equipment	153,042	11,094	164,136
Prepaid lease payment	26,687	—	26,687
Other intangible assets	—	63,023	63,023
Interests in an associate	200	—	200
Inventories	58,552	—	58,552
Loan receivables	90,000	—	90,000
Trade and receivables	47,186	—	47,186
Bank balances and cash	77,912	—	77,912
Bank loan within one year	(100,000)	—	(100,000)
Trade and other payable	(295,142)	—	(295,142)
Tax liability	(6,619)	—	(6,619)
Deferred tax liability	(2,201)	(10,114)	(12,315)
Minority interests	(18,044)	(23,271)	(41,315)
	31,573	40,732	72,305
Minority interests			10,846
Goodwill			88,611
Total consideration satisfied by			
Cash consideration paid			106,239
Payables due within 1 year			22,765
Payables due over 1 year but within 2 year			21,066
			150,070
Net cash outflow arising on acquisition			
Cash consideration paid			(106,239)
Bank balances and cash acquired			77,912
			(28,327)

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33. ACQUISITION OF SUBSIDIARIES (Continued)

(b) (Continued)

The goodwill arising on the acquisition is mainly attributable to the benefit of expected synergies, revenue growth and future market development.

Shaoxing Investment and its subsidiaries contributed RMB1 million to the Group's profit for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, total group revenue for the year would have been RMB10,219 million, and profit for the year would have been RMB577 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

34. CONTINGENT LIABILITIES

As at 31 December 2008, the Group issued financial guarantees to banks in respect of banking facilities granted to a third party with an aggregate amounts of RMB45,000,000 (2007: nil). At the same time, the third party pledged its assets to the Group for such financial guarantees. The directors of the Company consider that the event does not and would not have a material adverse impact on the results and financial position of the Group.

35. OPERATING LEASES

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:

	2008 RMB'000	2007 RMB'000
Within one year	328,842	243,791
In the second to fifth year inclusive	1,417,377	899,045
Over five years	3,957,153	1,773,322
	5,703,372	2,916,158

Leases are negotiated for an average term of 15 years and rentals are fixed throughout the lease period.

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35. OPERATING LEASES (Continued)

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:

	2008 RMB'000	2007 RMB'000
Within one year	**190,187**	121,364

36. CAPITAL COMMITMENTS

	2008 RMB'000	2007 RMB'000
Capital expenditure		
in respect of property, plant and equipment authorised but not contracted for	**61,581**	18,720
in respect of interest in a jointly controlled entity contracted for but not provided in the consolidated financial statements	**50,000**	50,000

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 PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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37. LITIGATION (Continued)

The directors of the Company consider that the Claim does not and would not have a material adverse impact on the results and financial position of the Group. The trial of the appeal by Chao Shifa Shareholder has not been adjudicated as at the date of approval of these financial statements.

38. RELATED PARTY TRANSACTIONS

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

	2008 RMB'000	2007 RMB'000
Sales of goods to associates and a jointly controlled entity	**296,446**	262,732
Sales of goods to subsidiaries of the Company's Controlling Shareholder	**274,663**	440,821
Purchase of goods from a subsidiary of the Company's Controlling Shareholder	**—**	8,969
Purchase from associates	**74,428**	62,659
Service fee income received from subsidiaries of the Company's Controlling Shareholder in respect of merchandise delivery services	**8,199**	13,100
Service fee income received from associates and a jointly controlled entity in respect of merchandise delivery services	**4,194**	3,453
Management fee income received from subsidiaries of the Company's Controlling Shareholder	**1,016**	1,300
Management fee income received from an associate and a jointly controlled entity in respect of merchandise delivery services	**137**	—
Rental expense paid to a subsidiary of the Company's Controlling Shareholder	**3,605**	3,605
Purchase of property, plant and equipment from subsidiaries of Company's Controlling Shareholder	**3,745**	—

As at 30 April 2008, the Group acquired 100% equity interests of Hangzhou Commerce from the Company's Controlling shareholder, details are disclosed in note 33.

As at 31 December 2008, the Company's controlling shareholder provided a guarantee free of charge for an unsecured bank loan of RMB200,000,000 (2007: RMB200,000,000) borrowed by the Group.

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38. RELATED PARTY TRANSACTIONS (Continued)

(b) Compensation of key management personnel

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

	2008 RMB'000	2007 RMB'000
Short-term benefits	6,016	5,876
Post-employment benefits	363	225
	6,379	6,101

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

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39. PARTICULARS OF THE COMPANY'S SUBSIDIARIES

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

Name of subsidiary	Place/Country of incorporation or registration/ operations	Class of share held	Paid up issued/ registered ordinary share capital	Proportion ownership interest and Proportion of voting power held by the Company				Principal activities
				Directly		Indirectly		
				2008 %	2007 %	2008 %	2007 %	
Beijing Wumart Bolante Convenience Stores Company Limited	PRC Beijing	Ordinary	10,000,000	80	80	–	–	Operation of mini-marts
Beijing Wumart Stores Company Limited.	PRC Beijing	Ordinary	10,000,000	80	80	16	16	Operation of superstores
Beijing Mencheng Wumart Shangcheng Company Limited	PRC Beijing	Ordinary	1,000,000	70	70	–	–	Operation of superstore
Beijing Wumart Tongfu Commerce Company Limited	PRC Beijing	Ordinary	1,000,000	55	55	–	–	Operation of superstore
Beijing Wumart Tianxiang Convenience Stores Company Limited	PRC Beijing	Ordinary	1,000,000	60	60	–	–	Operation of mini-marts
Beijing Tongtang Wumart Convenience Stores Company Limited	PRC Beijing	Ordinary	1,000,000	100	60	–	–	Operation of mini-marts
Beijing Wumart Jingxi Convenience Stores Company Limited	PRC Beijing	Ordinary	1,000,000	75	75	–	–	Operation of mini-marts
Beijing Wumart Gulou Commerce and Trading Company Limited	PRC Beijing	Ordinary	10,000,000	65	65	–	–	Operation of superstores
Beijing Wumart Convenience Stores Company Limited	PRC Beijing	Ordinary	50,000,000	80	80	–	–	Operation of mini-marts
Beijing Jiahe Wumart Commerce Company Limited	PRC Beijing	Ordinary	10,000,000	80	80	14.4	14.4	Operation of superstores
Tianjin Wumart WeiLai Commercial Development Company Limited	PRC Beijing	Ordinary	1,000,000	80	80	19.2	19.2	Operation of superstores
Baoding Wumart Stores Company Limited	PRC Beijing	Ordinary	1,000,000	80	80	19.2	19.2	Operation of superstores
Beijing Wumart Hypermarket Commercial	PRC Beijing	Ordinary	10,000,000	95	95	4.8	4.8	Operation of superstores
Beijing Wumart Jingbei Dashijie Commercial and Trading Company Limited	PRC Beijing	Ordinary	20,000,000	95	95	4.8	4.8	Operation of superstores
Beijing Wumart Distribution Technology Company Limited	PRC Beijing	Ordinary	8,000,000	80	80	20	20	Operation of superstores
Beijing Wumart Home Appliance Company Limited	PRC Beijing	Ordinary	20,000,000	100	51	–	–	Operation of home appliance wholesales
Beijing Merrymart Chain stores Development Company Limited	PRC Beijing	Ordinary	52,480,000	75	75	–	–	Operation of superstores
Hangzhou Tiantian Wumart Commerce Company Limited	PRC Zhejiang	Ordinary	50,000,000	100	–	–	–	Operation of superstores
Zhejiang Gongxiao Supermaket Company Limited	PRC Zhejiang	Ordinary	21,000,000	–	–	54.09%	–	Operation of mini-marts

FINANCIAL SUMMARY

	For the year ended 31 December				
	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
RESULTS					
Revenue from sales of goods	**8,759,263**	7,118,755	5,159,666	3,539,319	2,380,203
Cost of sales	**(7,987,333)**	(6,580,967)	(4,812,302)	(3,289,216)	(2,212,956)
Gross profit	**771,930**	537,788	347,364	250,103	167,247
Other revenues	**990,527**	747,050	533,683	379,279	217,080
Investment and other income	**253,061**	121,901	107,113	67,281	58,842
Distribution and selling expenses	**(1,003,014)**	(754,420)	(473,118)	(325,770)	(191,872)
Administrative expenses	**(272,873)**	(219,065)	(185,836)	(144,039)	(86,319)
Share of profit of associates	**27,731**	43,332	7,148	11,883	5,633
Share of profit (loss) of a jointly controlled entity	**25**	(2,426)	—	—	—
Finance costs	**(20,406)**	(16,589)	(5,654)	(5,895)	(692)
Profit before tax	**746,981**	457,571	330,700	232,842	169,919
Income tax expense	**(190,013)**	(131,992)	(104,748)	(63,179)	(57,529)
Profit for the year	**556,968**	325,579	225,952	169,663	112,390
Attributable to:					
Equity holders of the Company	**490,343**	300,078	212,308	164,533	107,937
Minority interests	**66,625**	25,501	13,644	5,130	4,453
	556,968	325,579	225,952	169,663	112,390

	As at 31 December				
	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
ASSETS AND LIABILITIES					
Total assets	**6,366,034**	4,697,768	4,491,057	2,748,638	1,843,814
Total liabilities	**(3,729,204)**	(2,467,209)	(2,502,146)	(1,445,866)	(659,113)
Minority interests	**(194,616)**	(120,354)	(93,360)	(22,757)	(18,101)
Equity attributable to equity holders of the Company	**2,442,214**	2,110,205	1,895,551	1,280,015	1,166,600