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WU MART

Interim Report 2009

Wumart Stores,Inc.
北京物美商業集團股份有限公司
(a joint stock limited company incorporated in the People's Republic of China with limited liability)
Stock Code : 8277

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

HIGHLIGHTS OF INTERIM RESULTS

- For the six months ended 30 June 2009, total revenue *Note 1* amounted to approximately RMB5,705,440,000, a growth of approximately 22.9% over the corresponding period of 2008;

- For the six months ended 30 June 2009, consolidated gross profit *Note 2* amounted to approximately RMB1,088,723,000, a growth of approximately 34.7% over the corresponding period of 2008;

- For the six months ended 30 June 2009, net profit was approximately RMB233,157,000, an actual growth of approximately 21.6% over the corresponding period of 2008, after excluding Net Gain on Disposal of an Associate *Note 3* in 2008;

- As at 30 June 2009, our retail network comprised 424 stores;

- For the six months ended 30 June 2009, comparable store sales *Note 4* increased by approximately 3.52%.

Note 1: Total revenue includes revenue and other revenues.

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

Note 3: The net gain on disposal of equity arising from the equity swap between Hangzhou Tiantian Wumart Commerce Company Limited (杭州天天物美商業有限公司) ("Hangzhou Commerce") and Yinchuan Xinhua Department Store Company Limited (銀川新華百貨商店股份有限公司) ("Xinhua Department Store") amounted to approximately RMB135,348,000 (the "Net Gain on Disposal of an Associate").

Note 4: The stores operating as at 30 June 2009 and 2008.

INTERIM REPORT

The board of Directors (the "Board") is pleased to present the unaudited interim results of Wumart Stores, Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2009 (the "Reporting Period").

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Total Revenue

For the Reporting Period, the Group recorded unaudited total revenue of approximately RMB5,705,440,000, up by about 22.9% over the corresponding period of 2008. Excluding sales at cost to managed stores and related companies, total revenue would have increased by approximately 26.5% over the corresponding period of the previous year. The Group maintained its rapid growth in total revenue, with its increase mainly attributed to the growth in comparable store sales, sales from new stores in the second half of 2008 and the Reporting Period, and sales contributions from Hangzhou Commerce and Zhejiang Gongxiao Supermarket Company Limited (浙江供銷超市有限公司) ("Zhejiang Gongxiao Supermarket"). In spite of sharp decreases in food prices over the same period of 2008, comparable store sales increased by approximately 3.52% over the corresponding period of the previous year. The increase in comparable store sales was attributed to the optimisation of merchandise categories based on the characteristics of stores and their corresponding commercial zones, together with adjustments and optimisation of stores, continuous improvement of stores' images and services quality, resulting in enhancement of core competitiveness of our stores and substantial increases in the number of transactions.

Cost of Sales and Consolidated Gross Margin

During the Reporting Period and the corresponding period of 2008, unaudited cost of sales of the Group were approximately RMB4,616,717,000 and RMB3,834,931,000, respectively, with the consolidated gross margin for these two periods at approximately 19.1% and approximately 17.4%, respectively. Excluding sales at cost to managed stores and related companies, consolidated gross margin for these two periods would have been approximately 19.8% and 18.6%, respectively. The increased gross margin reflected further improvements in the Group's operating capabilities.

Operating Costs and Net Profit

For the Reporting Period, aggregate distribution and selling expenses and administrative expenses amounted to about RMB748,356,000, accounting for approximately 13.2% of total revenue, and approximately 12.3% for the same period of 2008. Of which distribution and selling expenses amounted to approximately RMB619,137,000 and administrative expenses of approximately RMB129,219,000, representing approximately 10.9% and 2.3% of total revenue, respectively. The increases in distribution and selling expenses and administrative expenses were mainly attributable to increase in preliminary expenses contributed by the number of stores newly opened during the Reporting Period was substantially higher than that in the same period last year, rising distribution and selling expenses and administrative expenses from newly-opened stores, Hangzhou Commerce and Zhejiang Gongxiao Supermarket and increase in labour costs in the second half of 2008 and the Reporting Period.

For the Reporting Period, the Group's distribution and selling expenses and administrative expenses primarily included staff costs of approximately RMB234,874,000 and rental expenses of approximately RMB178,154,000, and approximately RMB169,847,000 and RMB148,907,000 for the corresponding period of 2008, respectively.

For the Reporting Period, finance costs of the Group amounted to approximately RMB16,124,000, and approximately RMB9,822,000 for corresponding period of 2008. The rise in finance costs was due to increase in loans since the end of 2008.

For the Reporting Period, net profit of the Group was approximately RMB233,157,000, an actual growth of approximately 21.6% over that of approximately RMB191,688,000 for the corresponding period of 2008 after excluding Net Gain on Disposal of an Associate of approximately RMB135,348,000 in the same period of 2008.

For the Reporting Period, the Group's net margin was about 4.1%. Excluding sales at cost to managed stores and related companies, the Group's net margin would have risen to approximately 4.2%. For the Reporting Period, the 2 newly opened superstores in Tianjin led to increases in preliminary expenses and total loss for new stores. Nevertheless, with an enhancement of overall gross margin and effective control on costs, our net margin maintained at the upper end level among industry peers.

Liquidity and Financial Resources

For the Reporting Period, the Group's liquidity continued to remain stable with funds mainly sourced from cash income from operations. As at 30 June 2009, the Group's total equity was approximately RMB2,659,701,000 with a gearing ratio of approximately 19.5%, and approximately 11.0% for the same period of 2008. Gearing ratio is the ratio between total indebtedness and total equity of the Group at the end of the period.

As at 30 June 2009, the Group had non-current assets of approximately RMB3,380,314,000, which mainly included property, plant and equipment of approximately RMB2,154,747,000, interests in associates and a jointly controlled entity of approximately RMB195,729,000, and goodwill of approximately RMB843,708,000.

As at 30 June 2009, the Group recorded net current liabilities of approximately RMB707,909,000. Current assets amounted to approximately RMB2,976,838,000, which mainly comprised cash and bank balances of approximately RMB1,441,810,000, inventories of approximately RMB679,836,000, trade and other receivables of approximately RMB672,180,000, and amounts due from related parties of approximately RMB134,146,000. Current liabilities amounted to approximately RMB3,684,747,000, mainly comprising trade payables of approximately RMB1,743,548,000, other payables of approximately RMB1,085,296,000, dividend payable of approximately RMB183,052,000, tax liabilities of approximately RMB91,491,000, and bank loans of RMB517,910,000.

For the Reporting Period, the Group's average trade payable turnover and inventory turnover were approximately 72 days and 28 days respectively, and about 68 days and 25 days for the same period of 2008, respectively.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the three months and six months ended 30 June 2009

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2009	2008	**2009**	2008
		RMB'000	RMB'000	**RMB'000**	RMB'000
Revenue	4	**2,338,565**	1,962,045	**5,109,873**	4,203,282
Cost of sales		**(2,123,072)**	(1,772,137)	**(4,616,717)**	(3,834,931)
Gross profit		**215,493**	189,908	**493,156**	368,351
Other revenues	4	**299,263**	212,159	**595,567**	440,135
Gain on disposal of an associate		**—**	180,463	**—**	180,463
Other income		**19,547**	25,130	**41,270**	45,608
Distribution and selling expenses		**(296,832)**	(258,964)	**(619,137)**	(493,507)
Administrative expenses		**(68,698)**	(33,895)	**(129,219)**	(80,696)
Finance costs		**(4,716)**	(4,255)	**(16,124)**	(9,822)
Share of profit of associates		**2,789**	5,625	**4,930**	22,211
Share of profit of a jointly controlled entity		**1,101**	419	**2,349**	1,379
Profit before tax		**167,947**	316,590	**372,792**	474,122
Income tax expenses	5	**(42,677)**	(78,672)	**(93,230)**	(113,465)
Profit for the period	6	**125,270**	237,918	**279,562**	360,657
Attributable to					
Equity holders of the Company		**103,271**	223,523	**233,157**	327,036
Minority interests		**21,999**	14,395	**46,405**	33,621
		125,270	237,918	**279,562**	360,657
Earnings per share — basic (RMB yuan per share)	8	**0.08**	0.18	**0.19**	0.27
Earning per share — basic (RMB yuan per share) Excluding Net Gain on Disposal of an Associate		**0.08**	0.07	**0.19**	0.16

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2009

	Notes	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	9	**2,154,747**	2,093,622
Prepaid lease payments		**70,098**	73,652
Goodwill	11	**843,708**	843,708
Intangible assets		**98,167**	100,430
Interests in associates	10	**145,781**	140,852
Interests in a jointly controlled entity	10	**49,948**	47,599
Deferred tax assets	16	**17,865**	19,165
		3,380,314	3,319,028
Current assets			
Inventories		**679,836**	733,210
Loans receivable		**—**	90,000
Trade and other receivables	12	**672,180**	560,479
Amounts due from related parties	13	**134,146**	276,058
Prepaid lease payments		**48,866**	38,910
Bank balances and cash		**1,441,810**	1,348,349
		2,976,838	3,047,006
Current liabilities			
Trade and other payables	14	**2,828,844**	2,929,710
Amounts due to related parties	13	**59,012**	27,108
Dividend payable		**183,052**	—
Tax liabilities		**91,491**	110,134
Bank loans	15	**517,910**	622,910
Obligations under finance lease		**4,438**	5,110
		3,684,747	3,694,972

CONDENSED CONSOLIDATED BALANCE SHEET — continued

As at 30 June 2009

	Notes	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Net current liabilities		**(707,909)**	(647,966)
Total assets less current liabilities		**2,672,405**	2,671,062
Capital and reserves			
Share capital	17	**305,087**	305,087
Share premium and reserves		**2,187,232**	2,137,127
Equity attributable to equity holders of the Company		**2,492,319**	2,442,214
Minority interests		**167,382**	194,616
Total equity		**2,659,701**	2,636,830
Non-current liabilities			
Deferred tax liabilities	16	**12,704**	12,704
Obligations under finance lease		**—**	462
Other payables		**—**	21,066
		12,704	34,232
		2,672,405	2,671,062

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2009

	Equity attributable to equity holders of the Company							
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Statutory common reserve fund RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
As at 1 January 2008 (audited)	305,087	1,132,062	—	139,488	533,568	2,110,205	120,354	2,230,559
Profit for the period	—	—	—	—	327,036	327,036	33,621	360,657
Dividend paid to minority shareholders	—	—	—	—	—	—	(301)	(301)
Dividend payable by the Company	—	—	—	—	(158,645)	(158,645)	—	(158,645)
As at 30 June 2008	305,087	1,132,062	—	139,488	701,959	2,278,596	153,674	2,432,270
Profit for the period	—	—	—	—	163,307	163,307	33,004	196,311
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 appropriations	—	—	—	55,321	(55,321)	—	—	—
Dividend paid to minority shareholders	—	—	—	—	—	—	(34,112)	(34,112)
As at 31 December 2008 (audited)	305,087	1,132,062	311	194,809	809,945	2,442,214	194,616	2,636,830
Profit for the period	—	—	—	—	233,157	233,157	46,405	279,562
Dividend paid to minority shareholders	—	—	—	—	—	—	(73,639)	(73,639)
Dividend payable by the Company	—	—	—	—	(183,052)	(183,052)	—	(183,052)
As at 30 June 2009	305,087	1,132,062	311	194,809	860,050	2,492,319	167,382	2,659,701

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2009

	For the six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Net cash from operating activities	**256,979**	55,525
Net cash used in investing activities		
Purchases of property, plant and equipment	**(97,599)**	(172,292)
Dividend received from associates	**6,370**	4,900
Other investing cash flows	**6,581**	395
	(84,648)	(166,997)
Net cash used in financing activities		
Repayments of bank loans	**(15,000)**	(7,550)
Interest paid	**(5,859)**	(9,747)
Other financing cash flows	**3,006**	(501)
Dividend paid to minority shareholders of subsidiaries	**(61,017)**	—
	(78,870)	(17,798)
Net increase (decrease) in cash and cash equivalents	**93,461**	(129,270)
Cash and cash equivalents at 1 January	**1,348,349**	815,179
Cash and cash equivalents at 30 June, represented by	**1,441,810**	685,909
Bank balances and cash	**1,441,810**	685,909

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

1. BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules") and with Hong Kong Accounting Standard 34 ("HKAS 34"), Interim Financial Reporting.

2. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies and basis of preparation used in the unaudited interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008.

The Group has not early applied the following new and revised standards 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]

2. SIGNIFICANT ACCOUNTING POLICIES — continued

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 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 other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

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

4. TOTAL REVENUE

Total revenue of the Group recognised for the three months and six months ended 30 June 2009 and for the same periods of 2008 is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Revenue				
Sales of goods	**2,338,565**	1,962,045	**5,109,873**	4,203,282
Other revenues				
Rental income from leasing of shop premises	**75,074**	61,051	**161,204**	121,235
Income from suppliers, including store display income and promotion income	**224,189**	151,108	**434,363**	318,900
	299,263	212,159	**595,567**	440,135
Total revenue	**2,637,828**	2,174,204	**5,705,440**	4,643,417

5. INCOME TAX EXPENSES

	For the three months ended 30 June		For the six months ended 30 June	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
The charge comprises:				
PRC income tax	**41,377**	42,196	**91,930**	76,991
Deferred tax	**1,300**	36,476	**1,300**	36,474
	42,677	78,672	**93,230**	113,465

5. INCOME TAX EXPENSES — continued

The charge for the three months and six months ended 30 June 2009 can be reconciled to the income statement as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Profit before tax	**167,947**	316,590	**372,792**	474,122
Taxation at the PRC income tax rate of 25%	**41,987**	79,148	**93,198**	118,531
Tax effect of share of profit of associates and a jointly controlled entity	**(973)**	(1,511)	**(1,820)**	(5,898)
Tax effect of tax deductible expense in determining taxable profit	**—**	(976)	**—**	(1,179)
Tax effect of unrecognised tax losses	**1,663**	2,011	**1,852**	2,011
Income tax for the period	**42,677**	78,672	**93,230**	113,465

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — continued

For the six months ended 30 June 2009

6. PROFIT FOR THE PERIOD

Profit for the Reporting Period has been arrived at after charging (crediting) the following items:

	For the three months ended 30 June		For the six months ended 30 June	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Revenue	**2,338,565**	1,962,045	**5,109,873**	4,203,282
Cost of sales	**(2,123,072)**	(1,772,137)	**(4,616,717)**	(3,834,931)
Investment and other revenue	**318,810**	237,289	**636,837**	485,743
Depreciation for property, plant and equipment	**(25,930)**	(28,004)	**(53,444)**	(52,366)
Release of prepaid lease payments	**(10,054)**	(1,926)	**(18,461)**	(3,851)
Amortisation for land use rights	**(649)**	(218)	**(1,299)**	(437)
Total depreciation and amortisation	**(36,633)**	(30,148)	**(73,204)**	(56,654)
Finance costs	**(4,716)**	(4,255)	**(16,124)**	(9,822)
Operating lease rentals in respect of rented premises	**(85,592)**	(81,910)	**(178,154)**	(148,907)
Staff costs including directors' remuneration	**(107,628)**	(92,136)	**(234,874)**	(169,874)
Share of tax of associates and a jointly controlled entity (included in share of profit of associates and a jointly controlled entity)	**(973)**	(1,511)	**(1,820)**	(5,898)

7. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2009 (for the six months ended 30 June 2008: nil).

The final dividend of RMB0.15 (2007: RMB0.13) per share for the year ended 31 December 2008 had been approved and was paid in July 2009.

8. EARNINGS PER SHARE

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

	For the three months ended 30 June		For the six months ended 30 June	
	2009 (unaudited)	2008 (unaudited)	**2009 (unaudited)**	2008 (unaudited)
Profit for the period attributable to equity holders of the Company (RMB'000)	**103,271**	223,523	**233,157**	327,036
Weighted average number of shares for the purpose of basic earnings per share (shares)	**1,220,348,000**	1,220,348,000	**1,220,348,000**	1,220,348,000
Earnings per share — basic (RMB)	**0.08**	0.18	**0.19**	0.27
Earnings per share — basic (RMB) Excluding Net Gain on Disposal of an Associate	**0.08**	0.07	**0.19**	0.16

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

9. PROPERTY, PLANT AND EQUIPMENT

During the Reporting Period, the Group spent approximately RMB32,615,000 (2008: approximately RMB46,094,000) on additions to furniture, fixtures and equipment; approximately RMB63,869,000 (2008: approximately RMB53,081,000) on additions to leasehold improvements and RMB1,289,000 (2008: nil) on additions to construction in progress.

10. INTERESTS IN ASSOCIATES AND A JOINTLY CONTROLLED ENTITY

	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Cost of unlisted investments in associates	**103,389**	103,389
Share of post-acquisition profits, net of dividend received	**42,392**	37,463
	145,781	140,852
Cost of unlisted investment in a jointly controlled entity	**50,000**	50,000
Share of post-acquisition loss	**(52)**	(2,401)
	49,948	47,599
	195,729	188,451

10. INTERESTS IN ASSOCIATES AND A JOINTLY CONTROLLED ENTITY — continued

As at 30 June 2009, the Group had interests in the following associates:

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Class of shares held	Proportion of nominal value of issued share capital/registered capital held by the Group 30 June 2009	31 December 2008	Principal activities
Beijing Chao Shifa Company Limited (北京超市發連鎖股份有限公司)	Incorporated	PRC	Beijing, PRC	Ordinary	25.03%	25.03%	Operation of superstores and mini-marts
Beijing Chongwenmen Vegetable Market Supermarket Company Limited (北京崇文門菜市場物美綜合超市有限公司)	Incorporated	PRC	Beijing, PRC	Ordinary	49%	49%	Operation of superstores and mini-marts
Beijing Meiyijia Marketing Limited (北京美意家廣告有限公司)	Incorporated	PRC	Beijing, PRC	Ordinary	25%	25%	Operation of design, production, agency and distribution of advertisements in the PRC
Anji Mini-Mart Limited (安吉縣供銷超市有限公司)	Incorporated	PRC	Zhejiang, PRC	Ordinary	20%	20%	Operation of mini-marts

10. INTERESTS IN ASSOCIATES AND A JOINTLY CONTROLLED ENTITY — continued

As at 30 June 2009, the Group had interests in the following jointly controlled entity:

Name of entity	Form of business structure	Place of incorporation/ operation	Registered capital RMB'000	Proportion of nominal value of registered capital held by the Group 30 June 2009	Proportion of nominal value of registered capital held by the Group 31 December 2008	Proportion of voting power held 30 June 2009	Proportion of voting power held 31 December 2008	Principal activity
Beijing Aoshikai Wumart Company Ltd. (北京奧士凱物美商業有限公司)	Incorporated	PRC	100,000	50%	50%	50%	50%	Operation of superstores

11. GOODWILL

	RMB'000
Cost	
As at 1 January 2009 (audited)	**843,708**
As at 30 June 2009 (unaudited)	**843,708**
Carrying Amount	
As at 30 June 2009 (unaudited)	**843,708**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — continued

For the six months ended 30 June 2009

12. TRADE AND OTHER RECEIVABLES

	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Trade receivables	**123,726**	83,692
Prepayments, deposits and other receivables	**548,454**	476,787
	672,180	560,479

Trade receivables represent receivables from supply of merchandise to franchised stores, managed stores and retail sales customers. The average credit period is 30 to 60 days for receivables from supply of merchandise to franchised stores and managed stores. 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:

	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
0–30 days	**80,422**	50,675
31–60 days	**43,304**	33,017
	123,726	83,692

13. AMOUNTS DUE FROM/TO RELATED PARTIES

	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Amounts due from associates and a jointly controlled entity	**97,894**	72,555
Amounts due from subsidiaries of a Company's shareholder which has significant influence over the Company ("Company's Controlling Shareholder")	**36,252**	203,503
	134,146	276,058
Amount due to associates	**14,085**	16,109
Amount due to subsidiaries of the Company's Controlling Shareholder	**44,185**	10,257
Amounts due to key management	**742**	742
	59,012	27,108

Amounts due from associates and a jointly controlled entity and subsidiaries of the Company's Controlling Shareholder are trade in nature, unsecured and non-interest bearing. 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:

	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
0–30 days	**69,769**	105,434
31–60 days	**46,978**	75,994
61–90 days	**17,399**	21,275
	134,146	202,703

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — continued

For the six months ended 30 June 2009

14. TRADE AND OTHER PAYABLES

	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Trade payables	**1,743,548**	1,926,225
Other payables, deposits and accruals	**1,085,296**	1,024,551
	2,828,844	2,950,776
Less: amount due for settlement within 12 months	**2,828,844**	2,929,710
Amount due for settlement after 12 months	**0**	21,066

The following is an aged analysis of trade and other payables:

	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
0–30 days	**1,136,968**	1,253,452
31–60 days	**383,929**	402,390
61–90 days	**122,571**	146,031
Over 90 days	**100,080**	124,352
	1,743,548	1,926,225

15. BANK LOANS

	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Secured	**267,910**	372,910
Unsecured	**250,000**	250,000
	517,910	622,910

The loans are repayable within one year and carry interests at fixed rates ranging from 5.31% to 7.47% (2008: 5.31% to 7.84%) per annum.

As at 30 June 2009, the secured bank loans of RMB267,910,000 are secured by the Group's leasehold land and buildings with a carrying amount of approximately RMB360,743,000 (2008: RMB394,215,000). The unsecured bank loans of RMB200,000,000 (2008: RMB200,000,000) is guaranteed by the Company's Controlling Shareholder.

16. DEFERRED TAXATION

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

	Impairment for deposit paid for acquisition of an associate RMB'000	Effective rent RMB'000	Fair value adjustments on business combination RMB'000	Pre-operating expenses RMB'000	Discrepancy with tax depreciation RMB'000	Tax losses RMB'000	Total RMB'000
As at 1 January 2009 (audited)	4,582	25,334	(23,989)	903	(2,408)	2,039	6,461
Credited/(charged) to income statement for the period (unaudited)	—	—	454	—	—	(1,754)	(1,300)
As at 30 June 2009 (unaudited)	4,582	25,334	(23,535)	903	(2,408)	285	5,161

16. DEFERRED TAXATION — continued

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

	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Deferred tax assets	**17,865**	19,165
Deferred tax liabilities	**(12,704)**	(12,704)
	5,161	6,461

As at 30 June 2009, the Group had unused tax losses of approximately RMB25,375,000 (31 December 2008: RMB24,985,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB1,140,000 (31 December 2008: RMB8,156,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB24,235,000 (31 December 2008: RMB16,829,000) due to unpredictability of future profit stream.

17. 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 as at 1 January 2008 and 31 December 2008 (audited)	713,780	506,568	305,087
Ordinary shares of RMB0.25 each as at 30 June 2009 (unaudited)	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 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 5 December 2002, which period expired on 4 December 2005. The Domestic Shares and the H Shares rank pari passu in all other respects and in particular, rank equally for all dividends or distributions declared, paid or made.

18. OPERATING LEASE COMMITMENTS

The Group as lessee

As at 30 June 2009, the Group had commitments for lease payments under operating leases in respect of rented premises which fall due as follows:

	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Within one year	**389,852**	328,842
In the second to fifth year inclusive	**1,409,810**	1,417,377
Over five years	**3,857,669**	3,957,153
	5,657,331	5,703,372

The Group as lessor

As at 30 June 2009, the Group has contracted with tenants in respect of leasing of retail booths for lease payments which fall due as follows:

	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Within one year	**243,435**	190,187

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — continued

For the six months ended 30 June 2009

19. CAPITAL COMMITMENTS

	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Capital expenditure		
in respect of property, plant and equipment	**82,697**	61,581
in respect of interest in a jointly controlled entity	**50,000**	50,000
	132,697	111,581

20. RELATED PARTY DISCLOSURE

Apart from amounts due from and to related parties as disclosed in note 13, during the relevant periods, the Group had the following related party transactions:

	For the six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Sales to associates and a jointly controlled entity	**146,555**	171,603
Sales to subsidiaries of the Company's Controlling Shareholder	**44,178**	129,629
Service fee income received from subsidiaries of the Company's Controlling Shareholder in respect of merchandise delivery services	**1,868**	2,250
Service fee income received from associates and a jointly controlled entity in respect of merchandise delivery services	**185**	682
Management fee income received from subsidiaries of the Company's Controlling Shareholder	**332**	157
Rental expenses paid to a subsidiary of the Company's Controlling Shareholder	**1,832**	1,822

BUSINESS REVIEW

Expansion of Retail Network

As at 30 June 2009, the Group had a retail network of 424 stores comprising 107 superstores and 317 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. Aggregate saleable area was 476,218 square metres (excluding stores under associates and franchises), a net increase of approximately 64,820 square metres over the corresponding period of last year. During the Reporting Period, the Group opened 5 new directly-owned superstores and terminated cooperation with 2 managed superstores. We also opened 12 directly-owned mini-marts, closed down 2 loss-making directly-owned mini-marts, terminated cooperation with 2 managed mini-marts and 21 non-compliant franchised mini-marts. As at 30 June 2009, the Group has opened 6 superstores and entered into leases for 3 store premises in Tianjin. In addition, we have opened 24 superstores in the eastern China and entered into leases for 9 store premises in Hangzhou and its surrounding areas.

Stores directly-owned or operated and managed through franchise agreements by the Group, its associates and a jointly controlled entity were as follows:

	As at 30 June 2009	
	Number of Stores	Geographical Distribution
Superstores		
Directly-owned	101	Beijing, Tianjin, Zhejiang
Mini-marts		
Directly-owned	204	Beijing, Zhejiang
Franchised	75	Beijing, Zhejiang
Total	380	

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

	As at 30 June 2009	
	Number of Stores	Geographical Distribution
Superstores	6	Hebei, Tianjin
Mini-marts	38	Tianjin
Total	44	

Category Optimisation

During the Reporting Period, the Group conducted a thorough consolidation and streamlining of merchandise mix and business strategies as it re-positioned the target customer groups for various business formats, whereby adjustments were made to implement distinctive merchandise mix and business strategies for different stores based on the specific conditions of each store. For certain superstores, the key business strategy was to meet the needs of one-stop shopping by providing full range of categories and brands with wide spectrum of merchandises including fresh food, foodstuff, daily-use cosmetics, apparel, bedding products, daily amenities, houseware and home appliances. For other stores, the key business strategy was to meet the day-to-day needs of the community residents by mainly providing bread-and-butter items such as fresh food, foodstuff and daily-use cosmetics complemented by fast-moving, small-sized houseware items. For the mini-marts, the items of instant food, fresh food and services were highlighted to cater to the needs of walk-in customers. A variety of merchandise was available, including food made at the site (lunchboxes, instant drinks, cooked food and steamed snacks), iced beverages, dairy products, confectionery, puffing food, small packs, small-sized daily-use cosmetics and houseware items, as well as various convenience services. Category optimisation has attracted shoppers as customers' practical requirements have been effectively met.

The Group also standardised the procedures for adding and replacing merchandise, whereby the one-in-one-out principle was strictly observed to assure that any future category adjustment may be carried out swiftly.

Store Optimisation

During the Reporting Period, the Group continued with efforts to improve its store image through modification works. Based on customers' demands, ineffective concessionary counters and areas were reduced and additional resources were devoted to principal business lines. The Group continued to step up with the upgrade and improvement of skills and techniques in fresh food operations, as it sought to boost its fresh food management standards by drawing lessons from comparisons between fresh food operations at mini-marts and those at superstores.

During the Reporting Period, the Group achieved the aim of increasing store patronage through rearrangements of store display, price adjustments, innovative promotions and increased frequency of daily promotion hours. Meanwhile, proprietary vegetable and fruit operations at stores were enhanced with larger sales area. New items of cooked food were added and breakfast was served at suitable stores to attract more customers. Moreover, existing categories for foodstuff and amenities were being reshuffled to enrich the variety of our merchandise. Store operations were subject to standardisation measures that contributed to enhanced operating standards and efficiency by reducing unnecessary processes and procedures and simplifying operations.

During the Reporting Period, round-the-clock enquiries of changes in historical purchase prices and selling prices through the system was made possible following the optimisation of the SAP system for open inspection and verification of selling prices at superstores. Historical enquiry statements of POS price changes were developed on the POS terminals, enabling the pricing team to track the changes in historical purchase prices and selling prices of both the headquarters and the stores in a timely manner through the SAP system and the POS system. On the basis of further adjustments to control measures, the accuracy and effectiveness of price monitoring was enhanced. Store management efficiency and competitiveness was improved while a positive price image was maintained for the Group, as low-margin merchandise items resulting from market price adjustments were reported in OA form.

During the Reporting Period, the Group made further improvements to the display and presentation of merchandise, employing appropriate display aids to showcase merchandise items of different nature. The chance of random purchases increased with a stronger sense of abundance and variety in merchandise display, while store image was generally enhanced by the considerable improvement in merchandise display.

The store patrolling and inspection system represents one of the Group's major initiatives in quality control. The Group was able to gain extensive first-hand knowledge of how the stores had been implementing the Company's institutions and requirements through top-to-bottom store patrolling and inspection during the Reporting Period. Effective and issue-specific rectification measures were conducted in response to problems identified in day-to-day store operations, in a bid to improve the work rates and operating capabilities of the stores.

Merchandise Quality and Food Safety

During the Reporting Period, the Group organised training sessions for the internationally recognised CCFA-CIEH foundation certificate in food safety with a view to enhancing the expertise of quality controllers at the stores, and 31 employees received the foundation certificate in food safety awarded by The China Chain Store and Franchise Association and The Chartered Institute of Environmental Health. To assure diligent compliance with the Food Safety Law which came into effect on 1 June 2009, the Group engaged experts from Beijing Administration for Industry and Commerce, Bureau of Quality and Technical Supervision, the Food Committee of The China Chain Store and Franchise Association and third-party audit firms, who worked with our Development and Training Institute to offer professional food safety training for our procurement staff, store managers, store business managers and quality controllers, providing insights into the latest laws and regulations of the State and compliance measures required which enabled our people to sharpen their skills of quality management at store level. In response to store-level enquiries on complaints concerning the "ten-fold compensation claim", the Group's quality control team organised a seminar for quality controllers at store level. The provisions of the Food Safety Law were elucidated in greater depth and uniform practices across the stores were ensured to avert potential operating risks.

Optimisation of Suppliers

During the reporting period, the Group put emphasis on sourcing fruits and vegetables directly from farms and delivering them from production base to stores within 24 hours. When adopting this approach, the Group was able to get a lower price for fruits and vegetables than rural markets. The Group adopted the integrated model of "Supply from cooperative society directly and source from origin directly" would greatly benefit farmers, customers and enterprises. This model was fully recognized by Ministry of Agriculture and cooperative societies.

During the Reporting Period, the Group concluded contracts for 2009 with its suppliers. Through further optimisation of its supplier structure, the number of manufacturers for the year, as a percentage of the number of suppliers, increased by 6% over 2008. Our partnership with suppliers in 2009 was underpinned by trustworthiness, win-win solutions and mutual respect. Negotiations with suppliers were increasingly guided by concerns in category optimisation. Cooperation with large-scale suppliers was enhanced and merchandise types were consolidated through the replacement of meagre and out-moded suppliers. Our overall profitability was further improved as more favourable purchase prices were secured on the back of the Group's economies of scale.

During the Reporting Period, suppliers' representatives were invited to station at the Group's stores as observers to monitor, together with the customers, the day-to-day operation and management of the stores. Seminars were conducted regularly where suppliers' representatives would voice their opinions and suggestions while the Group would brief on improvement measures to be taken. All in all, we have worked in accord with our suppliers to deliver win-win solutions.

Marketing Optimisation

With constant fine-tunes and innovations in marketing, the Group has attained sound results and enhanced its brand image. By analysing sales results, movements of various merchandise categories and the business environment, the Group formulated overall marketing plans each month during the Reporting Period to provide an important basis and direction for deciding on marketing campaigns and selecting merchandise. The marketing department advised the procurement department ahead of time on the general directions of merchandise planning to strengthen merchandise selection and preparation. During the selection process, sales volumes or prices for selected merchandise were being specified at demanding levels to increase their hit ratio. Meanwhile, we also sought to increase sales by employing promotion campaigns in higher frequency and with greater magnitude.

The Group analysed data generated from regular customer polls, such as the store visit ratios, composition ratio trends, loss ratios and new-patron ratios for each store. On the basis of such analyses, business circles were redrawn for the effective implementation of merchandise plans and DM leaflet plans with good hit ratios. The regime of flexible business circles was being developed, with constant adaptations and modifications to cater to changes in the patron population and the competitive environment. At the same time, rigorous control over marketing expenses was exercised. The use of DM posters was also optimised through re-assessments and adjustments of the number of DM posters placed. Marketing activities and poster face arrangements were analysed in greater detail and realignments were made to reflect seasonal changes and developments in current affairs. The impact of these posters has been enhanced and operating costs have been lowered as a result.

During the Reporting Period, the Group launched a range of promotion campaigns, such as the "cutting edge offer" (poster edges may be collected in exchange for purchase discounts) which was hugely popular among stores and patrons and effectively increased the number of customer and transaction amount per customer. The "oil coupon" campaign gave a lift to dropping sales of oil products, which reported substantial increase over comparative periods while the campaign lasted. This promotion initiative by merchandise categories was the first of its kind and represented a brand new model. In June, the Group organised the first rebate for members since the Retalix POS system went live. For a whole month, promotions were focused on favourable offers for members, featuring articulately selected merchandise at unbeatable prices. Such activities have been extremely positive in reinforcing customer loyalty, as evidenced by a historical high in shopping card registrations during the period.

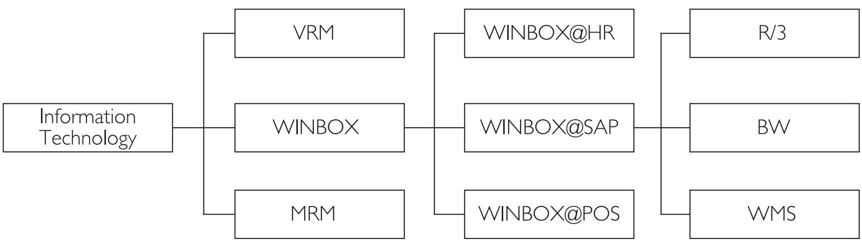
During the Reporting Period, our subsidiary, MerryMart, launched a series of preemptive promotional activities which lasted over two months leading up to its 10th anniversary celebrations. Anniversary countdown advertisements were published in major newspapers and media including Beijing Times, Beijing Evening News, Beijing Youth Daily and Star Daily, while advertisements were also posted in building elevators in several hundred communities. Posters in five episodes were posted in rotation as publicity rolled out in unprecedented scale. Retail promotions accompanying the countdown spurred shopping frenzy in Beijing, contributing to stronger sales and auguring well for sales during the forthcoming 10th anniversary celebrations.

WINBOX@SAP

During the Reporting Period, the Group's WINBOX@SAP project team proposed an optimisation and upgrade plan for the BW statement system, with the aim of resolving issues in the ongoing upgrade of system efficiency and performance that emerged with the geometric increase in retail business data. By collating historical data in advance and re-developing customised statements for different dimensions of data collation, the modelling of existing data was optimised and perfected. Following sustained operation, the system has initially met the expectations of different types of users, with significant improvements in data analysis and enquiry response rate. Decision-making has become significantly more efficient as the upgraded BW smart business system has shortened the information processing lead time for business users and enabled them to identify key issues in no time. While increasing work rate, the system has also came up with solutions for dealing with the burgeoning accumulation of business data.

The task of optimising the financial statement enquiry data and performance as well as data storage space became imminent during the Reporting Period as the R3 system saw rapid data expansion in tandem with our business growth. Following sustained efforts in understanding, testing and assessing the procedure and logic of the new general ledger, the WINBOX@SAP project team was able to arrive at an effective solution courtesy to our existing in-house WINBOX advisory strengths. With the remote support of SAP overseas advisors, the WINBOX@SAP project team independently completed the cleaning of redundant data in the financial account packages. Approximately 50% of the account statement data was cleared out, making available substantial storage space to support solutions for continued growth in financial data in future as well as improving the efficiency of financial statement enquiry by 20% to 30% as targeted.

The W2M1.0 software product, a core IT product of the Group built around the SAP R3 system, was launched during the Reporting Period following persistent efforts of the WINBOX@SAP project team (comprising mainly in-house advisors and the software development team) over the past six months. The product was officially delivered to business departments and went live on 1 July 2009. In the designation of "W2M1.0", "W" stands for WINBOX (SAP+RPOS+EHR), "2M" stands for VRM (Vendor Relationship Management) and MRM (Management Relationship Management). WINBOX is the engine of the Group's system architecture which provides all the driving force for its entire system and business. Created as a result of the positive combination of the SAP system best practices and the in-house IT development capabilities of the Group, W2M is a retail business solution featuring Group characteristics and boasting leading-edge core competitiveness. The solution has provided a solid foundation for simplified, convenient, effective and swift applications of the Group's information systems. The core information technology and competitiveness of the Group is represented by the following structure of state-of-the-art core technologies from the perspective of a retail business solution:



Process Optimisation

During the Reporting Period, the Group continued to promote process re-engineering with an aim to attain the simplified and efficient business management process system of "centralised procurement/category optimisation + demand forecast-driven supply chain + simplified store sales model". During the Reporting Period, the WINBOX process team continued to amend and optimise the Wumart Group Operation Process Manual 2009 (《2009物美集團流程作業手冊》), adding 9 processes such as the financial audit delegation process for directly-owned mini-stores, the supplier deficit control process, the operating process for store-owner data modification, flow-through driven by merchandise process and flow-through driven by customer process; as well as upgrading and optimising 12 processes such as the operating process for coordination and management process and the financial audit delegation process for the mini-mart headquarters. Process building during the Reporting Period was focused on the financial process regime, which involved the upgrade of the delegation process as required by organisational restructuring as well as additional processes required to enhance financial security. The current EHR processes were also upgraded with the addition of new processes better serve the purpose of human resource development. To facilitate the smooth progress of business format optimisation, category optimisation and store upgrades and renovation, relevant processes were announced. Initial streamlining of relevant process forms were also being conducted with a view to ensuring smooth implementation of business processes as well getting prepared for uniform distribution of forms. The synchronous progress of system optimisation and process optimisation will go a long way raising the level of specialisation and standardisation of the Group's operations management.

Supply-chain Optimisation

In tandem with the fundamental aim of creating a profit centre out of its logistics operations, the Group's supply chain management department formulated a series of control measures to exercise stringent control over operating costs during the Reporting Period while seeking to increase revenue by expanding its third-party logistics services (consignment), with an eye on enhancing the work rate and service quality of its logistics operations. The supply chain management department reported sound levels for various operation management indicators. First of all, revenue was generated through business model innovation. During the Reporting Period, the supply chain management department worked closely with the procurement department to attract major suppliers to join DC and as a result increased distribution fee income within a short span. Diligent efforts were being made to expand our external businesses, such as merchandise inventory management on behalf of suppliers for distribution to other clients of these suppliers, resulting in swift improvement in the efficiency of the distribution centres. Secondly, cost reductions were achieved through innovations in operating models. During the Reporting Period, the supply chain management department enhanced control over operating costs and our transportation cost management measures of "low-price commitment and additional discounts for monthly deductions" and "transport route optimisation" were carried out with stronger effects. Transportation costs decreased substantially and the cost ratio was significantly lower compared to the same period of 2008. The plan underpinned by the principle of "performance of subordinate-level duties without compromising the grades and ranks of the performer and undertaking of multiple tasks in one specialised position" resulted in significantly lower staff cost for the supply chain management department. Through in-depth cooperation with major suppliers, the supply chain management department imposed a stringent condition during the Reporting Period that required suppliers to maintain a 95% DC delivery ratio, making it possible to reduce DC safety inventory by a significant measure and shorten our inventory turnover period. Thirdly, service standards were enhanced. The supply chain management department offered full assurance in meeting requirements of store orders during the Reporting Period. To support adjustments at directly-owned stores, the Dahongmen DC realigned its warehouse and storage space to meet the need of supermarkets to add 2,000 merchandise items for the new business format. Inventory management personnel responsible for order renewals made visits to the stores and engaged suppliers to help resolve slow-moving merchandise so that store inventory losses could be reduced. Fourthly, all DCs completed their second-quarter physical inventory during the Reporting Period. Results were positive with stocktaking losses well within estimates.

HUMAN RESOURCES DEVELOPMENT

The strategy in human resources is an important means through which the business strategy of an enterprise is realised. The Group is committed to enhancing the value of human resources in terms of specialisation and reducing staff costs as a means to foster core competitive advantages. The Company would also leverage opportunities of recruiting qualified people for its existing and future business ventures. In order to build a specialised professional team and meet the need for talents in its business development, the Group continued to implement a series of staff training programs. During the Reporting Period, the Group organised 80 training sessions with a total of 2,961 employees attending. In addition, 651 employees enrolled in ERP online training during the Reporting Period. The enhancement training for store executives at various levels, operational and specialised training and outward-bound/new employee induction program registered enrollments of 520, 1,158 and 590, respectively. The "Centurion Program" continued to be in force, as 42 candidates were short-listed and tested for future appointment as store managers. Following training and evaluation, 13 of them qualified and commenced internship at the stores. They would be appointed store-manager designates after passing the final evaluation.

By basing promotion on training and capping training with evaluation, the internal cultivation and selection of talents was enhanced. While more executives will be rising through the ranks as "Wumart-trained", those who join from elsewhere will also find themselves fitting in effectively to make a highly cohesive team with a positive mix of talents.

External staff recruitment is conducted in line with the Group's corporate culture, aiming to meet the needs of its business development by employing a strategy of exploring diversified sources for talents. Team building and cost leadership underline some of the core principles governing the ongoing development of staff recruitment. Through extensive cooperation with universities and colleges as well as head-hunting agencies, the stability of staff supply is being enhanced with the benefit of cost advantage and lower labor risks.

Following its successful launch and application in Beijing, the WINBOX-EHR system was further deployed during the Reporting Period as it went live for initial application at the Group's regional headquarters and stores in Tianjin. With standardised key staff data, centralised personnel administration, systematised time management, simplified salary and wage calculations and standardised reporting format of human resource analyses for the Group's human resource operations in Beijing and Tianjin, significant improvements in efficiency and accuracy have been made.

During the Reporting Period, the Group further optimised its general performance appraisal regime. Performance management was improved in terms of credibility and effectiveness, while reinforcements were made to staff appraisal, assessment, training and incentives. Improvements were also made to the dynamic reward and replacement regime in a bid to enhance organisational efficiency. Through scientifically proven and effective control of staff costs, the Group continued to report improvements in organisational structure and establishment, work-hour and roster management, recruitment control, as well as internal systems and processes. On the basis of surveys on market wage levels and analyses of staff income at various levels, salary adjustments were effected for base-level staff, with a view to increasing labor productivity as well as competitiveness among peers in terms of salary standards for base-level staff.

During the Reporting Period, the Group stepped up with its efforts to improve internal management and foster harmonious labor relations. In terms of institution, the "Human Resource Management System" was revised in accordance with relevant laws and regulations and taking into account our internal conditions. Reasonable aversion of potential labor risks was effected in our labor contract and addendums as a preemptive measure following detailed study of the Labor Law as well as local policies and regulations and due consideration of the Company's actual conditions. In terms of practical operations, efficiency in personnel affairs was enhanced as relevant processes became more formalised and scientifically proven following optimisation measures.

By engaging in the aforesaid human resource development initiatives in a pro-active and yet prudent manner with emphasis on heritage as well as innovation, we are seeking to achieve optimisation in human resources, namely continuity in the supply of talents that would enhance our core capabilities and specialised abilities with the benefit of a high-caliber team. In terms of business performance, our efforts in human resources should be conducive to corporate growth, profit increment, efficiency enhancement and fulfillment of corporate social responsibility.

OUTLOOK

The Group will step up with the expansion of its retail network through organic growth and acquisition and continue to implement its regional development strategy in a persistent manner. We intend to reinforce our market dominance in Beijing, while moving swiftly to capture additional market shares in Tianjin and Zhejiang. Post-acquisition systems integration will be implemented as scheduled, with a view to gradual enhancement of its regional dominance and operating efficiency.

The enhancement of core competitiveness and overall competitive advantages will remain a priority for the Group, as it continues to standardise and improve its business processes in operations and management with a view to cost reduction and efficiency enhancement with the aid of advanced SAP technologies, in adherence to the fundamental principle of "enhancing the core competitive strengths and overall competitive advantages of the company" and the dual focus on "enhancing the image of the stores as well as the company" and "optimising business formats and merchandise categories". At the same time, we will step up with efforts to foster five core advantages for the Group with a view to ongoing enhancements in competitiveness and stable business growth that will assure the delivery of strong results for the year.

CORPORATE GOVERNANCE

During the Reporting Period, the Company has complied with all the code provisions of the Code on Corporate Governance Practices set out in the Appendix 15 to the GEM Listing Rules in line with the corporate governance principles, in order to establish sound corporate governance practices and perfect the management of the Company.

AUDIT COMMITTEE

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

Regarding the securities transactions by Directors, the Company has adopted a code of practice on terms no less exacting than those required by the GEM Listing Rules. The Company confirms that, after making specific enquiries with the Directors in accordance with the code, all Directors have complied with the code of practice in relation to securities transactions by Directors.

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ASSOCIATED CORPORATIONS

As at 30 June 2009, 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 of the Company

Name	Number of Domestic Shares held (Shares)	Approximate percentage of total issued Domestic Share capital (%)	Approximate percentage of total issued share capital (%)	Type of interests held
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 Company Limited ("Wangshang Shijie E-business" (網商世界電子商務)), 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 of the Company held by Wangshang Shijie E-business.

2. Dr. Meng Jin-xian holds 40% of the share capital of Beijing Junhe Investment Company Limited ("Junhe Investment" (君合投資)), 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 Beijing Hekang Youlian Technology Co., Ltd. ("Hekang Youlian" (和康友聯)), 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 of the Company held by Junhe Investment and Hekang Youlian.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2009, none of the Directors, supervisors and 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 30 June 2009, 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 acquiring shares in, or debentures of, the Company.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2009, the interests or short positions of persons, other than the 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 of the Company

Name	Number of Domestic Shares held (Shares)	Approximate percentage of total issued Domestic Share capital (%)	Approximate percentage of total issued share 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 Limited (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 Limited (物美控股集團有限公司) ("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.

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 of the Company

Name	Number of H Shares held (Shares)	Approximate percentage of total issued H Share capital (%)	Approximate percentage of total issued share capital (%)
Arisaig Greater China Fund Limited (Note 1)	69,152,000	13.65	5.67
Arisaig Partners (Mauritius) Limited (Note 2)	69,152,000	13.65	5.67
Cooper Lindsay William Ernest (Note 3)	69,152,000	13.65	5.67
Zhao Danyang (Note 4)	65,950,500	13.02	5.40
Pure Heart Asset Management Co. Limited (Note 5)	63,313,500	12.50	5.19
UBS AG (Note 6)	61,511,500	12.14	5.04
Pure Heart China Growth Investment Fund (Note 7)	61,223,500	12.09	5.02
JPMorgan Chase & Co. (Note 8)	55,738,000	11.00	4.57
T. Rowe Price Associates, Inc. and its affiliates (Note 9)	50,802,000	10.02	4.16
The Capital Group Companies, Inc. (Note 10)	31,263,384	6.17	2.56
Invesco Hong Kong Limited (in its capacity as manager/advisor of various accounts) (Note 11)	25,360,000	5.01	2.08

Notes:

1. These 69,152,000 H Shares are held by Arisaig Greater China Fund Limited in its capacity as a beneficial owner.

2. These 69,152,000 H Shares are held by Arisaig Partners (Mauritius) Limited in its capacity as an investment manager.

3. These 69,152,000 H Shares are held by Cooper Lindsay William Ernest through his interests in controlled corporations.

4. These 65,950,500 H Shares are held by Zhao Danyang through his interests in controlled corporations.

5. These 63,313,500 H Shares are held by Pure Heart Asset Management Co. Limited in its capacity as an investment manager.

6. These 61,511,500 H Shares are held by UBS AG in its capacity as a guaranteed interest holder.

7. These 61,223,500 H Shares are held by Pure Heart China Growth Investment Fund in its capacity as a beneficial owner.

8. Among these shares held by JPMorgan Chase & Co., 5,290,000 H Shares and 50,448,000 H Shares are held in its capacities as an investment manager and a trustee company/approved lending agent respectively.

9. These 50,802,000 H Shares are held by T. Rowe Price Associates, Inc. and its affiliates in its capacity as an investment manager.

10. These 31,263,384 H Shares are held by The Capital Group Companies, Inc. in its capacity as an investment manager.

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

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

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

COMPETING INTERESTS

Wumei Holdings 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 (Note) on 24 October 2007, with a view to avoiding business competition with Wumei Holdings. Wumei Holdings has operated in strict compliance with the Non-Competition Agreement and Entrusted Operation and Management Agreements in order to avoid business competition with the Group to the fullest extent.

Save for the competing businesses disclosed above, Wumei Holdings did not engage in any direct or indirect competition against the Group, nor did it have any interests.

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

PLEDGE OF ASSETS

As at 30 June 2009, bank loans of approximately RMB267,910,000 were secured by the pledge of land and buildings with a carrying amount of approximately RMB360,743,000.

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.

CONTINGENT LIABILITIES

The Group did not have any material contingent liability as at 30 June 2009.

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

Beijing, PRC
11 August 2009