物美
WU MART

Wumart Stores,Inc.
北京物美商業集團股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock Code : 1025

Annual Report 2011

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WU MART

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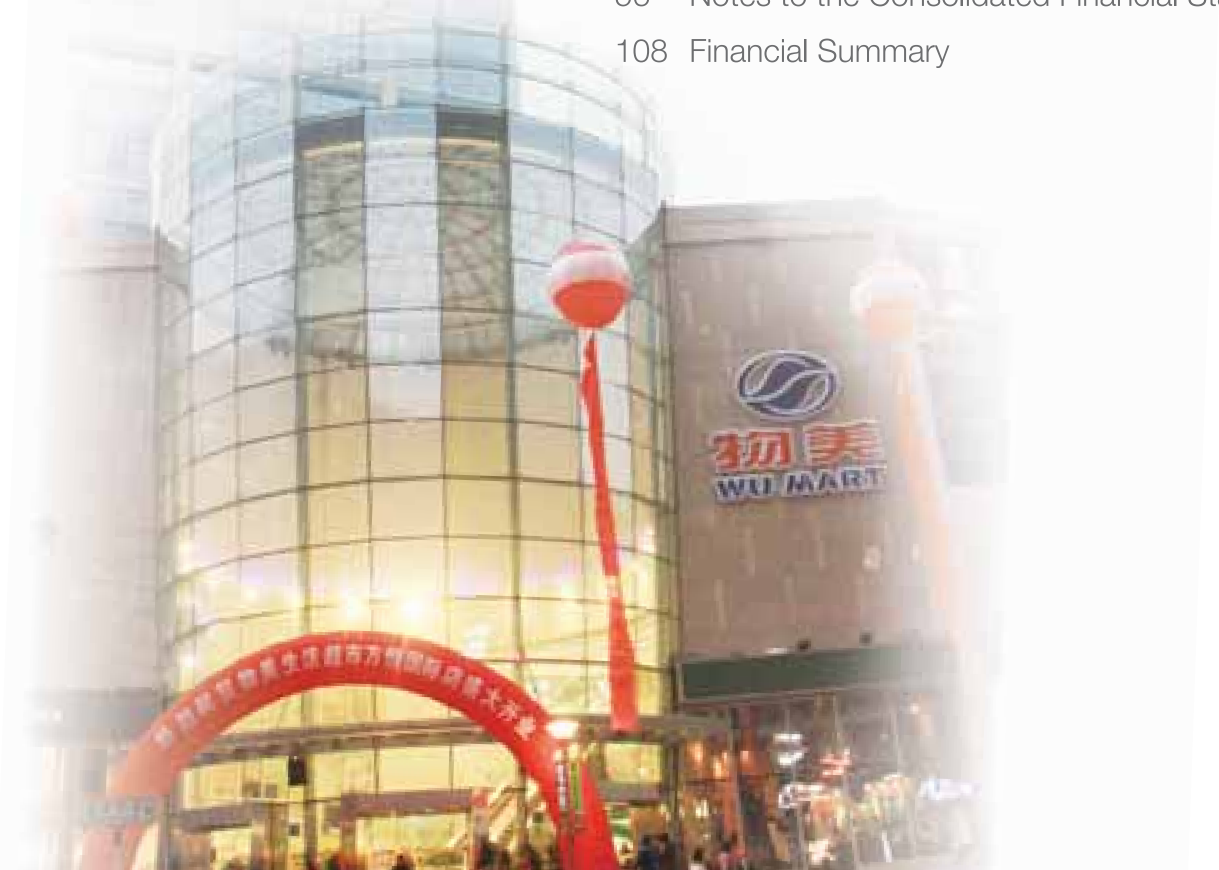

COMPANY INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Wang Jian-ping
(Vice Chairman)
Mr. John Huan Zhao
Madam Ma Xue-zheng

Independent Non-executive Directors

Mr. Han Ying
Mr. Li Lu-an
Mr. Lu Jiang
Mr. Wang Jun-yan

SUPERVISORY COMMITTEE

Mr. Fan Kui-jie *(Chairman)*
Madam Xu Ning-chun
Mr. Zhang Zheng-yang

SENIOR MANAGEMENT

Mr. Xu Shao-chuan
(Vice President, General Manager of Wumart Beijing BU)
Mr. Chong Xiao-bing
(Assistant President and Deputy General Manager of Wumart Beijing Bu)
Mr. Shen Hui-feng
(Deputy General Manager of Wumart Eastern China)
Madam Su Hong-xia
(Director of Finance Department)
Mr. Wu Du-qing
(Director of Supply Chain Department)
Mr. Guo Tu-wei
(Director of Data Management Center and Director of Assets Management Department)

COMPANY SECRETARY

Madam Xie Dong

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Li Lu-an *(Chairman)*
Mr. Han Ying
Madam Xu Ying

NOMINATION COMMITTEE

Mr. Han Ying *(Chairman)*
Mr. Li Lu-an
Madam Xu Ying

COMPLIANCE OFFICER

Dr. Wu Jian-zhong

AUTHORIZED REPRESENTATIVES

Dr. Wu Jian-zhong
Madam 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

Industrial and Commercial Bank of China
China Merchants Bank
China Minsheng Banking
Beijing Rural Commercial Bank
Bank of Hangzhou

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong
Investor Services Limited
Rooms 1712–1716
17/Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRC LEGAL ADDRESS

Room 5610,
1 Shixingdong Street
Badachu HighTech
Park District
Shijingshan District
Beijing
The PRC

HEAD OFFICE

Wumart Commercial Building,
158-1 West 4th Ring North Road,
Haidian District
Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18th Floor, Edinburgh Tower
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WEBSITE

www.wumart.com

STOCK CODE

1025

Steady improvement on operating results Continued enhancement of corporate value

In 2011, China's economy continued to develop steadily. With GDP of RMB47,156.4 billion, representing a growth of 9.2% as compared with 2010. During the year, the Group was committed to solidifying its base, making great efforts in consolidating its resources and proactively explored breakthroughs. A stable and good operating results was maintained after a year of relentless efforts. On behalf of the Board, I would like to present to the shareholders the annual results of the Wumart Stores, Inc. (the "Company" or "Wumart") and its subsidiaries (collectively the "Group" or "Wumart Group") for the year ended 31 December 2011 (the "Reporting Period").

Steady improvement on operating results. As at the end of the Reporting Period, the Group recorded total revenue of RMB16.396 billion, increasing by 15.1% over 2010. Among of which, comparable store sales grew by 9.8% over 2010, the consolidated gross profit amounted to RMB3.15 billion, representing a growth of 12.5% compared to last year. The net profit attributable to owners of the Group amounted to RMB586 million. After excluding the accounting treatment of the one-time disposal and the impairment losses of assets of Tianjin Lotus and Chao Shifa, the Group's net profit amounted to approximately RMB659 million, representing a growth of 24.3% over 2010, total assets were RMB8.44 billion.

Reinforcing the Supply Chain Management. Relying on Wumart ERP system and North China Distribution Centre, the Group began to transform from a retail sales end to an organizer and coordinator of supply chain by constantly improving various business links of the operation procedures, improving the connection of information systems and information sharing and focusing on the strategic cooperation with producers and suppliers in new products promotion, inventory management and sales and marketing planning.

CHAIRMAN'S STATEMENT

Initial result for the project of all categories distribution and cross-docking. In 2011, the Group commenced "all categories distribution and 80% cross-docking" project. After half a year of implementation, the number of categories for distribution through the distribution centre was increased to 20,000 from approximately 6,000. Cross-docking has greatly increased the Group's distant merchandise distribution capabilities and efficiency of the supply chain, optimized its operation procedures of logistics and stores and lowered the operating costs of stores, effectively alleviated great pressure on distribution during the peak sales season, strongly supported the increasingly expanding size of the Group and had profound impact on the enhancement of the Group's overall efficiency.

Deepening direct purchases from production bases. For the task of "Farm-Supermarket Links", on the basis of deepening direct purchases from fruit and vegetable bases, the Group made more large-scaled direct bulk purchases from bases for other agricultural and sideline products, achieving remarkable results. In the principle of deepening direct purchases from production bases, the Group actively explored the stable and in-depth cooperation with partners of major merchandise categories in production bases and implemented delicacy management through the procurement plans, inventory plans, quality management and transport plans in respect of major categories, thus effectively increasing the procurement scale, lowering procurement costs and achieving excellent economic and social benefits. In 2011, the Group has been listed as the first undertaking unit for the project research of Fruits and Vegetables Farm-Supermarket Links Supply Chain System Integration and Application Demonstration, part of National Science & Technology Pillar Program in the Twelfth Five-year Period Plan.

Successful completion of full integration of MerryMart and beginning of the integration of Tianjin area. From the acquisition of interests in MerryMart by the Group in 2006 to it became wholly-owned by the Group in 2009, the integration was undertaken with financial and information technology and by introducing the budgeting system into MerryMart and the introduction of operating procedure, optimization of suppliers and adjustment of merchandises etc. During the Reporting Period, the Group has completed the comprehensive use of Wumart SAP system in MerryMart and the all-rounded integration of the organization and staff of the headquarters in which the operation of one management team, one set of management system and dual brands was achieved.

Following completion of the integration of MerryMart, the Group implemented the full integration of Tianjin Wumart at the end of 2011 according to our development plan of "Greater Beijing" and based on the support from the Group's information system and logistics distribution system. At this point, the Group achieved a full and unified operation management and unified merchandise procurement and distribution in all retail businesses in Beijing, Tianjin and Hebei regions. For the integration of Tianjin, the Group's capability in distant opening of new stores and distant management was enhanced; for the joint operation of Beijing and Tianjin, the sharing of merchandise and suppliers among the two major regions was achieved while lowered the operating costs of the Group and enhanced the scale of economy.

Successful transfer of listing to Main Board. The listing of the Company was transferred from GEM of the Stock Exchange of Hong Kong Limited ("Stock Exchange") to the main board of the Stock Exchange on 30 June 2011. The listing on the main board further enhanced the reputation of the Company in the international market and it was highly recognized by the internationally reputed investment organizations, also a solid step taken for the full internationalization process of the Company.

PROSPECTS

2012 will be a complex and challenging year. The retail sales enterprises are facing immense pressure, the slowdown of the increase in CPI and continuous increase in labour costs, as well as that the opening of stores are getting increasingly dense and a fierce face-to-face competition gradually spreads to medium-sized cities. However, 2012 will be more of a year of fostering unlimited vitality. The fast and steady development of China's economy, steady progress of urbanization and continuous increase in purchasing power of urban dwellers will create enormous business opportunities and room for the development of retailing enterprises.

2012 will be a year of extending into the prosperous future for the Group. With persistence on the development strategy of regional focus and support of logistics system, the Group will formally establish a system of Areas with Beijing in their Embrace by filling with Beijing, speeding up with Tianjin, radiating to the peripheries and extending into Hebei, to establish its development plan of "Greater Beijing" for the Areas with Beijing in their Embrace. In addition, we will expand our retail sales network by all formats and ways, to grow "Greater Beijing" stronger and bigger.

Building a supply-chain enterprise unswervingly is the most critical work of the Group in 2012. We will take the Beijing procurement team as the core, leverage upon economy of the scale of our operation, seek logistics centre resources around Beijing based on the North-China distribution centre, plan to establish a new distribution centre and fully improve the Group's efficiency of supply chain with an aim to support the Group towards greater regional development.

Building of "Technology-Wumart". Competition in the future will be of operational technologies. Facing a number of complex operation and management technologies in various aspects of operation management, the acceleration of technological innovation and continued enhancement of the operational level are important means to enhance our core competitiveness. Building of "Technology-Wumart" is not only a key task for the Group in 2012, but also a long-term goal of the Group in the future.

Consolidate resources of all aspects, deepen "Farm-Supermarket Links" and implement a strategy of store outlets of 10,000 tons and move towards contract farming. Based on our practices of direct purchases from production bases and the Group's development needs in recent years, the Group will continue to deepen "Farm-Supermarket Links" and launch more 10,000 tons for a single product in 2012, and achieve massive throughput of seasonable merchandise and reputed products in order to control and support the annual sales.

Vigorously enhance the competitive strength of fresh products. In 2012, the Group will continue to make great efforts to forge ahead with operations of the fresh product category, and establish a system of product quality, a system of product standardization and a quality tracking system, a system of loss control and sales promotion strategy from procurement end to distribution end. We will improve our operational technologies of fresh products and enhance the competitive strength of the Group's stores.

Technology underpins development and talents lead the future. 2012 will be a year in which Wumart will build its first-class professional team of operation and management. With an open mind, we will accelerate the introduction of professional and technical talents and training and reserve of internal talents, providing strong guarantee of talents for the Group's growth at a faster pace and on a larger scale.

CHAIRMAN'S STATEMENT

2012 is a year to look forward to. As enthusiastic as before, the Board will work with our respectable staff to create more returns for shareholders. On behalf of the Board, I would like to extend my heartfelt gratitude to all the staff, partners, our friends and all the consumers who rendered Wumart support.

Dr. Wu Jian-zhong
Chairman

20 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

In 2011, China's economy developed steadily and recorded a year-on-year growth of 17.1% in total retail sales of consumer products, with the actual growth of 11.6% after excluding the price factor. However, it is a protean and challenging year for domestic retail enterprises, the cost of rental and labour continued to rise, the integration of domestic funded retail enterprises continued to advance and online sales was more popular. Facing more and more fierce competition, the Group has persisted in its regional development strategy unswervingly, integrated resources proactively, continued to seek for enhancement in its procurement, merchandise, categories and operational technologies and keep laying a solid logistics foundation. In 2011, the Group maintained its continued and steady growth in operating results.

FINANCIAL REVIEW

Five-Year Financial Summary

RMB'000	**2011**	2010	2009	2008	2007
Annual results:					
Total revenue Note 1	**16,395,645**	14,246,881	11,782,009	9,749,790	7,865,805
Consolidated gross profit Note 2	**3,151,877**	2,800,588	2,201,218	1,762,457	1,284,838
Consolidated gross profit margin Note 3	**19.20%**	19.70%	18.70%	18.10%	16.30%
Net profit	**586,041**	529,837	437,764	361,339	300,078
Net profit margin	**3.60%**	3.70%	3.70%	3.70%	3.60%
Earnings per share (RMB)	**0.46**	0.42	0.36	0.30	0.25
Dividend per share (RMB)	**0.20**	0.20	0.18	0.15	0.13
As at 31 December 2011:					
Total assets	**8,439,080**	7,448,710	6,411,690	6,366,034	4,697,768
Total liabilities	**5,094,084**	4,453,180	4,030,910	3,729,204	2,467,209
Minority interests	**157,999**	138,319	118,617	194,616	120,354
Equity attributable to owners of the Company	**3,186,997**	2,857,211	2,262,163	2,442,214	2,110,205
Major financial indicators:					
Return on net assets	**19.40%**	20.70%	18.60%	15.90%	15.00%
Gearing ratio Note 4	**7.50%**	6.70%	19.20%	23.60%	12.30%
Trade payable turnover	**73 days**	73 days	77 days	75 days	89 days
Inventory turnover	**33 days**	33 days	30 days	27 days	23 days
Net cash flow from operating activities	**1,233,935**	681,600	1,105,246	733,130	530,581

Note 1: Total revenue represents revenue and other revenues.

Note 2: Consolidated gross profit represents total revenue less cost of sales.

Note 3: Consolidated gross profit margin represents consolidated gross profit as a percentage of total revenue.

Note 4: Gearing ratio is the ratio between total bank loans and total equity of the Group at the end of the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Total Revenue

For the Reporting Period, the Group recorded a total revenue of approximately RMB16,395,645,000 which grew by approximately 15.1% compared to RMB14,246,881,000 of 2010. The growth in total revenue was attributable to:

(1) Year-on-year growth in comparable store sales. For the Reporting Period, comparable store sales growth was also attributable to the Group's effort to constantly increase customer flow and sales per customer by improvements of the shopping environment, merchandise category optimization, providing various value-added services, and vigorous development of the group-buying customers. Amidst the increasingly fierce competitions in the retail market, the Group managed to achieve a growth of 9.8% in comparable store sales;

(2) Sales contributions from newly opened stores;

(3) The rental income has increased substantially. During the Reporting Period, the substantial increase in rental income was driven by the Group's effort in store renovation, continuous introductions of quality merchants and lowering the vacancy rate.

Consolidated Gross Profit and Consolidated Gross Profit Margin

During the Reporting Period, the Group's consolidated gross profit amounted to RMB3,151,877,000, representing a growth of approximately 12.5% compared to RMB2,800,588,000 of 2010. During the Reporting Period, the Group's consolidated gross profit margin was 19.2%, which shows a flat to lower performance as compared with 19.7% in 2010. The decrease in gross profit margin is caused by that the percentage of service income in total revenue has dropped from 9.2% in 2010 to 8.5%. During the Reporting Period, utilizing the opportunity of the integration of the headquarter of MerryMart, the Group has integrated the supplier resources and unified the time in receiving the service income which led to the decline in service income as a percentage of total revenue in 2011.

Distribution and Selling Expenses and Administrative Expenses

For the Reporting Period, the Group recorded an aggregate distribution and selling expenses and administrative expenses of approximately RMB2,427,043,000, accounting for 14.8% of the total revenue and representing a growth of 12.7% as compared to RMB2,153,600,000 of 2010, which was 0.3 percentage point lower compared to 2010. The drop in the percentage is resulted from that:

(1) During the Reporting Period, through integration the headquarter of Merrymart by the Group, the management efficiency of each of the functional divisions at the headquarter is greatly enhanced, the number of staff at the headquarter is reduced and the staff costs and relevant administrative expenses of the headquarter decreased accordingly.

(2) During the Reporting Period, the Group achieved certain control over personnel expense of stores by adjusting the employment structure and increasing the percentage of hourly-paid workers to certain positions. Meanwhile, the Group tightened the costs control over the stores, which caused the decline of the percentage of operating cost of stores, such as promotion costs, energy costs, etc. in the total revenue.

Finance Costs

For the Reporting Period, finance costs of the Group amounted to approximately RMB15,941,000, representing an increase of 9.73% compared to RMB14,527,000 for 2010. The increase in finance costs was because of the slight increase in the Group's scale of loan during the Reporting Period.

Net Profit

During the Reporting Period, net profit attributable to owners of the Group amounted to RMB586,041,000, representing a growth of 10.6% as compared to RMB529,837,000 for the previous year; after excluding the account treatment of the one-time disposal and the impairment losses of assets of Tianjin Lotus and Chao Shifa, the Group's net profit amounted to RMB658,688,000, representing a growth of 24.3% over 2010.

Liquidity and Financial Resources

Benefited from the Group's expansion in scale and steady business growth, during the Reporting Period, net cash flow generated from operating activities amounted to RMB1,233,935,000, representing a growth of 81.0% compared to RMB681,600,000 of 2010; as at 31 December 2011, the Group's cash and bank balances amounted to RMB1,350,975,000, representing a growth of 19.2% as compared to RMB1,133,607,000 at the year end of 2010.

As at 31 December 2011, the Group's total equity was approximately RMB3,344,996,000 with a gearing ratio of 7.5% (31 December 2010: 6.7%). Gearing ratio is the ratio between total bank loans and total equity of the Group at the end of the Reporting Period.

As at 31 December 2011, the Group recorded current assets of approximately RMB4,137,707,000, which mainly comprised cash and bank balances of approximately RMB1,350,975,000, inventories of approximately RMB1,186,384,000 and trade and other receivables of approximately RMB1,003,060,000.

As at 31 December 2011, the Group had non-current assets of approximately RMB4,301,373,000, which mainly included property, plant and equipment of approximately RMB2,756,592,000, goodwill of approximately RMB884,964,000, interests in associates of approximately RMB140,786,000 and interests in a jointly controlled entity of approximately RMB104,021,000.

As at 31 December 2011, the Group recorded current liabilities of approximately RMB5,078,980,000, mainly comprising trade and other payables of approximately RMB4,525,632,000, short-term borrowings of RMB250,000,000 and tax liabilities of approximately RMB234,844,000.

Capital Structure

The Group's borrowings, cash and cash equivalents were mainly denominated in RMB. The audited bank loans of the Group as at 31 December 2011 were RMB250,000,000, the loans are repayable within one year and carrying interests at fixed rates ranging from 5.81% to 7.54% per annum.

Distributable Reserve

The distributable reserve of the Group as at 31 December 2011 amounted to approximately RMB1,562,458,000 (2010: RMB1,266,998,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of Assets

As at 31 December 2011, the Group's bank loans of RMB250,000,000 were secured by the pledge of land and buildings with a carrying amount of approximately RMB224,039,000.

Substantial Acquisition

During the Reporting Period, the Group had no substantial acquisition or disposal.

Contingent Liability

As at 31 December 2011, the Group had no significant contingent liability.

Future investment plans

As at 31 December 2011, the Group did not have any significant investment plans.

Exchange rate risk

The income and expenses of the Group are mostly denominated in RMB. During the Reporting Period, the Group had not been subject to any significant difficulties or its working capital or liquidity had not been affected as a result of fluctuations in exchange rates.

Dividend Appropriation

The Board recommended the payment of a final dividend of RMB0.2 (before tax) per share to shareholders subject to approval by shareholders at the 2011 annual general meeting ("AGM").

Separate announcement 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.

BUSINESS REVIEW

Expansion of retail network

The Group further penetrated in the Beijing, Tianjin and Zhejiang markets under persistent implementation of the expansion strategy of regional prioritization. As at 31 December 2011, we had a retail network of 519 stores (31 December 2010: 492 stores) comprising 127 superstores and 392 mini-marts, which were either directly operated by us or operated and managed through franchise agreements and management agreements entered by the Group, its associates (other than Beijing Chao Shifa Company Limited ("Chao Shifa")) and a jointly controlled entity. The Group's retail network occupied an aggregate saleable area of 667,095.5 square metres, excluding stores operated by associates and under franchise.

During the Reporting Period, 10 directly-owned new superstores were opened while 4 were closed down due to demolition and relocation or expiry of lease. For mini-marts, 40 directly-owned new stores were opened while 20 were closed down due to demolition and relocation or expiry of lease. For franchised stores, 9 new stores were opened while 10 were closed down. For managed superstores, 3 new stores were opened and 3 managed mini-marts were opened. The cooperation with 4 managed mini-marts was terminated.

Stores operated and managed by the Group, its associates and a jointly controlled entity (except the stores of Chao Shifa) as at 31 December 2011 were as follows:

	Number of Superstores	Number of [Note] Mini-marts	Total	Geographical Distribution
Directly-owned	122	275	397	Beijing, Tianjin, Hebei, Zhejiang
Franchised	–	80	80	Zhejiang
Managed	5	37	42	Tianjin, Shanghai, Jiangsu
Total	127	392	519	

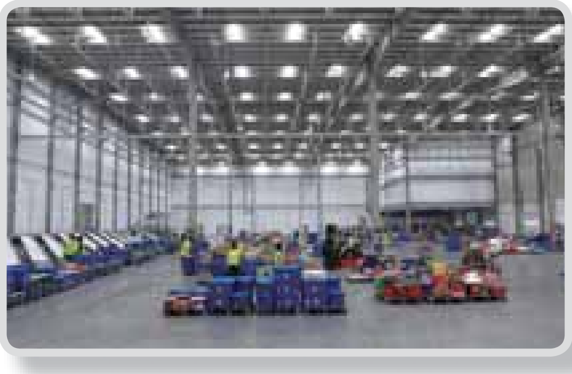
Note: Mini-marts comprise Everyday Shops, high-end supermarkets and convenience stores.

MANAGEMENT DISCUSSION AND ANALYSIS

Full integration of Wumart and MerryMart and commencement of the integration of Beijing and Tianjin

In 2006, the Company acquired 75% equity interest of Beijing MerryMart Chainstores Development Co., Ltd. ("MerryMart"). MerryMart became wholly-owned by the Company in the second half of 2009. During the Reporting Period, the Group conducted the last task for the full integration of MerryMart: the integration of organizations and staff at headquarters, thus successfully completing the full integration of Wumart and MerryMart. Although stores have undergone the integration of operation standards, the integration work of the operational systems of stores has been completed basically and successfully by the end of 2011. The completion of the full integration of Wumart and MerryMart has further explored the Group's economy of scale and provided a better basis for further optimizing transaction conditions with suppliers and stores as well as enhancing the efficiency of marketing; working in one office optimized organizational structure and streamlined staff which lowered the operating costs of the headquarter; the increase of the distribution proportion to MerryMart enhanced the Group's logistics operation efficiency, thus effectively reduced total costs in logistics. Successful acquisition and integration of MerryMart not only enhanced the Group's core competitiveness, but also laid a good foundation and provided a wealth of experiences for merger and acquisition as well as integration work of the Group in the future.

With the guidance of the successful experience in the full integration of Wumart and MerryMart, at the end of 2011, according to the "Greater Beijing" development plan, relying on its existing logistics and distribution network and the preliminary success of the project of cross-docking, the Group implemented full integration of Tianjin Wumart by way of closing the Tianjing headquarter, so that our management is unified under the Beijing headquarter, distributing merchandises to stores in Tianjin region by North China Distribution Centre and for unification and sharing of the shared merchandise and suppliers among the two major regions. The joint operation of Beijing and Tianjin has further lowered the Group's operating costs and enhanced the economy of scale . Thus, the Group achieved a full and unified operation management of retail businesses in Beijing and Tianjin by one headquarter.



Implementing all categories distribution and cross-docking and building an enterprise of supply chain

The Group's logistics and distribution implemented a significant switch in mode of within warehouse to the mode of cross-docking in order to build an enterprise of supply chain and enhance efficiency of supply chain. During the Reporting Period, the Group's North China Distribution Centre and Zhejiang Linping Distribution Centre commenced the "all categories distribution and 80% cross-docking" project respectively. By all categories distribution, stores will directly place orders with distribution centre instead of with suppliers and the distribution centre will distribute all categories merchandise to stores. On top of this, the distribution will be transformed from the previous mode of main distribution within warehouse and cross-docking as auxiliary to 80% cross-docking, i.e. a mode of logistics where suppliers deliver merchandise to the outbound logistics area for each store in distribution centre directly, without undergoing the processes of receiving goods, placing on shelves, stocking and picking, and the distribution centre will focus on delivering goods to the store. This project requires support from the store order process management, the exchange in pallets of distribution centre and stores, receiving goods by stores without counting, cross-docking and direct picking process in distribution and pre-picking by suppliers and control over the entire distribution process.

As at the end of 2011, the proportion of cross-docking in Beijing accounted for over 90% of its total business volume. In the process of implementation of cross-docking, pallet transportation and practices of without counting particulars were also implemented, the work process in every related step was further optimized, and the fill rate for the goods delivered by suppliers, shipment efficiency at distribution centre, transportation efficiency and the efficiency of receiving goods at stores were increased.

The cross-docking project is a strategic measure of the Group and is still being improved, however, the significance of the implementation of the cross-docking on the Group has gradually been manifesting. Such project not only resulted in the drastic increase in the number of categories distributed, and after advancing the cross-docking, the number of merchandise categories for distribution in Beijing region increased by approximately 300%; it also enhanced the efficiency of the supply chain and reduced inventory turnover days at distribution centre to the current level of less than two days, saved the need for cash flow and enhanced logistics efficiency. Meanwhile, the cross-docking has greatly strengthened the distant distribution capacity of the Group. Hence, implementation of cross-docking project and all category distribution, building an enterprise of supply chain is the direction of development which the Group will unswervingly stick to.

MANAGEMENT DISCUSSION AND ANALYSIS

Continuing to advance "Farm-Supermarket Links" while expanding and strengthening direct purchases from production bases

The Group continued to carry forward the "Farm-Supermarket Links". During the Reporting Period, the Group expanded the construction of the production bases for the "Farm-Supermarket Links", focusing on those in Hebei, Hainan, North East China, Xinjiang and Yunnan. On top of the "Farm-Supermarket Links" mainly for fruits and vegetables, the categories for purchases from production bases on our own have been expanded to cover other fresh products and agricultural dry products, such as fresh eggs, rice, food grains, dried goods and other produces relating to people's livelihood, where the annual sales of the two items, rice and eggs in Beijing regions have both exceeded 130 million, which boosted the annual growth of the categories for over 30%.

Thanks to the Group's successful experiences in "Farm-Supermarket Links" and positive social effects, on the "3rd China Retail Industry Fresh Products Operation Summit Forum" held in Chongqing, the cooperation project between the Group and Zhongdeli Vegetables Professional Cooperative in Linzi District, Zibo, Shandong Province was awarded the title of "Farm-Supermarket Links Demonstrative Projects" by China Chain Store & Franchise Association. During the Reporting Period, the Company has formally undertaken the project research of Fruits and Vegetables Farm-Supermarket Links Supply Chain System Integration and Application Demonstration, part of National Science & Technology Pillar Program in the Twelfth Five-year Period Plan. On the foundation of combining Wumart's information technology, logistics technology and operation skills, the skills of modern circulation industry will be constantly improved.

Leveraging on the technologies of purchase from production bases and advantages of the extensive retail network, the Group undertook social responsibilities proactively. During the Reporting Period, facing the situation that farmers had difficulty in selling their vegetables, the Group advocated to launch an emergency aid campaign with 12 retail chain operators in Beijing. The Group set up "Special Area for Vegetables From Shandong Province", "Special Area for Potatoes From Inner Mongolia" and "Special Area for Cabbages From Daxing, Beijing". A number of preferential policies were adopted, including par selling and zero day credit period, actively promoting the vegetables in such special areas and assisting farmers in addressing their difficulties in selling produces. The aid was highly recognized by the governments and farms at regions to which we have provided aid, and obtained very positive feedbacks. Meanwhile, the Group's brand awareness in a broader area was enhanced.

Improving operation of fresh fruits and vegetables

Guided by meeting the customers' needs and aiming to establish fruits and vegetables operation with Wumart's own features, the Group conducted a special work to greatly enhance the fruits and vegetables operation along the chain of sourcing-distribution-store sales during the Reporting Period. For sourcing, on the one hand, we relied on the existing production bases to purchase on our own and apply bulk sourcing and selling for a single category; we proactively sourced additional opportunistic merchandise by leveraging on the local wholesale market while establishing sustainable source of supply. On the other hand, we improved the feedback mechanism for quality and specifications and display wear-and-tear control system, defined standards for specifications, items and quality standard to enhance the quality of merchandise and ensure the fruits and vegetables are fresh; for distribution, we consolidated the existing distribution sources, improved the construction of refrigerating storage chain for fruits and vegetables, stuck to distribution of fruits and vegetables at low temperature and their timely delivery and forbade the distribution of the fruits and vegetables merchandises that do not meet the specifications and quality standards; for sales at stores, we unified the image for fruits and vegetables operation area of every store, and enhanced the display at stores. Through a series of adjustments and improvements, there were relatively better improvements on the appearance, quality and display of the prototype stores engaged in fruits and vegetables operation for the Group, and great progress was made for increase in the number of patrons, sales and gross profit.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Group made an attempt of alliance in the sales of their fruits and vegetables of the key cooperative in production bases of "Farm-Supermarket Links" in certain stores of MerryMart. During the first week that the key cooperatives from Shandong production base entered MerryMart stores to sell, the sales of such part of fruits and vegetables increased 17% as compared with that in August, total sales in September increased 6% as compared with that in August and the mode that the cooperatives in production base of "Farm-Supermarket Links" being the alliance suppliers has also become the new point of growth for the sales of fruits and vegetables.

Bettering image through brand, using technology as device and optimizing marketing continuously

During the Reporting Period, we continued to build up Wumart's brand image with all efforts. On the basis of continued implementation of the effective marketing methods of "Fine and Inexpensive in Wumart", we launched feature columns, including "Quality Life", "Premium Merchandise" and "New Products Promotion" in a planned and systematic way to attract more customers with high average transaction amount per head. Meanwhile, we gradually improved the shopping experience of customers and shaped the image of higher quality based on the "approachable" image of the Group's stores to raise the average transaction per head effectively and to meet the customers' increasing pursuit of quality.

During the Reporting Period, the Group enhanced Wumart's image using brand and supported the innovation of marketing means through technology. Great efforts were made to stabilize and expand membership, and we also paid more attention to middle and high-end customers, enhanced communication with them. The Group adjusted and optimized policies of membership through continued tracking and analysis of the shopping condition of membership based on the data analysis. In addition, we implemented the project of membership special area at superstores, conducted exclusivity activities for membership and gave more reward to premium membership. These series of measures improved membership's recognition of the Group's membership policies. During the Reporting Period, membership sales accounted for over 40% and both the number of membership and membership sales were greatly increased as compared with the same period of last year. The effective marketing strategy for membership enhanced loyalty from members.

During the Reporting Period, the Group continued to improve its means of marketing through technology innovation. We commenced to apply new promotional means, including, short message coupon, micro blog, internet and short message service platform on the basis of continued optimization and implementation of "compound conditions promotion" which relied on information technology, such as "redemption on designated purchase amounts", "cheaper if bought in a whole box", "3 for RMB10" and "N % off for the second item", and provided the customers with "ten reasons to go shopping in Wumart", achieving the desired marketing results.

Continued upgrade and optimization of information system and successfully realizing going-live across the Group

After five years of development, continued upgrade and going-live and implementation in stores in the regions of Beijing, Tianjin and stores of MerryMart step by step and batch by batch, during the Reporting Period, the Group roll-outed the going-live of WINBOX system in regional headquarter and stores in Hangzhou, and realized a full upgrade in modules, including category, sourcing, operations, supply chain and financial management, thus fully realizing the unification of Wumart information system platform across the Group (Beijing region, Tianjin region and Hangzhou region).

During the Reporting Period, to advance the implementation of cross-docking, the Group has further upgraded the module of supply chain logistics, completed system optimization in the supply chain processes, including supplier coordination, ordering process and warehouse operation management and supported ways of distribution, such as storage distribution and direct distribution and ways of picking operations, like picking style and planting style; the function of "receiving and delivering" supported by the information system of the Group, to realize the completion of both receiving and delivering at the distribution center, thus effectively streamlining operation process, increasing operation efficiency and lowering operation cost, which has greatly supported the cross-docking and distribution commenced by the Group.

In line with the in-depth development of the Group's "Farm-Supermarket Links" business, during the Reporting Period, the Group successfully completed the research and development of the tracing and management system of the circulation of agricultural product on Wumart's vendor relationship management ("VRM") system platform. This system can record information, including production base, place of production, and goods delivery notes for a single type of agricultural product and the quality inspection information from planting, harvesting to circulation, the management can trace every process from planting to circulation of the agricultural product, thus implementing unified management and ensuring the quality of the agricultural product sourced from the production base sourced from the production base. Due to the advancement of this system, it was successfully applied in a provincial project of Integrated Pilot of Modern Agricultural Product Circulation in Hainan organized by the Hainan Provincial Department of Finance and Department of Commerce and undertaken by Wumart Group.

During the Reporting Period, the Group completed the optimization of AMS (Asset Management System), and realized the automatic production of finance reports with respect to the Group's allocation of assets, assets physical count, centralized procurement, payment to suppliers in installments, bills offsetting, disposal, which effectively enhanced work efficiency and rate of accuracy, greatly reduced the work load of asset accounting staff and effectively lowered the risks arising from manual operation. The application of AMS enabled the Group's asset management to be further technology-based, and laid a solid technological foundation for building a headquarter that will support larger scale of chain system.

During the Reporting Period, the Group developed Human Resource Management (HRM) system, which is integrated into ERP (Enterprise Resource Planning) system, OA (Office Automation) platform, Attendance System and ELN (E-Learning) training system. Its main functions include organizational management, personnel information management, recruitment management, manpower contract management, training management, attendance management, performance management, welfare management and salary management, etc, and the application of the HRM system realized the full process, systematic and standardized management of human resources. During the Reporting Period, the Group completed function inspection of phase I of HRM system, realized an attendance check function based on the application of ID card, and the real-time attendance data-based dynamic management of the staff, including the construction of human resources sharing service centre, payroll, online human resources reporting data, management of salespersons, staff information and warning management, reports display and implementation in phases, etc. It is expected that going-live of phase I of HRM will be completed in Beijing at the beginning of 2012.

Establishing three-level food safety inspection system and guaranteeing food quality and safety

Food safety has been the Group's priority task. In order to guarantee food safety, the Group established an organizational system, the operating procedures and strict checking system to build the enterprise's quality management system. During the Reporting Period, the Group has successively set up food inspection room and had inspection staff at some stores in Beijing region to perform strict sample inspection of food at the stores every day, and remove problem food from the shelf, withdraws from selling and destroy them, to ensure the quality of merchandise for sale and food safety. During the Reporting Period, the Group set up a food safety inspection institute – Wumart Group Inspection Centre, first of its kind among retail chain operators in Beijing. Inauguration of the inspection center in the Group's North China Distribution Centre marks the establishment of three-level food safety inspection system from "Farm-Supermarket Links" base, logistics distribution centre to stores. Three-level inspection includes "inspection at the place of origin" – the inspection of a number of indicators, including residual pesticide, will be conducted over fruits and vegetables in production bases, "inspection at distribution centre" – inspection will be conducted over fruits and vegetables products and meats to be delivered and "inspection at stores" – sample inspection of meats and fruits and vegetables will be conducted at stores with inspection room. The establishment of three-level inspection system ensured the fruits and vegetables and other agricultural by-products sold by the Group are in compliance with the national standards and related regulations of food safety and guarantee that all merchandise with of food quality problem are removed from the shelf within two hours. The food safety work of the Group won wide recognition and enthusiastic positive evaluation and trust from consumers, and the Group's Jingbei Shopping Mall was highly praised by Beijing Industrial and Commerce Bureau for its established merchandise inspection operations and obtained inspection equipment of approximately RMB3.00 million as a reward.

Optimizing appraisal, expanding training channels and accelerating talents cultivation

Facing the rapid increase in manpower costs and the need of talents due to the fast growth in its scale, the Group conducted a series of work with an aim to control manpower costs, stabilize the management team and satisfy the junior staff at stores in 2011.

During the Reporting Period, the Group has adopted proactive measures in lifting the labor productivity. Internally, staff training was intensified and the appraisal system was optimized so that the efficiency of labour was further enhanced. Meanwhile, relying on the support of the Group's advanced information system and the strong supply chain system, the operation procedure was optimized constantly, the employment structure was optimized continuously, the percentage of part-time staff (like hourly paid staff) in the total number of staff was increased, the workload of staff was reduced. Also, the pressure of surging labour cost was alleviated to a certain extent, it was not only an effective way in lowering the Group's personnel cost but also provided more job opportunities for the public.

In order to guarantee the Group's need of human resources arising from its fast development, the Group stepped up training during the Reporting Period. Apart from the completion of the training programme, of 176 training sessions with a total of 5,132 participants conducted at the beginning of the Period, the Group continued to carry forward on-line training in order to speed up the training process and expand the training coverage. Following the going-live of E-Learning distant-learning platform in Beijing region in 2010, during the Reporting Period, the Group completed the going-live work in Zhejiang and Tianjin region, continued to improve distant learning system and enrich the content of training courses. For the online training courses, apart from corporate profile, rules and regulations of the Company, store operational training and basic services standards at stores, a total of 17 ELN electronic courses and 239 standardized documents were developed in 2011, including job training for a number of positions, such as service counter, warehousing, cashier, tallying, aquatic food, fruits and vegetables and cooked food. Such online training builds a platform where the staff can learn and innovate, speeds up the store operational training and expands training coverage and becomes an important way to the Group's human resources training.

In the second half of 2011, a hypermarket in Beijing and Hangzhou was established as "Training Demonstrative Store", respectively, thus commencing the store operational training. Apart from normal operations, the Demonstrative Store not only undertakes the training for the new stores of the Group, but also serves as the base for Hundred-people Scheme training, a platform for the implementation of standardized project, so as to advance the combination of theory and practical training and make the implementation of training more effective.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS AND MEASURES

In 2012, the world economy will be even more complicated, China still has plenty of room for economic growth as compared with developed countries. The urbanization process under the "Twelfth Five-year Plan" and under the 2012 policy guidance by Ministry of Commerce of China in improving the circulation system in urban and rural areas, carrying forward the development of modern circulation modes and improving consumption environment to promote consumption, which will bring further development opportunities for retail operators. In the meantime, we also see increasing competition in the retail chain industry in China, the concentration in the industry will continue, the struggle between the business models of B2C and large scale Mall and traditional retail industry has surfaced. On the backdrop of the changing, complex and severe situation, we must understand the current status, predict and anticipate major trends and go all out to cope with the challenges.

In 2012, leveraging upon the Group's all business formats and market scale advantages, we will focus on Beijing, attach importance to Tianjin, develop areas surrounding Beijing, and strengthen mergers and acquisitions to carry forward the expansion of retail network in a comprehensive way.

We will establish logistics system for the future. We will accelerate the construction of logistics centre for regions surrounding Beijing and Tianjin, plan for the East China Distribution Centre so that a logistics network for the Group will be created to expand regional operations and support our future development.

We will grasp the operation foundation, implement the inventory management precisely, continue to advance the all category distribution and cross-docking operation, improve the efficiency of the supply chain and enhance our management.

Leveraging upon the Group's information system, we will speed up the construction of our sharing centre and advance the online services businesses with Wumart's features and enhance the Group's competitiveness through application of technology.

The most important management work for the Group in 2012 is to make all staff attach great importance to the work for all-rounded food quality and safety and implement the work with determination. Through the measures of organizational restructuring, upgrading the inspection technology, improving management systems and strict enforcement of testing and inspection so as to raise all staffs' awareness of food safety and standardize the working method, placing food safety for customers as of utmost importance in order to ensure that the Group's work of food safety continue to meet customers' increasing consumer demand for food safety.

In 2012, the Group will accelerate the introduction of technical talents and internal training, improve the establishment of the training system and build a team of talents who have expertise in management and technology and with enthusiasm in learning.

In 2012, we will face more intense competition and the challenge to surpass ourselves, we are going to begin our step in the long journey to success and we will continue to deliver outstanding results for shareholders.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Dr. Wu Jian-zhong, aged 54, Chairman of the Board of the Company. Dr. Wu obtained his bachelor's degree in engineering at Fuzhou University in July 1982 and Ph.D. degree in engineering at the Institute of Automation, Chinese Academy of Sciences in December 1989. He pursued postdoctoral research at the University of Michigan in the United States from 1993 to 1994. Dr. Wu joined Wumei Holdings, Inc. ("Wumei Holdings") in October 1994 and served as a Vice President, responsible for automation software and planning. He served as a Director, Vice Chairman and Vice President of the Company since August 2000. Since November 2006, Dr. Wu has acted as the Chairman of the Board of the Company. In addition, Dr. Wu is currently the Chairman of Wumei Holdings and Beijing Wangshang Shijie E-business Co., Ltd ("Wangshang Shijie E-business"). Dr. Wu holds senior positions in subsidiaries of the Company.

Madam Xu Ying, aged 47, Executive Director, President and Chief Financial Officer of the Company. She obtained her bachelor's degree in arts at Tianjin University in July 1985 and MBA degree at the Meinders School of Business of Oklahoma City University in May 2002. Madam Xu has extensive knowledge in business logistics and supply chain management. She worked with Tianjin International Trust and Investment Corporation as an investment manager from August 1987 to July 2001, and served as a director and vice president of LG Company, a jointly controlled entity co-established by the Tianjin International Trust and Investment Corporation, from October 1996 to July 2001. In August 2001, she was recruited as an associate professor with Tianjin University of Finance & Economics, conducting teaching and research on business logistics and supply chain management. Madam Xu joined the Company since October 2004 and acted as Chief Financial Officer and Vice President. She has served as President of the Company since 28 June, 2011. She has served as an Executive Director of the Company since June 2007. Madam Xu holds senior positions in subsidiaries of the Company.

Dr. Meng Jin-xian, aged 55, Executive Director and Vice President of the Company. Dr. Meng earned his bachelor's degree in engineering at the China University of Mining and Technology in December 1981, master's degree in engineering at China University of Mining and Technology in October 1987 and doctorate at the Beijing University of Science and Technology in July 1994. From April 1994 to June 1997, Dr. Meng served as a general manager of Enterprise Development Co. Ltd. of Beijing International Business Federation Co.. From June 1997 to August 2000, Dr. Meng served as a Vice President of Wumei Holdings, mainly responsible for business development and operations. He has served as a Vice President of the Company from August 2000, responsible for operation management, and procurement and logistics management. Since November 2002, he has acted as a Director of the Company, and is currently responsible for standard keeping, new business development and operations of the Group. Dr. Meng holds senior positions in subsidiaries of the Company. Since 23 December 2010, Dr. Meng has acted as the chairman of Yinchuan Xinhua Department Store Company Limited.

Dr. Yu Jian-bo, aged 46, Executive Director, Vice President of the Company overseeing the information centre (WINBOX), the supply chain (WINDC), group procurements. Dr. Yu received his doctoral degree from the Chinese Academy of Social Sciences. From 1991 to 1998, Dr. Yu served at the Institute of Contemporary China Studies with the title of senior researcher, he was engaged in the study of major development issues of contemporary China. From 1998 to May 2005, Dr. Yu served as a director and the executive president of Jin-Ri Investment, and a vice president (China region) of OBI. Dr. Yu joined the Company since May 2005. He was appointed as Executive Director since 28 June 2011.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Non-executive Directors

Mr. Wang Jian-ping, aged 48, non-executive Director and Vice Chairman of the Board of the Company. Mr. Wang received his master's degree in law from the China University of Political Science and Law. He is currently a director of Wumei Holdings. He acted as an assistant to president of Beijing CAST Technology Investment Company from September 1994 to July 1997. Mr. Wang acted as a Vice President of the Company from August 2000 to May 2002, responsible for matters in relation to law, engineering and development. Since November 2002, he has served as a Director of the Company. Since November 2006, he has served as a Vice Chairman of the Board of the Company.

Mr. John Huan Zhao, aged 48, non-executive Director of the Company. Mr. Zhao obtained his B.S. degree at Nanjing University in July 1984. He received M.S. Degrees in Electrical Engineering and Physics from the Northern Illinois University in 1987 and an MBA. degree from the Kellogg Graduate School of Management at the Northwestern University in June 1996. Mr. Zhao currently serves as the President of Beijing Hongyi Investment Counsellor Co., Ltd. and Director and Managing Vice President of Legend Holdings Limited. In addition, Mr. Zhao currently serves as non-executive director of China Glass Holdings Limited (a company listed in Hong Kong), executive director of China Pharmaceutical Group Limited (a company listed in Hong Kong), director of Simcere Pharmaceutical Group (a company listed in New York), non-executive director of Chinasoft International Limited (a company listed in Hong Kong) and director of both Biosensors International Group, Ltd. and Fiat Industrial S.P.A. (companies listed in Singapore). Mr. Zhao has served as a non-executive Director of the Company since November 2009.

Madam Ma Xue-zheng, aged 59, non-executive Director of the Company. Madam Ma graduated from the Capital Normal University (formerly as Beijing Normal College) in Beijing in July 1976. She served as an executive director and chief financial officer of Lenovo Group since 1997 and 2000, respectively. Madam Ma has served as a non-executive vice chairman of the board of directors of Lenovo Group since 1997. From September 2003 to April 2007, Madam Ma served as a director of Sohu.com Inc., a NASDAQ listed company. From December 2007 to May 2010, Madam Ma served as a director of Shenzhen Development Bank Co., Ltd. She served as a partner and managing director of TPG Capital from September 2007 to February 2011, primarily responsible for investments in the Greater China region. Madam Ma has served as the Chairman of Boyu Capital since March 2011. In June 2009, she was appointed as a member of the Listing Committee of the Hong Kong Stock Exchange. Madam Ma has served as a non-executive Director of the Company since June 2010.

Independent non-executive Directors

Mr. Han Ying, aged 77. Mr. Han obtained his bachelor's degree in mining at the China University of Mining and Technology (formerly as Beijing Institute of Mines) in June 1962. From August 1991 to October 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. From October 1995 to June 2000, he worked as a vice chairman and the general manager of Shenhua Group Corporation Limited. He held a number of positions, such as a 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. Since July 2003, he has served as an Independent Non-executive Director of the Company.

Mr. Li Lu-an, aged 68. Mr. Li graduated from Shandong University in August 1966. From August 1996 to March 2004, he served as the chairman of CITS Group, general manager of the China International Travel Service Head Office and part-time professor of China Tourism Management Institute. Since September 2004, he has served as an Independent Non-executive Director of the Company.

Mr. Lu Jiang, aged 55. Mr. Lu has extensive experience in accounting, auditing and other management aspects. He has served as chairman of the Management Committee of Yongtuo International Group Holding Limited (renamed as: China Yongtuo Consulting & Management Group Limited), chairman, general manager and chief accountant of Beijing Yongtuo Certified Public Accountants Co., Ltd and chairman of Beijing Yongtuo Engineering Co., Ltd since 1999. In addition, Mr. Lu also served as committee member of Beijing Certified Public Accountants Association and chief supervisor of the Beijing Afforestation Foundation. Since September 2004, he has served as an Independent Non-executive Director of the Company.

Mr. Wang Jun-yan, aged 41, is an Independent Non-Executive Director of the Company and the Chairman of China Alpha Investment Management Limited. Mr Wang holds a master's degree in finance from the Faculty of Business and Economics of the University of Hong Kong and a bachelor's degree with a major in International Trade from the School of Economics of the Zhongshan University. Currently he is an Adjunct Professor in the Department of Finance, Faculty of Business Administration at The Chinese University of Hong Kong. Since 1997, Mr. Wang served as the Managing Director of First Shanghai Capital Limited, the Managing Director of First Shanghai Financial Holding Limited, an immediate subsidiary of the financial service division of the First Shanghai Group (stock code: 227), and an executive director of China Assets (Holdings) Limited (stock code: 170), the shares of which are listed on The Stock Exchange of Hong Kong Limited, and is now serving as an independent director of Livzon Pharmaceutical Group Company Limited (stock code: 000513), the shares of which are listed on Shenzhen Stock Exchange , an independent non-executive director of China Aerospace International Holdings Limited (stock code: 31) and an executive director of China New Economy Fund Limited (stock code: 80), the shares of which are listed on The Stock Exchange of Hong Kong Limited, and the Managing Director, Head of Asset Management of CITIC Securities International Investment Management (HK) Limited. Mr Wang has over ten years experience in investment banking and securities industry. Since 28 June 2011, he has served as an Independent Non-executive Director of the Company.

SUPERVISORS

Independent Supervisors

Mr. Fan Kui-jie, aged 48. Mr. Fan obtained his master's degree in engineering at the Business Management School of Xi'an Jiaotong University in June 1991. Since December 2007, Mr. Fan has been the chairman of Beijing Yin Xin Guang Hua Real Estate Development Co., Ltd.. He has served as an Independent Supervisor of the Company since November 2002.

Madam Xu Ning-chun, aged 48. Madam Xu received her bachelor's degree in economics from the Beijing Technology and Business University (formerly as College of Commerce in Beijing) in July 1986, and is a PRC certified public accountant and a PRC registered assets valuer. She has been a general manager of Beijing Dingge Capital Assessment Co., Ltd. since July 1998. She has served as an Independent Supervisor of the Company since July 2003.

Supervisor Nominated by Employees

Mr. Zhang Zheng-yang, aged 37, is the director of IT center and Supervisor, holds a bachelor's degree in mechanical and electronic engineering conferred by Beijing Institute of Technology. Since joining Wumart in February 2000, Mr. Zhang was manager of the information department of Beijing Wumart Hypermarket Commercial Management Company Limited from February 2000 to August 2003, assistant to director of Shanghai Wumart Hypermarket from September 2003 to April 2006, Director of the information centre and deputy general manager of Merrymart from May 2006 to February 2008. Mr. Zhang has been the Director of the information centre of the Company since March 2008. Mr. Zhang has always been engaging in application and promotion of information technology of retail industry and he has a wealth of working experience in the establishment of IT system in the retail industry. He has served as a Supervisor nominated by employees since 21 September 2010.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Xu Shao-chuan, aged 40, Vice president of the Company, General Manager of Wumart Beijing BU. He holds a bachelor's degree in statistics from the Shenyang Institute of Finance & Economics. Before joining the Company, he served as a finance manager of Shenyang North-American Products Trade Co., Ltd. from 1995 to 1999. He served as a manager and an assistant director of the Finance Department of Wumei Holdings from 1999 to 2000. In August 2000, he took up the position as the director of the Finance Department of the Company. Mr. Xu was appointed as a Vice President in March 2007.

Mr. Chong Xiao-bing, aged 47, Assistant President of the Company and Deputy General Manager of Wumart Beijing BU. Before joining the Company, Mr. Chong worked in China Coal Research Institute and International Business Connections Company from 1990 to 1997. Since joining Wumart in July 1997, he was the store manager of various stores of Wumart, director of planning department, merchandise department, supervision and general manager of Convenience Stores of the Company. Mr. Chong was appointed as the Assistant President of the Company and Deputy General Manager with the business division of a Wumart store in Beijing in August 2011. Mr Chong has profound knowledge in merchandise operation management and he also has a wealth of practical experience in quality control of enterprise and maintenance of cooperate public relations.

Mr. Shen Hui-feng, aged 36, deputy General Manager of Wumart Eastern China BU. Mr. Shen holds a Master's degree in business administration of International Business University of Beijing. He joined Wumart after graduation from university in 1998, he served as manager of various stores with outstanding performance. Mr. Shen worked in Wal-Mart (China) Investment Co., Ltd. from 2002 to 2008, he was the manager of store department, deputy general manager and general manager with excellent performance. He was sent to the headquarter of Wal-Mart in U.S.A. to participate in the International Leadership Development Program (ILDP) for half a year. Mr Shen served as the operation director of Beijing Hypermarkets in 2008. He has served as Deputy General Manager of Wumart Eastern China Company since 2010 responsible for the operation management of Wumart in Eastern China. Mr. Shen is committed to operation of retail chain and practical management and has a wealth of experience in operation management.

Madam Su Hong-xia, aged 35, director of Finance Department of the Company. Madam Su holds a Master's degree in accounting of Beijing University. She joined Wumart after graduation from university in 1998, she was the accounting manager, senior finance manager and deputy finance director. Madam Su has served as Director of Finance Division of the Company since February 2009. Madam Su has a wealth of practical experience in financial management of retail industry.

Mr. Wu Du-qing, aged 35, director of Supply Chain Department of the Company. Mr. Wu holds a Bachelor's degree in management of Tianjin University of Commerce. He joined Wumart after graduation from university in July 1999. He was the head of the department of stores, manager and store manager of the Company and the Deputy Director of Supply Chain. He was appointed as director of Supply Chain since July 2011, mainly responsible for the daily management of logistics, innovation of logistics operation, costs control, the establishment of supply chain of high efficiency and security for the Company.

Mr. Guo Tu-wei, aged 44, director of Data Management Centre and director of Asset Management Department of the Company. He holds a Bachelor's degree of Economics from Nanjing Institute of Economics. From August 1996 to September 2000, he had served as the accountant, manager and assistant finance director of the Finance division of Wumart. Mr. Guo also served as deputy director of information division from October 2000 to May 2009. He has served as Director of Data Centre and Division of Assets Management of the Company since June 2009.

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors (the "Board") would like to present the Report of the Board of Directors of the Group for the year ended 31 December 2011, together with the audited financial statements of the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the operation and management of retail chains of superstores and mini-marts in Beijing, Zhejiang, Tianjin and Hebei with its strategy of regional development, in pursuit of the objective of "developing China's retail industry and improving quality of life for the public". Its brands mainly include "Wumart Hypermarket", "Wumart Mini-marts", "Merry Mart", "Jingbei Shopping Mall", "Aoshikai Wumart", "Zhejiang Gongxiao Supermarket", "Huzhou Laodafang Supermarket".

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 of this report.

MAJOR SUPPLIERS AND CUSTOMERS

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

During the Reporting Period, none of the Directors, the supervisors and 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 direct or indirect interests in the Company's major customers and suppliers.

SUBSIDIARIES AND JOINT VENTURES

As of 31 December 2011, Beijing Chao Shifa Company Limited and Beijing Chongwenmen Vegetable Market Supermarket Company Limited were major associates of the Company.

As of 31 December 2011, Beijing Aoshikai Wumart Company Ltd. was a jointly controlled entity of the Company.

For information regarding certain major subsidiaries and associates of the Company, please refer to note 39 of the consolidated financial statements of the annual report.

REPORT OF THE BOARD OF DIRECTORS

ACCOUNTS

The audited results of the Group for the year ended 31 December 2011 is set out in the consolidated statement of comprehensive income in page 50 of the annual report.

The financial position of the Group as of 31 December 2011 is set out in the consolidated statement of financial position in pages 51 to 52 of the annual report.

The cash flow of the Group for the year ended 31 December 2011 is set out in the consolidated statement of cash flow in pages 54 to 55 of the annual report.

TRANSFER OF LISTING FROM GEM TO MAIN BOARD

As approved by the China Securities Regulatory Commission and the Stock Exchange, the listing of 536,568,000 H shares in issue of the Company were transferred from GEM to the main board of the Stock Exchange since 30 June 2011. The stock code is 1025.

SHARE CAPITAL

Based on the approval of the general meeting of the Company and the authorisation granted to the Board, the share consolidation and the capitalisation issue were implemented on 12 April 2011 (For details, please refer to the announcement of the Company named Implementation of Share Consolidation and Capitalisation Issue dated 22 March 2011). Since the completion of the share consolidation and the capitalisation issue, the par value of the shares of the Company has been changed from RMB0.25 per share to RMB1.00 per share, 960,955,587 shares of RMB 1.00 each were issued in total, and the registered share capital of the Company increased from RMB320,318,529 to RMBl,281,274,116 with the total number of shares in issue remaining unchanged at 1,281,274,116 shares, comprising 536,568,000 H shares and 744,706,116 domestic shares, representing 41.88% and 58.12%, respectively, of the total issued share capital of the Company.

As at 31 December 2011, the class of shares and the number of shares are as follows:

Name of shareholders	**Class of shares**	**Number of shares** (shares)	**Approximate percentage total share capital** (%)
Wumei Holdings	Domestic shares	497,932,928	38.86
	H shares	1,375,000	0.11
Beijing Hekang Youlian Technology Co., Ltd.	Domestic shares	24,982,300	1.95
Beijing Junhe Investment Co., Ltd.	Domestic shares	23,269,228	1.82
Beijing Wangshang Shijie E-business Co., Ltd.	Domestic shares	160,457,744	12.52
Legend Holdings Limited	Domestic shares	7,306,752	0.57
Hony Capital RMB I, L.P.	Domestic shares	23,619,364	1.84
Beijing Shuangchen Express Co., Ltd.	Domestic shares	7,137,800	0.56
Wealth Retail Holding	H shares	25,000,000	1.95
Fit Sports Limited	H shares	5,000,000	0.39
Other public	H shares	505,193,000	39.43
Total share capital		1,281,274,116	100

SUBSTANTIAL SHAREHOLDERS

Major domestic shareholders of the Company

Name	**Number of domestic shares held** (shares)	**Approximate percentage of total domestic shares capital** (%)	**Approximate percentage of total share capital** (%)
Dr. Zhang Wen-zhong *(Note 1)*	497,932,928	66.86	38.86
Beijing Jingxi Guigu Technology Company Limited ("Jingxi Guigu") *(Note 1)*	497,932,928	66.86	38.86
Beijing CAST Technology Investment Company ("CAST Technology Investment") *(Note 1)*	497,932,928	66.86	38.86
Wumei Holdings *(Note 2)*	497,932,928	66.86	38.86
Yinchuan Xinhua Department Store Company Limited ("Xinhua Department Store") *(Note 3)*	497,932,928	66.86	38.86
Wangshang Shijie E-business	16,457,744	21.55	12.52

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 66.86% 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. 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 Reorganisation 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 in due course to consider the said share issue and asset acquisition.

Major H shareholders of the Company

Name	Number of H shares held (shares)	Approximate percentage of total issued H share capital (%)	Approximate percentage of total share capital (%)
JPMorgan Chase & Co. *(Note 1)*	107,410,915	20.02	8.38
T.Rowe Price Associates, Inc. and its affiliates *(Note 2)*	53,882,906	10.04	4.21
Artio Global Management LLC *(Note 3)*	53,625,795	9.99	4.19
Capital Research and Management Company *(Note 4)*	32,559,000	6.07	2.54
Invesco Hong Kong Limited (in its capacity as manager/ advisor of various clients) *(Note 5)*	32,539,750	6.06	2.54

Notes:

1. Including 1,170,000 H shares held by JPMorgan Chase & Co. in its capacity as a beneficial owner, 55,631,000 H shares as an investment manager and 50,609,915 H shares as a trustee company/approved lending agent.

2. These 53,882,906 H shares are held by T. Rowe Price Associates, Inc. and its affiliates in its capacity as a beneficial owner.

3. These 53,625,795 H shares are held by Artio Global Management LLC in its capacity as an investment manager.

4. These 32,559,000 H shares are held by Capital Research and Management Company in its capacity as an investment manager.

5. These 32,539,750 H shares are held by Invesco Hong Kong Limited in its capacity as an investment manager.

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

CODE ON CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, the Company has been in compliance with all the code provisions set out in Code on Corporate Governance Practices contained in the GEM Listing Rules and the Listing Rules in due course respectively, and adopted the recommended best practices where applicable.

DIRECTORS AND SUPERVISORS

As at 31 December 2011, the directors and supervisors are as follows:

Executive Directors

Wu Jian-zhong *(Chairman),* Xu Ying, Meng Jin-xian and Yu Jian-bo

Non-executive Directors

Wang Jian-ping, John Huan Zhao and Ma Xue-zheng

Independent Non-executive Directors

Han Ying, Li Lu-an, Lu Jiang and Wang Jun-yan

Supervisory Committee

Fan Kui-jie *(Chairman of the Supervisory Committee),* Xu Ning-chun and Zhang Zheng-yang

Profile details of the directors and supervisors are set out on pages 21 to 24 of the annual report.

REPORT OF THE BOARD OF DIRECTORS

REMUNERATION OF DIRECTORS AND SUPERVISORS

All Directors and supervisors of the Company are elected by the general meeting. When appointing Directors and supervisors, the general meeting reviews and approves the remuneration of Independent Non-executive Directors and external supervisors, and authorizes the Board to determine the specific remuneration of each Executive Director or supervisor based on their management position in the Group. Non-executive Directors do not assume management duties of the Group nor do they receive remuneration from the Group.

The remuneration of Directors are set out on pages 80 to 81 of the annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

The Directors and supervisors of the Company have entered into service contracts or letters of appointment with the Company, their terms of office commence on 28 June 2011 and end on the date of conclusion of the 2013 annual general meeting of the Company.

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN MATERIAL CONTRACTS

During the reporting period, save for the service contracts/letters of appointment above and those set out in Note 13 to the consolidated financial statements, there was no material contract in relation to the Group's business or 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 (as defined in the Listing Rules and are still in force during or at the end of the year), whether directly or indirectly.

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 3.13 of the Listing Rules.

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

As at 31 December 2011, 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 of Hong Kong (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Model Code set out in Appendix 10 of the Listing Rules were as follows:

	Number of domestic shares (shares)	**Approximate percentage of total issued domestic share capital** (%)	**Approximate percentage of total share capital** (%)	**Type of interests**
Dr. Wu Jian-zhong *(Note1)*	160,457,744	21.55	12.52	Interests in controlled corporation
Dr. Meng Jin-xian *(Note2)*	48,251,528	6.48	3.77	Interests in 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 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 24,982,300 domestic shares of the Company. Dr. Meng Jinxian 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.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2011, none of the Directors, supervisors and chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Codes sets out in Appendix 10 of the Listing Rules.

As at 31 December 2011, none of the Company, 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.

REPORT OF THE BOARD OF DIRECTORS

AUDIT COMMITTEE

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

At the meeting held by the audit committee on 20 March 2012, the Group's audited consolidated financial report and operating results and major accounting policies etc. for the year ended 31 December 2011 were reviewed and discussed. The audit committee agreed to the contents of the annual report.

NOMINATION COMMITTEE AND REMUNERATION COMMITTEE

During the Reporting Period, the Company has established Nomination Committee and Remuneration Committee.

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.

CONTINUING CONNECTED TRANSACTIONS

The Company entered into the Entrusted Operation and Management Agreement (2010) ("Management Agreement (2010)")with Wumei Holdings, Inc ("Wumei Holdings") on 29 November 2010 for the supply of merchandise, distribution of merchandise and provision of management services for Wumei Holdings' subsidiaries in Tianjin ("Tianjin Affiliates", note) for a term of three years (commencing on 1 January 2011 and ending on 31 December 2013).

In early 2011, the Group's distribution center in Linping, Hangzhou, Zhejiang Province officially commenced operation. In order to lower the operating costs of the distribution center, increase the utilization of logistics system as well as to further enhance its bargaining power during procurement process, the Company entered into the Entrusted Operation and Management Agreement (2011) (Management Agreement (2011)) with Wumei Holdings on 5 May 2011, the Group intends that in addition to providing supply and delivery of merchandise and management services to Tianjin Affiliates, it shall also provide supply and delivery of merchandise services to the subsidiaries of Wumei Holding in the Eastern China region,("Eastern China Affiliates", note). The proposed annual caps for the Management Agreement (2011) and the continuing connected transactions contemplated thereunder will take effect from 1 July 2011 and ended at 31 December 2013. Management Agreement (2010) will terminate when Management Agreement (2011) becomes effective. Details of which are set out in the announcement of the Company dated 29 November 2010 regarding "Continuing Connected Transactions" and the announcement dated 5 May 2011 regarding "Continuing Connected Transactions".

Pursuant to which, the details of the supply and delivery of merchandises as well as entrusted operation and management by the Group for Wumei Holdings Group for the year ended 2011 are as follows:

- According to the "Entrusted Operation and Management Agreement (2010)", for the year 2011, the annual cap for the supply and delivery of merchandises as well as entrusted operation and management by the Group for Wumei Holdings Group are RMB189,000,000, RMB5,670,000 and RMB380,000 respectively. The "Entrusted Operation and Management Agreement (2010)" was terminated since 1 July 2011 as the Entrusted Operation and Management Agreement (2011)" was taken into effect. The actual transacted amount as at 30 June 2011 of the Group were RMB60,162,000, RMB1,805,000 and RMB131,000 respectively.

- According to the "Entrusted Operation and Management Agreement (2011)", which was taken into effect on 1 July 2011 for the six months ended at 31 December 2011, the annual cap for the supply and delivery of merchandises as well as entrusted operation and management of the Company (approved by the shareholders) are RMB194,000,000, RMB5,820,000 and RMB190,000. The actual transaction amount of the Group during the foregoing period were RMB127,620,000, RMB3,828,000 and RMB106,000 respectively.

On 29 November 2010, Beijing Wumart Hypermarket Commercial Management Company Limited ("Wumart Hypermarket Commercial Company") and Beijing Wumart Zhidi Real Estate Development Company Limited ("Wumei Zhidi") entered into the Property Leasing Agreement (2010) to lease the Xinjiekou Property owned by Wumei Zhidi for the operation of a superstore. The lease term shall be for a period of three years from 1 January 2011 to 31 December 2013. Details of which are set out in the announcement of the Company dated 29 November 2010 regarding "Continuing Connected Transactions". According to the Property Leasing Agreement (2010), the rental of 2011 was RMB10,441,920. As at the year ended 31 December 2011, the actual payment of rental was RMB10, 441,920.

Wumei Holdings is the controlling shareholder of the Company, Tianjin Affiliates and Eastern China Affiliates and Wumei Zhidi are a subsidiary of Wumei Holdings. Pursuant to the Listing Rules, Wumei Holdings and its subsidiaries are connected persons of the Company, while Wumart Hypermarket Commercial Company is a subsidiary of the Company. Hence, the transactions under Management Agreement (2010), Management Agreement (2011) and Property Leasing Agreement (2010) constitute continuing connected transactions of the Company, and the reporting, announcement and independent shareholders' approval requirements have been complied with.

The Company's auditor had issued the unqualified letter in respect of the Group's continuing connected transactions disclosed above in accordance with Rule 14A.38 of the Listing Rule of Hong Kong Stock Exchange and confirmed the said transactions:

(1) have received the approval of the Board;

(2) have been conducted in accordance with the terms of the Management Agreement (2010), Management Agreement (2011) and Property Leasing Agreement (2010); and

(3) have not exceeded the cap amounts applicable to the respective transactions.

The Independent Non-executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that the above continuing connected transactions conducted by the Company during the reporting period were entered into in the ordinary and usual course of business of the Company, on normal commercial terms or on terms no less favorable to the Group than terms available from independent third parties (as appropriate), were fair and reasonable and in the interests of the shareholders of the Company as a whole. The above continuing connected transactions are within the Approved Cap for the year approved by the shareholders.

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).

Eastern China Affiliates include: Suzhou Tiantian Wumart Commerce Company, Ltd. (蘇州天天物美商業有限公司) and Shanghai Wuguang Commerce Company, Ltd. (上海物廣百貨有限公司)

COMPETING INTERESTS

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

The Group expands its supermarket chain business mainly in Beijing, Zhejiang and Tianjin. Except the Tianjin region, there is no direct competition between the Group and Wumei Holdings due to the difference in regions. The Company entered into the non-competition agreement and the trademark licensing agreement with Wumei Holdings on 29 October 2003. On 5 May 2011, the Company entered into Entrusted Operation and Management Agreements (2011) with Wumei Holdings and the Group would continue to provide supply of goods, delivery and management services of merchandise for Wumei Holdings and its subsidiaries. Wumei Holdings has operated in strict compliance with the noncompetition agreement and Entrusted Operation and Management Agreements (2011) in order to avoid business competition with the Group to the fullest extent.

Save as the competing business disclosed above, so far as the Directors are aware, Wumei Holdings does not have any business which is in direct or indirect competition with the Group.

PRE-EMPTIVE RIGHT

The Articles of Association of the Company or the applicable laws and regulations do not require the Company to offer pre-emptive rights of new shares to shareholders according to the current shareholding ratio.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2011, the Group had 26,367 full-time employees (31 December 2010: 22,273).

Remuneration package of the Group includes salaries, bonuses and benefits.

Remunerations are determined by reference to the operating conditions of the Group, characteristics of employee costs within the industry, nature of responsibilities assumed by particular employees, and average remuneration for those responsibilities prevailing in the labour market. A differentiated reward system is in place: for senior management and staff with special expertise of the Company, 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 intermediary management and other employees, income improvements are facilitated through the provision of training programmes, promotion opportunities and broader prospects in career promotion and development and enhancement in efficiency, in addition to competitive remuneration packages.

Employee bonuses are given on a discretionary basis by reference to their individual performances and results, etc.

Employee benefits include pension insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing fund.

The Group currently does not have long-term incentive plan.

PENSION SCHEME

Pursuant to the provisions of the relevant PRC laws and regulations, the Group is required to participate in a number of defined contribution retirement benefit schemes established by the relevant provincial and municipal government authorities of the PRC.

During the reporting period, the Group and its employees are required to make contributions, at certain percentages of employees' total salaries, to the retirement benefit scheme in accordance with such scheme.

Details of the Group's pension scheme is set out in note 12 of the consolidated financial statements.

MANAGEMENT CONTRACT

Same as disclosed in the annual report, during the reporting period, the Group did not enter into any material contract for the management and administration of the general business or any important business.

PUBLIC FLOAT

Based on the information publicly available to the Company as at 18 April 2012, the latest practicable date prior to the publication of this annual report, the Company has fulfilled the public float requirements stipulated in Rule 8.08 of the Listing Rules.

AUDITOR

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

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

During 2011 (the "Year"), all members of the Supervisory Committee of Wumart Stores, Inc. (the "Company") strictly complied with relevant laws and regulations such as the Company Law of the People's Republic of China, the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and the Articles of Association of the Company, performed their duties and exercised their powers in good faith, with diligence and prudence for the protection of the interests of shareholders and the benefits of the Group.

During the Year, the members of the Supervisory Committee attended Board meetings of the Company from time to time, attended the annual general meeting of the Company, reviewed the Company's development, operating results, internal control and Board operations and made proposals actively. They also supervised the Company's execution of resolutions of Shareholders' meetings and Board meetings.

During the Year, the Supervisory Committee reviewed the Company's 2010 audited consolidated financial statements and the independent auditor's report, the 2010 work report of the Supervisory Committee and the 2010 results report of the Company, and received the auditor's report on "the Auditing of the 2010 Consolidated Statements of Wumart Stores, Inc.".

Due to the Company's transfer of listing from the Growth Enterprise Market to the Main Board of the Stock Exchange, the Supervisory Committee considered and approved the adoption of the "Model Code for Securities Transactions by Directors of Listed Company" set out in Appendix 10 of the Listing Rules as the code of conduct for the Company's supervisors to comply with when carrying out securities transactions of the Company.

Due to the amendments of the Listing Rules, during the year, the Supervisory Committee reviewed the relevant documents relating to the Company's amendment of the related corporate governance and system, and confirmed that the amendments are compliant with the requirements of the Listing Rules and the relevant laws and regulations.

Through the various works as mentioned above, the Supervisory Committee considers that:

During the Year, the business activities of the Company were in compliance with the requirements of the Company Law, the Articles of Association of the Company and the Listing Rules, and the decision-making procedures were legal and effective. No Directors and senior management of the Company were found to have acted materially in breach of laws and regulations, in violation of the Articles of Association or in a manner that harmed the interests of the Company and the shareholders when performing duties of the Company.

The 2011 financial report of the Company has been audited in accordance with the Hong Kong Accounting Standards by Deloitte Touche Tohmatsu, which has also issued a standard unqualified auditor's report. The Supervisory Committee considers that the 2011 financial report of the Company is true, accurate and completely reflects the financial position and operating results of the Company.

The connected transactions and the related contracts and agreements of the Company and the subsidiaries (the "Group") during the Year were compliant with the requirements of the Listing Rules and the requirements of the relevant laws and regulations, the transactions were confirmed according to fair commercial terms, and no compromising of shareholders' and the Company's interests has been identified. During the year, the transaction amounts of each continuing connected transaction of the Group did not exceed the annual caps announced or approved by the shareholders' general meeting.

REPORT OF THE SUPERVISORY COMMITTEE

During the Year, members of the Board and the senior management members diligently and faithfully performed their duties in day-to-day operations and management in accordance with relevant PRC laws, regulations and the Listing Rules. They exercised their powers and conducted various operations in strict compliance with the resolutions of general meetings and the Articles of Associations of the Company with the aim of protecting the shareholders' and the Company's interests. There has been no significant abuse of powers undermining the interests of the Company and infringing the interests of shareholders and employees.

Under the leadership of the Board, the Company maintained steady and ongoing development during the past year, and the results of the Company also grew steadily. The Supervisory Committee expresses its gratitude to the Board and the senior management for their responsible, diligent and prudent work, and is at the same time very grateful for the great support from shareholders and the Board to the work of the Supervisory Committee.

In the year ahead, the Supervisory Committee will continue to perform its supervisory duties diligently and prudently, and will assist the Company in further improving its corporate governance system. The Supervisory Committee will actively protect the interests of shareholders and the Group as always, and will ensure that shareholders' interests are maximized. We believe that the Company will have a broader development prospect in the future.

By order of the Supervisory Committee
Fan Kui-jie
Chairman

Beijing, the PRC

20 March 2012

CORPORATE GOVERNANCE REPORT

The Company established a standard and healthy corporate governance structure in strict compliance with the Company Law of the PRC, the Securities Law of the PRC and the Listing Rules (the "Listing Rules") under the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company is committed to maintaining its corporate governance at a high standard to enhance shareholders' value in the long run.

The Company listed and commenced dealings on the Main Board on 30 June 2011, completed the Transfer of Listing from GEM to the Main Board. The Board confirms that from 1 January 2011 to 31 December 2011 (the "Reporting Period"), the Company had been in compliance with the code provisions set out in "Code on Corporate Governance Practices" contained in Appendix 15 and Appendix 14 of the Rules Governing the Listing of Securities on the GEM and on the Main Board of the Stock Exchange respectively, and had adopted the recommended best practices in various aspects of corporate governance throughout the Reporting Period.

THE BOARD

The Board is a standing decision-making body of the Company. All Directors are obliged to act in the best interests of the Company. All members of the Board shall take joint and respectively responsibilities to all shareholders for the management, supervision and operations of the Company.

Composition of the Board

The Board of the Company comprised eleven Directors, including four Executive Directors, three Non-executive Directors and four Independent Non-executive Directors. At the Company's 2010 Annual General Meeting ("2010 AGM") held on 28 June 2011, the election of the Members of the Fourth Session of the Board, was considered and approved, and the appointment period of the Members of the Fourth Session of the Board (including Non-Executive Directors) commenced from the conclusion of the 2010 AGM to the conclusion of the 2013 AGM.

Details of the Members of the Fourth Session of the Board are as follows:

Executive Directors	
Wu Jian-zhong	Chairman
Xu Ying	Executive Director
Meng Jin-xian	Executive Director
Yu Jian-bo *Note 1*	Executive Director
Non-executive Directors	
Wang Jian-ping	Vice Chairman
John Huan Zhao	Non-executive Director
Ma Xue-zheng	Non-executive Director
Independent Non-executive Directors	
Han Ying	Independent Non-executive Director
Li Lu-an	Independent Non-executive Director
Lu Jiang	Independent Non-executive Director
Wang Jun-yan *Note 2*	Independent Non-executive Director

Note 1: Dr. Yu Jian-bo was appointed as an Executive Director on 28 June 2011.

Note 2: Mr. Wang Jun-yan was appointed as an Independent Non-Executive Director on 28 June 2011.

The Executive Directors of the Company have extensive operational and management experience and expertise in the retail industry, and are capable of making informed judgments and decisions on matters deliberated at Board meetings while the Non-executive Directors of the Company have extensive industry experience in various fields including capital market, investment, legal and financial issues and are capable of making relevant judgments, and Mr. Lu Jiang, our Independent Non-executive Director, has appropriate qualifications in accounting and experience in finance. To the best of the knowledge of the Board, members of the Board (including the Chairman and the President) were not connected to each other in any manner (including financial, business, family or other significant connections) requiring disclosure during the Reporting Period.

Board meetings held in 2011

During the Reporting Period, there were 16 Board meetings held (including written resolutions), the primary resolutions to be considered including the annual report of 2010, the first quarterly and interim reports of 2011 of the Company, profit distribution proposals for the year of 2010, appointment of the Company's external auditors for the year of 2011, work report of the Board, the Transfer of the Listing from GEM to the Main Board, the issuance of short-term financing notes, consolidation of shares and capitalization issue, continuing connected transactions amounts and its annual caps for the year of 2011 to 2013, the 2011 Corporate Governance Report, the Election of Directors of the Fourth Session of the Board, the Election of Supervisors of the Fourth Session of the Board, amendments to the Articles of Association, amendments to Rules of Meeting Procedures of the Audit Committee of the Board of Directors, amendments to Rules of Meeting Procedures of the Remuneration Committee of the Board of Directors, and approval of Rules of Meeting Procedures of the Nomination Committee of the Board of Directors.

Directors' attendance in 2011:

	Number of meetings held	Number of meetings required to attend	Number of meetings attended	Percentage of attendance
Executive Directors				
Wu Jian-zhong	16	16	16	100%
Xu Ying	16	15 *Note 2*	15	100%
Meng Jin-xian	16	15 *Note 2*	15	100%
Yu Jian-bo	16	9 *Note 3*	9	100%
Non-executive Directors				
Wang Jian-ping	16	16	16	100%
John Huan Zhao	16	16	16	100%
Ma Xue-zheng	16	16	16	100%
Independent Non-executive Directors				
Han Ying	16	16	16	100%
Li Lu-an	16	16	16	100%
Lu Jiang	16	16	16	100%
Wang Jun-yan	16	10 *Note 3*	10	100%

Notes:

1. In accordance with the Articles of Association of the Company, any Director who is unable to attend the meeting can authorize another Director to attend the meeting on his/her behalf in writing.

2. The Company held 16 Board meetings during the Reporting Period, including one meeting between the Chairman and the Non-executive Directors (including Independent Non-executive Directors).

3. The Company held 10 Board meetings during the period between the due appointment of Dr. Yu Jian-bo and Mr. Wang Jun-yan as Directors of the Company and 31 December 2011 including one meeting between the Chairman and the Non-executive Directors (including Independent Non-executive Directors).

Responsibilities of the Board

The Board is accountable to the general meeting of the shareholders and undertakes the responsibility for overseeing and supervising the Company's operations so as to ensure the Company's stable and sustainable development. All Directors are obliged to act in the best interests of the Company; performing with dedication and diligence.

The Board exercises the powers vested by pertinent laws and regulations and the Articles of Association of the Company primarily to: convene general meetings; implement resolutions of general meetings; determine business and investment plans of the Company; formulate annual financial budgets and final accounts of the Company; formulate the Company's profit distribution proposals and plans to make up losses; appoint or remove the general manager of the Company; propose to the general meeting the re-appointment or replacement of accountant firms to conduct audit for the Company; formulate plans to increase or reduce the Company's registered capital and plans to issue corporate bonds; formulate the Group's overall strategies, goals and business plans and monitor their implementation; discuss and exercise control over key operational management and financial performance, and approve significant investments; formulate appropriate policies and control systems in order to avoid and control its exposure to risks in the course of attaining defined strategies and goals of the Group; and prepare accounts of the Company and assess the Group's performance and financial position. The Company's Board of Directors is also responsible for the effectiveness of the internal control system and risk management programs.

Regular board meetings were convened for reviewing annual, interim and quarterly reports. A notice of at least 14 days in advance will be given in respect of each regular meeting. The Board holds an extraordinary meeting when the Company needs to make a significant decision. To ensure that Directors are able to fully perform their duties and responsibilities, the Company will give a notice of at least 7 days in advance, and delivers complete documents in relation to meetings of the Board and its committees to all Directors three days prior to the meetings so that the Directors can make informed decisions in fulfillment of their duties and responsibilities as the Directors of the Company. The Board and its committees have access to sufficient resources for the discharge of their respective duties, and may seek for the engagement of independent professional advice when required at the Company's expense. Resolutions of the Board and its committees are being prepared to record any queries (if any) raised by the Directors and voting results. The resolutions are kept by the office of the secretary to the Board and are available for inspection by the Directors at all times.

The Directors have declared their conflict of interest or material interest (if applicable) in relevant resolutions to be considered by the Board, and such Director will not be counted in the number of persons voting, and shall abstain from voting on resolutions in relation to such transaction or matter. The Company has obtained confirmation from all Directors in respect of any connected transactions between Directors or their associates and the Company or its subsidiaries during the Reporting Period, save as disclosed in the annual report (if applicable).

CORPORATE GOVERNANCE REPORT

DIRECTORS

Nomination of Directors

By the end of 2011, the Company has set up a nomination committee. Before the nomination of committee was set up, the Company appoints candidates for directorship in accordance with the Articles of Association of the Company and the relevant laws and regulations. Candidates for Directors may be identified and nominated and recommended to shareholders by the Board as it deems suitable, where necessary, to fill causal vacancies of the Board.

The Board would consider certain criteria including, inter alia, personal integrity, discipline, occupation, accomplishments, experience, professional and academic background and level of commitment including the amount of time available for fulfilling the role in the selection of candidates for directorship.

In accordance with the Articles of Association 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 compliance with relevant laws and administrative regulations, a Director may be removed from office prior to the completion of his/her term of appointment by shareholders at general meetings by way of ordinary resolutions.

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 also perform their duties with dedication and diligence to facilitate ongoing improvements of the Company's results, core competitiveness and optimization of corporate governance.

Securities Dealings by Directors

The Company has adopted a code of practice in relation to securities dealings by Directors for dealings in the Company's securities by Directors on terms no less exacting than the "required standard of dealings" regarding transactions by directors in securities of their issuers as set out in the GEM Listing Rules and the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules. The Company confirms, after making specific enquiries with all Directors, that all the Directors have complied with the "required standard of dealings" and the Company's code of practice in relation to securities dealings by Directors during the Reporting Period.

Independence of the Independent Directors

None of the Independent Non-executive Directors of the Company are under the employ of the Company or any of its subsidiaries, nor are they interested in any shares of the Group. They are not related to each other or to any of the senior management, whether financially, in business or in family ties. Each Independent Non-executive Director has confirmed his independence to the Stock Exchange upon his appointment. The Board makes enquiries in writing to each Independent Non-executive Director on a regular basis to confirm his independence.

BOARD COMMITTEES

Audit Committee

All members of the Audit Committee of the Company are Independent Non-executive Directors with details as follows:

Han Ying	Independent Non-executive Director and Chairman of the Audit Committee
Li Lu-an	Independent Non-executive Director
Lu Jiang	Independent Non-executive Director

The primary duties of the Audit Committee are to review the Group's financial performance and effectiveness of internal control and risk management.

During the Reporting Period, four meetings were held by the Audit Committee to review and approve the following main businesses: annual report of 2010 and the first quarterly and interim reports of 2011 of the Group; the amended Procedures of the Audit Committee, connected transactions amount and its annual caps for the year of 2011 to 2013, auditors' remuneration, 2011 Corporate Governance Report, 2010 audit work reporting of external auditors, and recommendations to the Board in relation to appointment of external auditors.

Attendance at meetings of the Audit Committee in 2011:

	Number of Meetings held	Number of meetings required to attend	Number of Meetings attended note	Percentage of attendance
Han Ying	4	4	4	100%
Li Lu-an	4	4	4	100%
Lu Jiang	4	4	4	100%

Note: In accordance with the Rules of Meeting Procedures of the Audit Committee, any Audit Committee member who is unable to attend the meeting can entrust other Audit Committee member to attend the meeting on his/her behalf in writing.

Remuneration Committee

The Remuneration Committee of the Company comprises members with details as follows:

Li Lu-an	Independent Non-executive Director and Chairman of the Remuneration Committee
Han Ying	Independent Non-executive Director
Xu Ying	Executive Director

The primary duties of the Remuneration Committee are to assist the Board in the management of the overall remuneration structure of the Company, which is primarily to make recommendations to the Board on the formulation of remuneration plans or packages of Directors, supervisors, the President and senior management, including but not limited to, the criteria, procedures and the major systems of performance assessment, key incentive and punishment plans and systems. The Remuneration Committee shall make recommendations to the Board on the remunerations of all Executive Directors, supervisors, the President and other members of the senior management, to ensure that none of the Directors or any of their associates fixes his/her own remuneration, and to carry out any other matter as authorized by the Board.

During the Reporting Period, the Remuneration Committee held one meeting to review and approve the following primary businesses including remuneration policy for the Executive Directors and to approve Executive Directors' service contracts.

Attendance at meetings of the Remuneration Committee in 2011:

	Number of Meetings held	Number of meetings required to attend	Number of Meetings attended note	Percentage of attendance
Li Lu-an	1	1	1	100%
Han Ying	1	1	1	100%
Xu Ying	1	1	1	100%

Note: According to the "Rules of Procedures of Remuneration Committee", member of the Remuneration Committee fails to attend the meeting for any reason, may appoint other member to attend the meeting on his/her behalf.

Nomination Committee

During the Reporting Period, the Company set up the Nomination Committee and comprises members as follows:

Li Lu-an	Independent Non-executive Director and Chairman of the Nomination Committee
Han Ying	Independent Non-executive Director
Xu Ying	Independent Non-executive Director

The main responsibilities of the Nomination Committee were to review the structure, size and composition of the Board, to research on the standard and procedure of selection of directors and senior management and to make recommendations to the Board on the appointment of Directors, Supervisors and matters related to appointment of members of senior management.

The remuneration of Directors

The remuneration of Executive Directors and supervisors nominated by employees of the Company, in accordance with his/her management positions in the Company; is determined by the Company's Board of Directors approved at shareholders' meeting. The determination criteria include operating results of the Company, and practices in the retail industry in the PRC and with reference to the remuneration of directors and supervisors of listed companies within the retail industry in the PRC, and submitted to the annual general meeting of the Company for approval after consideration and approval by the Board of the Company. The remuneration of Non-executive Directors and Independent Non-executive Directors is proposed by the Board and submitted to shareholders' meeting of the Company for approval.

The remuneration of senior management of the Company is pegged against the remuneration of prevailing salary level in the labour market within the retail industry in the PRC, management responsibilities, individual performances and the Company's profitability. Remuneration of the Directors of the Company for the Reporting Period is set out in this annual report.

The Group has not set up any long-term incentive plans.

AUTHORITY OF THE BOARD AND THE MANAGEMENT

The responsibilities and authorities between the Board and the management of the Company are clearly distinguished. The Board exercises such powers as granted by laws and regulations and the Articles of Association of the Company. The management formulates, organizes and implements the day-to-day operation and management of the Company to execute the Company's development strategies, exercise stringent risk control and conduct internal audits in accordance with the requirements of the Board.

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.

Chairman and President

To ensure the separation of rights and authority, the Chairman and the President of the Company are fully independent from each other. The Chairman of the Company is Dr. Wu Jian-zhong, responsible for the effective operation of the Board, while the President is Madam Xu Ying, responsible for the operations and management of the Company and relevant duties delegated by the Board.

ACCOUNTABILITY AND AUDIT

Statement on Directors' Responsibility for Financial Statements

The Board is responsible for the preparation of accounts for the respective financial periods to ensure that such accounts give a true, fair and complete view of the results and financial positions of the Group and that the financial statements are in compliance with requirements of relevant accounting standards.

In compliance with the Listing Rules, the annual reports of 2010, and the first quarterly and interim reports of 2011 of the Company were published in a timely manner within three months and 45 days respectively after the end of the relevant periods. The Company's reports aim at presenting a clear and comprehensive assessment of the Company's results performance, financial position and development prospects. The Board is of the opinion that high quality, transparent and timely corporate reports are crucial in fostering mutual trust between the Company and the shareholders.

In preparing the accounts of the Company for the year ended 31 December 2011, the Directors confirmed that:

- all HKFRSs had been adopted;
- suitable accounting policies had been selected and applied consistently; and
- judgments and estimates had been made prudently and reasonably and the accounts had been prepared on a going-concern basis.

Internal Control

The Board shall ensure the sound, proper and effective functioning of the Company's internal control system; while the Company's management is primarily responsible for planning and implementation of internal control procedures to protect the Company's assets.

The legal and audit department and the internal control centre of the financial department of the Company is responsible for the daily work of internal control, and by continuously improving and perfecting the internal control centre; continuous monitoring, inspection and internal audit of budget to carry out internal responsibilities. The Board confirmed the more effective monitoring of the internal control of the Company on the major aspects of operations management, it can more effectively prevent the occurrence of significant errors or loss, so as to ensure the security of the asset and integrity of the accounting records of the Group, as a whole in line with the overall internal control requirements in the Code on Corporate Governance Practices.

Meanwhile, the Company also ascertained that due to the fact of inherent limitations of internal control, the establishment of the Group's internal control system is to manage risks that may occur, instead of eliminating risk entirely. Hence, it can only work for the Company's operating and development objectives of providing reasonable assurance, but not an absolute guarantee. At the same time, the internal control system is unable to completely get rid of misrepresentation or avoid any damage to the Company.

The Board is continually striving for sustainably improving the related internal control work, including sound system, enhancing the quality and efficiency of internal control, so as to carry out every aspect of each task for building good corporate governance.

Remuneration of the Auditors

At the 2010 annual general meeting held on 28 June 2011, the re-appointment of Deloitte Touche Tohmatsu Hua Yong CPA and Deloitte Touche Tohmatsu as the PRC and International Auditors, respectively, of the Company for 2011 and the authorisation of the Board to fix the remuneration of the auditors, were considered and approved.

The accompanying 2011 financial report of the Company, prepared in accordance with Hong Kong Accounting Standards, is audited by Deloitte Touche Tohmatsu. Deloitte Touche Tohmatsu Hua Yong CPA will furnish the 2011 Audit Report of the Company based on the accounting statements prepared in accordance with PRC accounting standards.

During the Reporting Period, RMB4,750,000 were paid to external auditors by the Group as audit fees for 2011. Non-audit service fees of RMB12,000 were paid to external auditors by the Company for their performance of capital verification of the increased registered capital on behalf of the Company.

Investors Relation

In accordance with the Articles of Association of the Company and the applicable laws and regulations, the Company has defined the convening and voting procedures for general meetings.

As the owners of the Company, the shareholders of the Company are entitled to the rights as stipulated in laws, administrative regulations and the Articles of Association of the Company. The general meeting is the highest authority of the Company; shareholders can exercise their rights and participate in significant decision in the meeting. Shareholders are entitled to participate and vote at annual general meetings, as well as directly communicate with the Directors and senior management. All of the resolutions were considered on an individual basis at shareholders' meeting, including the election of Directors and Supervisors.

The Company makes timely, accurate and complete information disclosures in strict compliance with the Listing Rules. During the Reporting Period, the annual report of 2010, the first quarterly and interim reports of 2011 were published for timely disclosure of important information and its progress, including the Transfer of Listing from GEM to the Main Board, the Company carrying out consolidation of shares and capitalization issue.

The Company issues circulars and letters to shareholders, publishes detailed information that need to be brought to the attention of shareholders on the websites of the Stock Exchange (http://www.hkex.com) and the Company (http://www.wumart.com), prior to any relevant meetings.

During the Reporting Period, in compliance with the Code on Corporate Governance Practices, the Company maintained sustainable and smooth communication with the shareholders, the Company has dedicated investor relations work, arranged meeting between the Company's management and investors, so as to enable investors to keep abreast of its operations and development plans. The Chairman, the Directors and the Chairmen of the Audit Committee and the Remuneration Committee attended general meetings to answer questions raised by shareholders; thus the annual general meetings further provide channel and platform for shareholders and members of the Board for communication and exchange of views.

AGM

During the Reporting Period, the Company's 2010 annual general meeting was convened. All resolutions, considered on an individual basis and voted by way of poll, have been approved. The poll results have been posted on the websites of the Stock Exchange and the Company.

Public Float

During the Reporting Period, the number of the Company's public shares is in compliance with the Listing Rules.

Market Capitalisation of Public Float

As at 31 December 2011, the market capitalisation of the Company's publicly held shares was approximately HK$8,703,133,000 based on the closing price of the Company's H shares of HK$16.22 on the same 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 50 to 107, which comprise the consolidated statement of financial position as at 31 December 2011, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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, in accordance with our agreed terms of engagement 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 about 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 of the consolidated financial statements that give a true and fair view 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.

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 2011 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

20 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Revenue	5	**14,562,642**	12,571,524
Cost of sales		**(13,243,768)**	(11,446,293)
Gross profit		**1,318,874**	1,125,231
Other revenues	5	**1,833,003**	1,675,357
Investment and other income	7	**228,148**	143,568
Distribution and selling expenses		**(2,104,200)**	(1,839,130)
Administrative expenses		**(322,843)**	(314,470)
Other expenses	8	**(68,236)**	(9,175)
Impairment losses	9	**(14,648)**	–
Share of profit of associates	21	**5,353**	7,061
Share of profit of a jointly controlled entity	22	**4,071**	3,334
Finance costs	10	**(15,941)**	(14,527)
Profit before tax		**863,581**	777,249
Income tax expense	11	**(245,071)**	(217,712)
Profit and total comprehensive income for the year	12	**618,510**	559,537
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**586,041**	529,837
Non-controlling interests		**32,469**	29,700
		618,510	559,537
Earnings per share – basic (RMB yuan per share)	16	**0.46**	0.42

Consolidated Statement of Financial Position

At 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Non-current Assets			
Property, plant and equipment	17	**2,756,592**	2,459,556
Deposit for acquisition of property, plant and equipment		**–**	200,000
Rental deposits		**181,588**	62,841
Prepaid lease payments	18	**88,683**	65,213
Goodwill	19	**844,964**	844,964
Intangible assets	20	**94,713**	103,711
Interests in associates	21	**140,786**	144,268
Interests in a jointly controlled entity	22	**104,021**	99,950
Deferred tax assets	32	**90,026**	65,194
		4,301,373	4,045,697
Current Assets			
Inventories	23	**1,186,384**	1,211,467
Loan receivables	24	**317,240**	–
Trade and other receivables	25	**1,003,060**	769,952
Amounts due from related parties	26	**132,718**	203,463
Prepaid lease payments	18	**57,407**	58,419
Held-for-trading investments	27	**23,592**	10,105
Restricted bank balances	28	**66,331**	16,000
Bank balances and cash	28	**1,350,975**	1,133,607
		4,137,707	3,403,013
Current Liabilities			
Trade and other payables	29	**4,525,632**	3,993,801
Amounts due to related parties	26	**68,504**	73,320
Tax liabilities		**234,844**	165,371
Bank loans	30	**250,000**	201,500
		5,078,980	4,433,992
Net Current Liabilities		**(941,273)**	(1,030,979)
Total Assets less Current Liabilities		**3,360,100**	3,014,718

Consolidated Statement of Financial Position

At 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Capital and Reserves			
Share capital	*31*	**1,281,274**	320,319
Share premium and reserves		**1,905,723**	2,536,892
Equity attributable to owners of the Company		**3,186,997**	2,857,211
Non-controlling interests		**157,999**	138,319
Total equity		**3,344,996**	2,995,530
Non-current liabilities			
Deferred tax liabilities	*32*	**15,104**	19,188
		3,360,100	3,014,718

The consolidated financial statements on pages 50 to 107 were approved and authorised for issue by the Board of Directors on 20 March 2012 and are signed on its behalf by:

DIRECTOR

DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory common reserve fund (Note i) RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2010	312,819	1,423,131	(733,253)	239,473	1,019,993	2,262,163	118,617	2,380,780
Profit and total comprehensive income for the year	–	–	–	–	529,837	529,837	29,700	559,537
Shares issued (note 31)	7,500	282,842	–	–	–	290,342	–	290,342
Dividend paid by the Company (note 15)	–	–	–	–	(225,131)	(225,131)	–	(225,131)
Dividend paid to non-controlling interests	–	–	–	–	–	–	(9,998)	(9,998)
Profit appropriations (note i)	–	–	–	57,701	(57,701)	–	–	–
At 31 December 2010	320,319	1,705,973	(733,253)	297,174	1,266,998	2,857,211	138,319	2,995,530
Profit and total comprehensive income for the year	–	–	–	–	586,041	586,041	32,469	618,510
Share consolidation and capitalisation issue (note 31)	960,955	(960,955)	–	–	–	–	–	–
Contribution from non-controlling interests	–	–	–	–	–	–	12,000	12,000
Dividend paid by the Company (note 15)	–	–	–	–	(256,255)	(256,255)	–	(256,255)
Dividend paid to non-controlling interests	–	–	–	–	–	–	(24,789)	(24,789)
Profit appropriations (note i)	–	–	–	34,326	(34,326)	–	–	–
At 31 December 2011	1,281,274	745,018	(733,253)	331,500	1,562,458	3,186,997	157,999	3,344,996

Note:

(i) 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 Statement of Cash Flows

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**863,581**	777,249
Adjustments for:		
Finance costs	**15,941**	14,527
Share of profit of associates	**(5,353)**	(7,061)
Share of profit of a jointly controlled entity	**(4,071)**	(3,334)
Depreciation for property, plant and equipment	**320,941**	256,928
Release of prepaid lease payments	**58,419**	63,933
Amortisation for intangible assets	**6,615**	3,512
Loss on disposal/write-off of property, plant and equipment	**61,065**	2,262
Interest income	**(28,040)**	(11,663)
Impairment loss in respect of interest in an associate	**12,265**	–
Impairment loss in respect of intangible assets	**2,383**	–
Operating cash flows before movements in working capital	**1,303,746**	1,096,353
Decrease/(increase) in inventories	**25,083**	(369,486)
Increase in trade and other receivables	**(233,108)**	(177,254)
Decrease (increase) in amounts due from related parties	**70,745**	(107,941)
Increase in rental deposits	**(118,747)**	(62,841)
Increase in prepaid lease payments	**(80,877)**	(47,089)
Increase in held-for-trading investments	**(13,487)**	(10,105)
Increase in trade and other payables	**476,473**	551,786
Decrease/(increase) in amounts due to related parties	**(4,816)**	5,419
Cash generated from operations	**1,425,012**	878,842
Interest received on bank deposit	**13,437**	11,663
Income tax paid	**(204,514)**	(208,905)
NET CASH FROM OPERATING ACTIVITIES	**1,233,935**	681,600

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(426,535)**	(384,057)
Withdrawal of restricted bank balances	**16,000**	–
Placement of restricted bank balances	**(66,331)**	(16,000)
Deposit paid for acquisition of property, plant and equipment	**–**	(200,000)
Proceeds from disposal of property, plant and equipment	**2,851**	7,541
Proceeds from liquidation of an associate	**–**	200
Acquisition of a subsidiary	**–**	(36,583)
Increase in investment in an associate	**(4,900)**	–
Repayment of loan receivables	**–**	120,000
Addition of loan receivables	**(309,000)**	–
Interest received on loan receivables	**6,363**	–
Dividend received from associates	**1,470**	2,146
Dividend received from a jointly controlled entity	**–**	1,593
NET CASH USED IN INVESTING ACTIVITIES	**(780,082)**	(505,160)
FINANCING ACTIVITIES		
New bank loans raised	**250,000**	201,500
Repayments of bank loans	**(201,500)**	(456,086)
Interest paid	**(15,941)**	(14,527)
Contribution by non-controlling interests upon capital increase of a subsidiary	**12,000**	–
Proceeds from issue of shares	**–**	291,942
Expenses on issue of shares	**–**	(1,600)
Repayment of obligation under finance leases	**–**	(508)
Dividend paid	**(256,255)**	(225,131)
Dividend paid to non-controlling interests of subsidiaries	**(24,789)**	(9,998)
NET CASH USED IN FINANCING ACTIVITIES	**(236,485)**	(214,408)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**217,368**	(37,968)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,133,607**	1,171,575
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash	**1,350,975**	1,133,607

1. GENERAL

The Company is registered in the PRC as a joint stock company with limited liability Its H shares were listed on the Growth Enterprise Market (''GEM'') of The Stock Exchange of Hong Kong Limited ("SEHK") in November 2003 and the listing was transferred from GEM to the Main Board of SEHK on 30 June 2011.

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 and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

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

Amendments to HKFRS 7	Disclosures-Transfers of Financial Assets[1]
	Disclosures-Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transaction Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax-Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK (IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 July 2012
6 Effective for annual periods beginning on or after 1 January 2014

Except for those as stated below, the adoption of these new and revised HKFRS is not expected to have material impact on the results and the financial position of the Group.

HKFRS 9 (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 (as revised in November 2010) add requirements for the classification and measurement of financial liabilities and for derecognition. Key requirement of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2015 and that the application of the new Standard may not have any material effect in respect of the Group's financial assets and financial liabilities based on an analysis of the consolidated financial statements of the Group as at 31 December 2011.

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC)-Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 (as issued in June 2011) replaces HKAS 31 Interests in Joint Ventures and HK (SIC)-Int 13 Jointly Controlled Entities –Non-Monetary Contributions by Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

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

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the financial year ending 31 December 2013 and the application of these five standards may not have any material impact on the results and financial position of the Group, but it will result in more extensive disclosures.

HKFRS 13 (as issued in June 2011) establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently. required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of the new Standard may not have any material effect in respect of the Group's assets and liabilities measured at fair value based on an analysis of the consolidated financial statements of the Group as at 31 December 2011.

3. SIGNIFICANT ACCOUNTING POLICIES

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 SEHK and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

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 statement of comprehensive income 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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the carrying amount of the non-controlling interests and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-Current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at the fair value or, when applicable, on the basis specified in another Standard.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit 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 profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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 initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associates. 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. Additional losses are 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 an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount 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.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Jointly controlled entities

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

Jointly controlled entities prepare their financial information using accounting policies in conformity with the accounting policies adopted by the Group. 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 initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. 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 recognizing its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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 sale 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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 on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses (if any).

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 which are held 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 profit or loss in the period when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

At the end of each reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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.

Recoverable amount is the higher of fair value less costs to sell and value in use. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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.

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 profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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 or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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 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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at FVTPL represent financial assets held for trading.

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement 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. Subsequent to initial recognition, loans and receivables including loan receivables, trade and other receivables, amounts due from related parties, restricted bank balances and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on loans and receivables below).

Impairment of loans and receivables

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of loans and receivables (continued)

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

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

Financial liabilities and equity instruments

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 accounting policy for financial liabilities are set out as below.

Financial liabilities

Financial liabilities (including bank loans, trade and other payables and amounts due to related parties) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that from an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, 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 intangible assets

The intangible assets are reviewed for impairment when events or circumstances indicate the carrying value may not be recoverable. Factors that would indicate impairment may include, but are not limited to, the significant change in economic environment, operating cash flows associated with the intangible assets or the cash generating unit containing the intangible assets. If cash flows do not materialise as estimated, further impairment losses would be recognised.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

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 management 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 2011, the carrying amount of goodwill is RMB844,964,000 (2010: RMB844,964,000) and no impairment loss has been provided. Details of the recoverable amount calculation are disclosed in note 19.

Impairment of investment in associates

If there is any indication that an investment in associate may be impaired, recoverable amount shall be estimated for the asset. The recoverable amount of investment in associate is the higher of the investment in associate's fair value less costs of disposal and its value in use. Determining whether an investment in associate is impaired requires an estimation of the value in use of the investment in associate. The value in use calculation requires the management to estimate the future cash flows expected to arise from the investment in associate 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 2011, the carrying amount of investment in associates is RMB140,786,000 (2010: RMB144,268,000), net of impairment loss of RMB12,265,000 (2010: nil) relating to goodwill included in interest in associates. Details of the recoverable amount calculation are disclosed in note 9.

Deferred tax assets

As at 31 December 2011, a deferred tax assets of RMB90,026,000(2010: RMB65,194,000) in relation to temporary differences and unused tax losses have been recognised in the consolidated statement of financial position. 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 profit or loss 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.

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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Estimated impairment of loan receivables, trade receivables, rental deposits and other receivables

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 2011, the carrying amount of loan receivables, trade receivables, rental deposits and other receivables is RMB871,662,000, net of allowance for doubtful debts of RMB18,328,000 (31 December 2010: carrying amount of RMB292,830,000, net of allowance for doubtful debts of RMB18,328,000).

5. REVENUE AND OTHER REVENUES

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

	2011 RMB'000	2010 RMB'000
Revenue		
Sales of goods	**14,562,642**	12,571,524
Other revenues		
Rental income from leasing of shop premises	**440,728**	365,313
Income from suppliers, including store display income and promotion income	**1,392,275**	1,310,044
	1,833,003	1,675,357
Total revenue	**16,395,645**	14,246,881

6. SEGMENT INFORMATION

The Group is principally engaged in the operations of superstores and mini-marts in the PRC and all non-current assets of the Group are located in the PRC. No revenue from a single external customer amounts to 10 percent or more of the Group's revenue. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. The chief operating decision maker has been identified as the Board of Directors of the Company. The information reported to the Board of Directors of the Company for the purpose of resource allocation and assessment of performance is based on the overall operation of all superstores and mini-marts, which is the only operating segment reported internally. Accordingly, no segment analysis is presented as the Group has only one operating segment.

7. INVESTMENT AND OTHER INCOME

	2011 RMB'000	2010 RMB'000
Government subsidies *(note)*	**41,133**	11,764
Sales of scrapped materials	**22,255**	14,719
Compensation received from lessees for cancellation of lease contract	**2,674**	19,599
Delivery service income	**79,392**	43,195
Compensation received from suppliers for delaying goods delivery	**10,444**	13,010
Interest on bank deposits and loan receivables	**28,040**	11,663
Fair value changes of held-for-trading investments	**699**	1,640
Others	**43,511**	27,978
	228,148	143,568

Note: The Group was awarded government subsidies totally RMB41,133,000 during the year (2010: RMB11,764,000), for the recognition of the Group's contribution to local community and fulfilling other conditions which the local government considered necessary.

8. OTHER EXPENSES

	2011 RMB'000	2010 RMB'000
Net foreign exchange losses	**7,171**	9,175
Losses on disposal of property, plant and equipment	**61,065**	–
	68,236	9,175

The Group closed down a few non-performing stores during the current year and disposed the related property, plant and equipment which resulted in a loss of RMB61,065,000.

9. IMPAIRMENT LOSSES

	2011 **RMB'000**	2010 RMB'000
Impairment loss recognised in respect of interest in an associate *(note)*	**12,265**	–
Impairment loss recognised in respect of intangible assets	**2,383**	–
	14,648	–

Note: Beijing Chao Shifa Company Limited ("Chao Shifa"), an associate of the Company, its performance did not live up to its budget for the year ended 31 December 2011. The directors of the Company considered it is an indication that the investment in Chao Shifa has suffered an impairment loss. The carrying amount of investment in Chao Shifa before recognition of impairment losses is RMB104,430,000 and the recoverable amount is determined based on a value in use calculation. The key assumptions for the value in use calculations are those regarding the discount rate and growth rate. Chao Shifa 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 8% and a discount rate of 12.41% (2010: 10.06%). 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 Chao Shifa's past performance and management's expectations for the market development. Based on the key assumptions, the carrying amount of the investment exceeds its recoverable amount RMB12,265,000. The impairment loss of RMB12,265,000 were recognised in current period accordingly.

10. FINANCE COSTS

	2011 **RMB'000**	2010 RMB'000
Interests on:		
– Bank loans wholly repayable within five years	**15,941**	14,527

11. INCOME TAX EXPENSE

	2011 **RMB'000**	2010 RMB'000
The charge (credit) comprises:		
PRC income tax	**273,987**	239,539
Deferred tax *(note 32)*		
Current year	**(28,916)**	(21,827)
	245,071	217,712

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Company and its PRC subsidiaries is 25%.

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

	2011 **RMB'000**	2010 RMB'000
Profit before tax	**863,581**	777,249
Taxation at the PRC Enterprise Income Tax rate of 25% (2010: 25%)	**215,895**	194,312
Tax effect of share of profit of associates and a jointly controlled entity	**(2,356)**	(2,599)
Tax effect of expenses not deductible for tax purpose	**3,928**	673
Tax effect of tax losses not recognised	**27,734**	27,233
Utilisation of tax losses previously not recognised	**(130)**	(1,805)
Tax effect of additional tax deductible expense in determining taxable profit	**–**	(102)
Income tax expense for the year	**245,071**	217,712

12. PROFIT FOR THE YEAR

	2011 RMB'000	2010 RMB'000
Profit for the year has been arrived at after charging:		
Depreciation for property, plant and equipment	320,941	256,928
Release of prepaid lease payments	58,419	63,933
Amortisation for intangible assets (included in distribution and selling expenses)	6,615	3,512
Total depreciation and amortisation	385,975	324,373
Operating lease rentals in respect of rented premises	665,773	543,284
Auditor's remuneration	4,750	4,750
Staff costs:		
Directors' emoluments	3,547	2,377
Other staff costs		
– Salaries and other benefit	665,669	603,266
– Contributions to retirement benefits schemes	69,131	63,911
	738,347	669,554
Share of tax of associates and a jointly controlled entity (included in share of profit of associates and a jointly controlled entity)	4,469	4,768
Loss on disposal of property, plant and equipment	61,065	2,262
Cost of inventory recognised as expense	13,243,768	11,446,293

13. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2010: seven) directors were as follows:

	Wu. Jian-zhong RMB'000	Meng. Jin-xian RMB'000	Xu Ying RMB'000	Zhu You -nong(ii) RMB'000	Yu Jian-bo(i) RMB'000	Han Ying RMB'000	Li Lu-an RMB'000	Lu Jiang RMB'000	Wang Jun-yan(i) RMB'000	Total RMB'000
2011										
Fees	–	–	–	–	–	69	69	69	39	246
Other emoluments										
Salaries and other benefits	651	696	739	–	955	–	–	–	–	3,041
Contributions to retirement benefits schemes	66	66	64	–	64	–	–	–	–	260
Total emoluments	717	762	803	–	1,019	69	69	69	39	3,547

13. DIRECTORS' EMOLUMENTS (CONTINUED)

	Wu. Jian-zhong RMB'000	Meng. Jin-xian RMB'000	Xu Ying RMB'000	Zhu You -nong(ii) RMB'000	Yu Jian-bo(i) RMB'000	Han Ying RMB'000	Li Lu-an RMB'000	Lu Jiang RMB'000	Wang Jun-yan(i) RMB'000	Total RMB'000
2010										
Fees	–	–	–	–	–	60	60	60	–	180
Other emoluments										
Salaries and other benefits	651	696	719	–	–	–	–	–	–	2,066
Contributions to retirement benefits schemes	44	44	43	–	–	–	–	–	–	131
Total emoluments	695	740	762	–	–	60	60	60	–	2,377

(i) Appointed on 28 June 2011.

(ii) Mr. Zhu ceased to be a Director of the Company on 28 June 2011.

The amounts disclosed above included directors' fees of RMB246,000 (2010: 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.

Mr. Zhu You-nong, executive director of the Company, waived his emoluments for 2010.

14. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals included four (2010: three) directors of the Company for the year (details of whose emoluments are set out in note 13 above), the emoluments of the remaining one (2010: two) highest paid individuals for the year were as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other benefits	**739**	1,704
Retirement benefits scheme contributions	**64**	87
	803	1,791

Their emoluments were within the following bands:

	2011 No. of employees	2010 No. of employees
RMB nil to RMB1,000,000	**1**	2

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.

15. DIVIDENDS

	2011 **RMB'000**	2010 RMB'000
Dividends recognised as distribution during the year:		
2010 final paid-RMB0.20 (2010: 2009 final paid RMB0.18) per share	**256,255**	225,131

Subsequent to the end of the reporting period, the final dividend of RMB0.20 per share with the total amount of RMB256,255,000 in respect of the year ended 31 December 2011 (2010: final dividend of RMB0.20 per share with the total amount of RMB256,255,000 in respect of the year ended 31 December 2010) to shareholders whose names appear on the register of members on the date of the 2011 annual general meeting has been proposed by the directors and is subject to approval by the shareholders in general meeting.

16. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

	2011 **RMB'000**	2010 RMB'000
Profit for the year attributable to owners of the Company	**586,041**	529,837

	2011 **'000**	2010 '000
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	**1,281,274**	1,268,607

The weighted average number of shares for the purpose of basic earnings per share have been adjusted for the effect of the share consolidation and capitalization issue set out in note 31(c).

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

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 31 December 2009	1,362,947	824,591	484,742	161,722	29,280	–	2,863,282
Additions	–	218,870	93,781	38,505	4,559	55,551	411,266
Acquired on acquisition of a subsidiary(Note 35)	–	59,356	16,235	1,638	254	–	77,483
Transfer	–	4,085	–	–	–	(4,085)	–
Disposals	–	(3,921)	(11,847)	(28,063)	(2,564)	–	(46,395)
At 31 December 2010	1,362,947	1,102,981	582,911	173,802	31,529	51,466	3,305,636
Additions	358,379	180,600	68,107	12,106	15,173	47,528	681,893
Transfer	–	74,161	6,135	402	2,235	(82,933)	–
Disposals	–	(105,532)	(66,556)	(12,732)	(4,419)	–	(189,239)
At 31 December 2011	1,721,326	1,252,210	590,597	173,578	44,518	16,061	3,798,290
ACCUMULATED DEPRECIATION							
At 31 December 2009	(139,699)	(228,622)	(197,888)	(56,486)	(3,049)	–	(625,744)
Depreciation expense	(44,529)	(122,291)	(56,037)	(30,007)	(4,064)	–	(256,928)
Eliminated on disposals/ write-off of assets	–	1,869	9,332	23,655	1,736	–	36,592
At 31 December 2010	(184,228)	(349,044)	(244,593)	(62,838)	(5,377)	–	(846,080)
Depreciation expense	(41,267)	(153,979)	(91,702)	(22,245)	(11,748)	–	(320,941)
Eliminated on disposals/ write-off of assets	–	43,771	64,574	12,657	4,321	–	125,323
At 31 December 2011	(225,495)	(459,252)	(271,721)	(72,426)	(12,804)	–	(1,041,698)
CARRYING AMOUNTS							
At 31 December 2011	1,495,831	792,958	318,876	101,152	31,714	16,061	2,756,592
At 31 December 2010	1,178,719	753,937	338,318	110,964	26,152	51,466	2,459,556

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	Over the shorter of the term of the lease or 25 – 40 years
Leasehold improvements	10% – 20%
Furniture, fixtures and equipment	6.44% – 19%
Electronic equipment	19%
Motor vehicles	9.5%

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

Leasehold land and buildings with a carrying amount of approximately RMB224,039,000 (2010: RMB5,549,000) have been pledged to secure general banking facilities granted to the Group.

At 31 December 2011, included in the leasehold land and buildings is a building acquired upon the acquisition of a subsidiary in 2008 with net book value of approximately RMB7,894,000(2010: RMB8,096,000) whereby the Group is still in the progress of obtaining the Housing Ownership Certificate.

18. PREPAID LEASE PAYMENTS

	2011 RMB'000	2010 RMB'000
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in the PRC	**29,706**	30,187
Prepaid lease rentals	**116,384**	93,445
	146,090	123,632
Analysed for reporting purposes as:		
Current assets	**57,407**	58,419
Non-current assets	**88,683**	65,213
	146,090	123,632

Prepaid lease rentals represent the prepayment of operating lease rentals for stores situated in the PRC for unexpired lease periods between 1 and 19 years.

19. GOODWILL

	RMB'000
COST AND CARRYING AMOUNTS	
At 31 December 2010 and 31 December 2011	844,964

19. GOODWILL (CONTINUED)

The carrying amounts of goodwill allocated to cash-generating units ("CGUs") are as follow:

	2011 RMB'000	2010 RMB'000
Hangzhou Tiantian Wumart Commerce Company, Ltd. – Superstores	**350,386**	350,386
Beijing Merrymart Chain stores Development Company, Ltd. – Superstores	**260,148**	260,148
Beijing Huixin Hypermarket-Superstores	**143,560**	143,560
Zhejiang Gongxiao Supermarket Company, Ltd. – Superstores and Minimarts	**88,611**	88,611
Huzhou Laodafang Supermarket Company, Ltd. – Superstores and Minimarts	**1,256**	1,256
Beijing Wumart Bolante Convenience Stores Company, Ltd. – Minimarts	**698**	698
Beijing Wumart Convenience Stores Company, Ltd. – Minimarts	**255**	255
Beijing Mencheng Wumart Shangcheng Company, Ltd. – Superstores	**50**	50
	844,964	844,964

During the year, the 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 8% and a discount rate of 12.41% (2010: 10.06%). 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.

20. INTANGIBLE ASSETS

	Land use right RMB'000	Operating lease contracts *(note i)* RMB'000	Total RMB'000
COST			
At 1 January 2010	90,727	15,476	106,203
Acquired on acquisition of a subsidiary (Note 35)	–	12,314	12,314
At 31 December 2010 and 31 December 2011	90,727	27,790	118,517
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 31 December 2009	(6,571)	(4,723)	(11,294)
Amortisation expense	(2,705)	(807)	(3,512)
At 31 December 2010	(9,276)	(5,530)	(14,806)
Amortisation expense	(2,705)	(3,910)	(6,615)
Impairment losses recognised in profit or loss	–	(2,383)	(2,383)
At 31 December 2011	(11,981)	(11,823)	(23,804)
CARRYING AMOUNTS			
At 31 December 2011	78,746	15,967	94,713
At 31 December 2010	81,451	22,260	103,711

(i) All above intangible assets were acquired on acquisition of subsidiaries.

The operating lease contracts were valued under the income approach using the incremental cash flow method. The rental stipulated in the lease contracts is lower than the market rate. The value of the contracts is estimated as the difference between market rate and the rate stipulated in the lease contracts. The cost saving from the lease contracts was then discounted to present value at cost of equity plus risk premium of 3%.

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

Land use right	40 years
Operating lease contracts	1-24 years

21. INTERESTS IN ASSOCIATES

	2011 **RMB'000**	2010 RMB'000
Cost of investments in associates, unlisted	**108,089**	103,189
Share of post-acquisition profits, net of dividends received	**44,962**	41,079
Impairment of interest in an associate, unlisted *(note i)*	**(12,265)**	–
	140,786	144,268

As at 31 December 2011, 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 2011	2010	Principal activities
Chao Shifa (i)	Incorporated	PRC	Beijing, PRC	Ordinary	**25.03%**	25.03%	Operation of superstores
Beijing Chongwenmen Vegetable Market Supermarket Company Limited	Incorporated	PRC	Beijing, PRC	Ordinary	**49%**	49%	Operation of superstores and mini-marts
Beijing Meiyijia Marketing Limited	Incorporated	PRC	Beijing, PRC	Ordinary	**25%**	25%	Operation of design, production agency and distribution of advertisements in the PRC
Beijing New Life Investment and Development Company Limited	Incorporated	PRC	Beijing, PRC	Ordinary	**49%**	–	Operation of investment, real estimate management

21. INTERESTS IN ASSOCIATES (CONTINUED)

(i) Included in the cost of investment in associates at 31 December 2011 was goodwill of RMB45,260,000 (2010: RMB57,525,000). The carrying amount of the goodwill represents goodwill of RMB57,525,000 arising from acquisition of Chao Shifa, and the impairment loss of RMB12,265,000 were recognised in current year (see note 9 for details).

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

	2011 RMB'000	2010 RMB'000
Total assets	**1,338,937**	1,283,667
Total liabilities	**(1,052,912)**	(1,015,185)
Net assets	**286,025**	268,482
Group's share of net assets of associates	**95,526**	86,743
Revenue	**2,668,185**	2,465,867
Profit for the year	**11,363**	14,594
Group's share of profit of associates for the year	**5,353**	7,061

22. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	2011 RMB'000	2010 RMB'000
Cost of unlisted investment in a jointly controlled entity	**100,000**	100,000
Share of post-acquisition gains (losses)	**4,021**	(50)
	104,021	99,950

As at 31 December 2011, the Group had interests in the following significant jointly controlled entity:

Name of entity	Form of business structure	Place of incorporation/ operation	Registered capital RMB'000	Proportion of registered capital held by the Group 2011	2010	Proportion of voting power held 2011	2010	Principal activity
Beijing Aoshikai Wumart Company Ltd.	Incorporated	PRC	200,000	**50%**	50%	**50%**	50%	Operation of superstores

22. INTERESTS IN A JOINTLY CONTROLLED ENTITY (CONTINUED)

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

	2011 RMB'000	2010 RMB'000
Current assets	**54,165**	46,282
Non-current assets	**95,480**	98,100
Current liabilities	**(45,624)**	(44,432)
Net assets of a jointly controlled entity attributable to the Group's interest therein	**104,021**	99,950
Income recognised in profit or loss	**151,806**	136,126
Expenses recognised in profit or loss	**147,735**	132,792
Group's share of profit of a jointly controlled entity for the year	**4,071**	3,334

23. INVENTORIES

	2011 RMB'000	2010 RMB'000
Merchandise for resale	**1,184,760**	1,203,953
Consumables	**1,624**	7,514
	1,186,384	1,211,467

24. LOAN RECEIVABLES

	2011 RMB'000	2010 RMB'000
Fixed-rate loan receivables:		
–Principal of loan receivables	**309,000**	–
–Interest receivable	**8,240**	–
	317,240	–

In August 2011, the Group entered into a cooperation agreement with a District Government for a land development project (the "Project"). According to the agreement, the Group lent RMB309,000,000 to a subordinate entity of the District Government for 6 months to finance the development of the Project. The loan is interest bearing at 6.1% per annum. In addition, the Group is entitled to receive a certain percentage of return estimated by reference to the aggregate development costs (the "Estimated Return"). The District Government also agrees to award a specified percentage of the profit resulting from the sale of the land (the "Award"), if any, to the Group upon the completion of the land auction.

24. LOAN RECEIVABLES (CONTINUED)

The effective interest of the loan receivable is estimated to be 14.1% after taking into account the effect on the Estimated Return and the impact of the Award is considered to be insignificant.

The loan receivables was further extended for 6 more months in February 2012.

25. TRADE AND OTHER RECEIVABLES

	2011 RMB'000	2010 RMB'000
Trade receivables	143,769	77,737
Prepayments to suppliers	230,248	212,158
Deductible input value added tax	399,978	327,805
Rental deposits	44,649	39,744
Other receivables	184,416	112,508
	1,003,060	769,952

Trade receivables represent receivables from supply of merchandise to franchised stores and retail sales customers. The average credit period is 30 to 60 days for receivables from supply of merchandise to franchised stores. Before accepting any new franchised store, the Group will assess the potential credit quality and define credit limits by store. All of the trade receivables are neither past due nor impaired at the end of reporting period. As at 31 December 2011, rental deposits amounted to RMB181,588,000 that are expected to be recovered after 12 months are classified as non-current asset. Rental deposits amounted to RMB62,841,000 as at 31 December 2010 has been reclassified from current assets to non-current assets. 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 end of reporting period:

	2011 RMB'000	2010 RMB'000
0-30 days	65,688	33,350
31-60 days	78,081	44,387
	143,769	77,737

26. AMOUNTS DUE FROM/TO RELATED PARTIES

	2011 RMB'000	2010 RMB'000
Amounts due from associates *(note a)*	**20,198**	74,428
Amounts due from a jointly controlled entity *(note a)*	**33,284**	67,660
Amounts due from subsidiaries of a Company's shareholder which has significant influence over the Company ("Company's Controlling Shareholder") *(note a)*	**79,236**	61,375
	132,718	203,463
Amount due to associates (note b)	**26,266**	17,748
Prepayments from subsidiaries of the Company's Controlling Shareholder	**42,238**	55,572
	68,504	73,320

Note:

(a) The amounts due from associates, a jointly controlled entity and subsidiaries of the Company's Controlling Shareholder are all 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:

	2011 RMB'000	2010 RMB'000
0-30 days	**60,472**	92,707
31-60 days	**39,708**	60,875
61-90 days	**23,656**	36,266
91-180 days	**8,882**	13,615
	132,718	203,463

Included in those trade in nature balances is an amount of RMB32,538,000 (2010: RMB49,881,000) which is past due at the end of reporting period for which the Group has not provided for impairment loss because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over this balance.

(b) The amounts due to associates are trade in nature, unsecured and non-interest bearing. The average aging is 60 days.

27. HELD-FOR-TRADING INVESTMENTS

	2011 **RMB'000**	2010 RMB'000
Listed securities-Equity securities-PRC	**4,634**	–
Investment funds quoted in the PRC	**18,958**	10,105
Total	**23,592**	10,105

The fair value of the investment funds were determined based on the quoted market bid prices provided by the issuer of the investment funds.

28. RESTRICTED BANK BALANCES AND 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 3.1% (2010: 0.36% to 2.25%) per annum.

Bank balances and cash were mainly denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is subject to control by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

Bank balances and cash that are denominated in currencies other than RMB are set out below:

	31/12/2011 **RMB** **equivalent'000**	31/12/2010 RMB equivalent'000
Hong Kong Dollar ("HK$")	**88,077**	284,291
United States dollar ("US$")	**325**	3,058

Restricted bank balances

The restricted bank balances represent deposits pledged for bill payables. As at 31 December 2011, restricted bank balances of RMB66,331,000 (2010: RMB16,000,000) carry interest at prevailing market rates at 0.36% to 0.50% (2010: 0.36%) per annum.

29. TRADE AND OTHER PAYABLES

	2011 RMB'000	2010 RMB'000
Bill payables	**155,774**	16,000
Trade payables	**2,803,483**	2,485,814
Advances from customers	**782,137**	767,303
Deposits received from lessee	**210,025**	211,976
Rent accrual	**220,797**	181,364
Other payables	**353,416**	331,344
	4,525,632	3,993,801

The following is an aged analysis of bills and trade payables at the end of reporting period:

	2011 RMB'000	2010 RMB'000
0-30 days	**1,790,932**	1,608,620
31-60 days	**615,197**	409,861
61-90 days	**349,033**	326,245
Over 90 days	**204,095**	157,088
	2,959,257	2,501,814

The average credit period on purchase of merchandises is 60 days (2010: 60 days).

30. BANK LOANS

	2011 RMB'000	2010 RMB'000
Secured	**250,000**	1,500
Unsecured	**–**	200,000
	250,000	201,500

The loans are repayable within one year and carry interests at fixed rates ranging from 5.81% to 7.54% (2010: 5.56% to 6.13%) per annum.

As at 31 December 2011, the secured bank loans of RMB250,000,000 (2010: RMB1,500,000) which are secured by the pledge of Group's leasehold land and buildings with a carrying amount of RMB224,039,000 (2010: RMB5,549,000).

31. SHARE CAPITAL

	Number of Domestic Shares '000	Number of H Shares '000	Number of Total Shares '000	Value RMB'000
Authorised, issued and fully paid:				
At 1 January 2010 *(note a)*	744,706	506,568	1,251,274	312,819
New issue of H shares *(note b)*	–	30,000	30,000	7,500
At 31 December 2010	744,706	536,568	1,281,274	320,319
Share consolidation *(note c)*	(558,530)	(402,425)	(960,955)	–
Capitalisation issue *(note c)*	558,530	402,425	960,955	960,955
At 31 December 2011	744,706	536,568	1,281,274	1,281,274

Note:

(a) 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. 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.

(b) On 12 August 2009, the Company, TPG Asia V L.P ("TPG"), Fit Sports Limited ("FS"), Legend Holdings Limited ("Legend") and its related party Hony Capital RMBI, L.P. ("Hony Capital") entered into the Investment Agreement. Under the Investment Agreement which is described above, the Company, TPG and FS entered into the H Shares Subscription. Agreement pursuant to which the Company has conditionally agreed to allot and issue to TPG and FS, and TPG and FS have conditionally agreed to subscribe for an aggregate of 100,000,000 H Subscription Shares at HK$11.00 per H Subscription Share ("H Shares Subscription"). Detailed information was set out in the Company's announcement on 12 August 2009. The approval from the China Securities Regulatory Commission, one of the conditions precedent for completion was obtained on 6 April 2010.

Due to the continuous improvements in the Company's financing channels in 2010, the Company, TPG, Wealth Retail Holdings Limited ("WR") and FS entered into the Deed of Amendment to amend the H Shares Subscription Agreement ("Deed of Amendment") on 7 May 2010. Pursuant to this agreement, TPG may avocate all of its rights and obligations set out in the H Shares Subscription Agreement to WR. WR shall subscribe for 25,000,000 H Subscription Shares and FS shall subscribe for 5,000,000 H Subscription Shares. Detailed information was set out in the Company's announcement on 7 May 2010.

The issuance of the 30,000,000 H Subscription Shares contemplated under the Deed of Amendment was completed on 3 June 2010. 25,000,000 and 5,000,000 H Subscription Shares were issued to WR and FS, respectively, by the Company for a net proceeds of RMB290,342,000 after deduction of share issue expenses of RMB1,600,000. Upon completion of the said issuance, the total number of issued shares of the Company was increased from 1,251,274,116 shares to 1,281,274,116 shares.

(c) Based on the authorization granted to the board by the shareholders at the extraordinary general meeting, H share class meeting and the domestic share class meeting, the Company implemented the share consolidation and the capitalization issue. The share consolidation and the capitalization issue became effective on 12 April 2011. On the effective date, every four existing shares with a nominal value of RMB0.25 each are consolidated into one consolidation share with a nominal value of RMB1.00 each, and the Company issued 960,955,587 capitalization shares with a nominal value of RMB1.00 each to the shareholders whose name appear on the register of members of the Company on 11 April 2011, on the basis of three capitalization shares for every one consolidation share of the same class, by way of capitalization of capital reserve in the amount of RMB960,955,587.

All new shares issued and capitalization shares rank pari passu with existing Domestic Shares and H Shares in all respects.

32. 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	Differences in tax depreciation	Fair value adjustments on business combination	Impairment provisions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	4,582	37,847	14,037	453	(2,541)	(27,120)	–	27,258
Acquired on acquisition of subsidiaries *(Note 35)*	–	–	–	–	–	(3,079)	–	(3,079)
Credited to profit or loss	–	12,005	8,285	523	(182)	1,196	–	21,827
At 31 December 2010	4,582	49,852	22,322	976	(2,723)	(29,003)	–	46,006
Credited to profit or loss	–	21,011	(3,799)	(542)	6,612	2,568	3,066	28,916
At 31 December 2011	4,582	70,863	18,523	434	3,889	(26,435)	3,066	74,922

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

	2011	2010
	RMB'000	RMB'000
Deferred tax assets	**90,026**	65,194
Deferred tax liabilities	**(15,104)**	(19,188)
	74,922	46,006

At 31 December 2011, the Group had unused tax losses of RMBRMB298,471,000 (2010: RMB203,265,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB74,094,000 (2010: RMB89,288,000) of such losses. No deferred tax asset has been recognised in respect of such losses of RMB224,377,000 (2010: RMB113,977,000) due to unpredictability of future profit stream, which will expire from the year of 2012 to 2016.

33. CAPITAL 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 2010.

The capital structure of the Group consists of net debt, which includes bank loans and equity attributable to owners of the Company, comprising issued share capital, share premium, reserves and retained profits.

The Company reviews the capital structure on a semi-annual basis. As part of this review, the Company considers the cost of capital and the risks associates with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues as well as raising of bank loans.

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2011 **RMB'000**	2010 RMB'000
Financial assets		
Fair value through profit or loss		
Held-for-trading investments	**23,592**	10,105
Loans and receivables		
(including cash and cash equivalents)		
Loan receivables	**317,240**	–
Trade receivables	**143,769**	77,737
Rental deposits-Current	**3,519**	9,075
Rental deposits-Non-current	**7,261**	–
Other receivables	**184,416**	112,508
Amounts due from related parties	**132,718**	203,463
Restricted bank balances	**66,331**	16,000
Bank balances and cash	**1,350,975**	1,133,607
	2,229,821	1,562,495
Financial liabilities		
Amortised costs		
Bill payables	**155,774**	16,000
Trade payables	**2,803,483**	2,485,814
Deposits received from lessee	**210,025**	211,976
Rent accrual	**220,797**	181,364
Other payables	**236,054**	183,551
Amounts due to related parties	**26,266**	17,748
Bank loans	**250,000**	201,500
	3,902,399	3,297,953

34. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies

The Group's major financial instruments include held-for-trading investments, loan receivables, bank loans, bank balances and cash, restricted bank balances, trade and other receivables, trade and other payables and amounts due from/to related parties. 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.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rate and interest rate risk. There has been no change to the manner in which it manages and measures the risk. Details of each type of market risks are described as follows:

Interest rate risk management

The Group's fair value interest rate risk relates primarily to loan receivables and bank loans (see notes 24 and 30 respectively for details) and the Group's cash flow interest rate risk relates primarily to floating rate bank balances (see note 28 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 due within one year period. The Group currently does not have any 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.

34. FINANCIAL INSTRUMENTS (CONTINUED)

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

Market risk (continued)

Foreign currency risk management

The Group undertakes certain financing and treasury transactions in foreign currencies, which expose the Group to foreign currency risk. The Group does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should such need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets of bank balances and cash that are subject to currency risk at the reporting date are as follows:

	Assets	
	2011	2010
	RMB'000	RMB'000
Hong Kong dollars ("HK dollar")	**88,077**	284,291
United States dollars ("US dollar")	**325**	3,058

Sensitivity analysis

The Group is mainly exposed to the risk of fluctuations in the Hong Kong dollars and United States dollars.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against HK dollar and US dollar. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation to RMB at year end for a 5% change in foreign currency rates. A positive number below indicates an increase in before-tax profit where RMB weakens 5% against the relevant currency. For a 5% strengthening of RMB against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	HK dollar		US dollar	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit or loss	**4,404**	14,215	**16**	153

34. FINANCIAL INSTRUMENTS (CONTINUED)

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

Credit risk management

As at 31 December 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

As at 31 December 2011, amount due from related parties was approximately RMB132,718,000 (2010: RMB203,463,000). 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 on amount due from related parties is significantly reduced.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings and loan receivables due from a subordinate entity of a District Government, the Group does not have any other significant concentration of credit risk.

Liquidity risk management

At 31 December 2011, the Group had net current liabilities amounting to RMB941,273,000 (2010: RMB1,030,979,000), respectively with short-term bank loans of RMB250,000,000 (2010: RMB201,500,000) 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 and bank borrowings as a significant source of liquidity. For the year ended 31 December 2011, the Group have cash generated from operating activities of approximately RMB1,233,935,000 (2010: RMB681,600,000). 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.

34. FINANCIAL INSTRUMENTS (CONTINUED)

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

Liquidity risk management (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.

	Weighted average effective interest rate %	on demand or Less than 1 month RMB'000	1-3 months RMB'000	3 months to 1 year RMB'000	1-5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at year end RMB'000
At 31 December 2011							
Non-derivative financial liabilities							
Trade and other payables		**1,237,236**	**1,889,277**	**499,620**	**–**	**3,626,133**	**3,626,133**
Amount due to related parties		**26,266**	**–**	**–**	**–**	**26,266**	**26,266**
Bank loans							
– fixed rate	**6.85**	**1,072**	**101,828**	**156,755**	**–**	**259,655**	**250,000**
		1,264,574	**1,991,105**	**656,375**	**–**	**3,912,054**	**3,902,399**
At 31 December 2010							
Non-derivative financial liabilities							
Trade and other payables		1,005,569	1,573,130	500,006	–	3,078,705	3,078,705
Amount due to related parties		17,748	–	–	–	17,748	17,748
Bank loans							
– fixed rate	5.56	–	1,519	209,353	–	210,872	201,500
		1,023,317	1,574,649	709,359	–	3,307,325	3,297,953

34. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices respectively; and

- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost at the end of the reporting period approximated their corresponding fair values.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31/12/2011 **Level 1** **RMB'000**	31/12/2010 Level 1 RMB'000
Financial assets at FVTPL		
– Held-for-trading investments	**23,592**	10,105

35. ACQUISITION OF SUBSIDIARIES

Acquisition in 2010

On 27 January 2010, Wumart Enterprise Corporation Limited("Wumart Enterprise"), a subsidiary of the Group acquired 100% of equity interest of Chia Tai Trading (Tianjin) Company Limited ("Chia Tai Trading") from C.P. Holding (BVI) Investment Company Limited ("CPH") for a consideration of RMB36,738,000. This acquisition has been accounted for using the acquisition method.

Acquisition-related costs amounting to RMB243,000 have been excluded from the consideration transferred and have been recognised as an expense in 2010, within the "administrative expenses" line item in the consolidated statement of comprehensive income.

(a) *Assets acquired and liabilities recognised at the date of acquisition:*

	Acquiree's carrying amount before combination RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Net assets acquired:			
Property, plant and equipment	77,483	–	77,483
Other intangible assets	–	12,314	12,314
Inventories	3,178	–	3,178
Trade and other receivables	6,213	–	6,213
Bank balances and cash	155	–	155
Trade and other payable	(59,526)	–	(59,526)
Deferred tax liability	–	(3,079)	(3,079)
	27,503	9,235	36,738
Total consideration satisfied by			
Cash consideration paid			36,738

(b) *Net cash outflow on acquisition*

	RMB'000
Cash consideration paid	36,738
Less: cash and cash equivalent balances acquired	(155)
	36,583

(c) *Impact of acquisition on the result of the Group*

Included in the profit for the year is loss of RMB79,610,213 generated by Chia Tai Trading. Revenue for the year includes RMB198,084,758 generated from Chia Tai Trading. If the acquisition had been completed on 1 January 2010, there would be no significant impact on total group revenue and profit for the period.

36. OPERATING LEASES

The Group as lessee

At the end of reporting period, the Group had commitments for future minimum lease payments under operating leases in respect of rented premises which fall due as follows:

	2011 RMB'000	2010 RMB'000
Within one year	**720,422**	579,402
In the second to fifth year inclusive	**2,777,505**	2,402,014
Over five years	**6,837,798**	6,590,909
	10,335,725	9,572,325

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

The Group as lessor

Operating leases relate to the stores owned or leased by the Group being rented out with lease terms ranging from six months to one year.

At the end of reporting period, the Group had contracted with tenants in respect of leasing of retail booths for the following future minimum lease payments:

	2011 RMB'000	2010 RMB'000
Within one year	**365,278**	289,276

37. CAPITAL COMMITMENTS

	2011 RMB'000	2010 RMB'000
Capital expenditure		
In respect of property, plant and equipment contracted for but not provided in the consolidated financial statements	**374,401**	113,060
Capital expenditure		
In respect of property, plant and equipment authorised but not contracted for	**258,147**	145,053

38. RELATED PARTY TRANSACTIONS

(a) Apart from the amounts due from and to related companies as disclosed in note 26, during the year, the Group had the following related party transactions:

	2011 **RMB'000**	2010 RMB'000
Sales of goods to associates	**107,976**	99,305
Sales of goods to a jointly controlled entity	**236,696**	197,365
Sales of goods to subsidiaries of the Company's Controlling Shareholder	**187,782**	151,041
Purchase of goods from associates	**97,828**	96,632
Service fee income received from subsidiaries of the Company's Controlling Shareholder in respect of merchandise delivery services	**5,633**	4,531
Service fee income received from associates and a jointly controlled entity in respect of merchandise delivery services	**5,170**	5,096
Management fee income received from subsidiaries of the Company's Controlling Shareholder	**237**	128
Rental expense paid to subsidiaries of the Company's Controlling Shareholder	**10,442**	3,655

As at 31 December 2011, the Company's Controlling Shareholder did not provide guarantee for any unsecured bank loan. (2010: provided a guarantee free of charge for an unsecured bank loan RMB200,000,000 borrowed by the Group.)

(b) **Compensation of key management personnel**

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

	2011 **RMB'000**	2010 RMB'000
Short-term benefits	**6,382**	6,509
Post-employment benefits	**588**	350
	6,970	6,859

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

39. 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		
				2011 %	2010 %	**2011** %	2010 %	
Beijing Wumart Bolante Convenience. Stores Company Limited	Beijing, PRC	Ordinary	10,000,000	**80**	80	**–**	–	Operation of mini-marts
Beijing Wumart Stores Company Limited	Beijing, PRC	Ordinary	10,000,000	**80**	80	**16**	16	Operation of superstores
Beijing Mencheng Wumart Shangcheng Company Limited	Beijing, PRC	Ordinary	1,000,000	**70**	70	**–**	–	Operation of superstore
Beijing Wumart Tongfu Commerce Company Limited	Beijing, PRC	Ordinary	1,000,000	**55**	55	**–**	–	Operation of superstore
Beijing Wumart Tianxiang Convenience Stores Company Limited	Beijing, PRC	Ordinary	1,000,000	**60**	60	**–**	–	Operation of mini-marts
Beijing Tongtang Wumart Convenience Stores Company Limited	Beijing, PRC	Ordinary	1,000,000	**100**	100	**–**	–	Operation of mini-marts
Beijing Wumart Jingxi Convenience Stores Company Limited	Beijing, PRC	Ordinary	1,000,000	**75**	75	**–**	–	Operation of mini-marts
Beijing Wumart Gulou Commerce and Trading Company Limited	Beijing, PRC	Ordinary	10,000,000	**65**	65	**–**	–	Operation of superstores
Beijing Wumart Convenience Stores Company Limited	Beijing, PRC	Ordinary	50,000,000	**80**	80	**–**	–	Operation of mini-marts
Beijing Jiahe Wumart Commerce Company Limited	Beijing, PRC	Ordinary	10,000,000	**80**	80	**14.4**	14.4	Operation of superstores
Tianjin Wumart WeiLai Commercial Development Company Limited	Tianjin, PRC	Ordinary	100,000,000	**99.80**	99.80	**0.19**	0.19	Operation of superstores
Chia Tai Trading (Tianjin) Company Limited	Cayman Islands	Ordinary	197,855,900.00	**100**	100	**–**	–	Operation of Superstores
Tianjin Lotus Supermarket Chain Co., Limited	Tianjin, PRC	Ordinary	97,639,384	**–**	–	**100**	100	Operation of superstores
Baoding Wumart Stores Company Limited	Beijing, PRC	Ordinary	1,000,000	**80**	80	**19.2**	19.2	Operation of superstores
Beijing Wumart Hypermarket Commercial	Beijing, PRC	Ordinary	10,000,000	**95**	95	**4.8**	4.8	Operation of superstores
Beijing Wumart Jingbei Dashijie Commercial and Trading Company Limited	Beijing, PRC	Ordinary	20,000,000	**95**	95	**4.8**	4.8	Operation of superstores
Beijing Wumart Distribution Technology Company Limited	Beijing, PRC	Ordinary	8,000,000	**80**	80	**20**	20	Operation of superstores

39. SUBSIDIARIES (CONTINUED)

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		
				2011 %	2010 %	**2011 %**	2010 %	
Beijing Wumart Home Appliance Company Limited	Beijing, PRC	Ordinary	20,000,000	**100**	100	**-**	–	Operation of home appliance wholesales
Beijing Merrymart Chain stores Development Company Limited	Beijing, PRC	Ordinary	52,480,000	**100**	100	**-**	–	Operation of superstores
Hangzhou Tiantian Wumart Commerce Company Limited	Zhejiang, PRC	Ordinary	50,000,000	**100**	100	**-**	–	Operation of superstores
Zhejiang Gongxiao Supermarket Company Limited	Zhejiang, PRC	Ordinary	21,000,000	**-**	–	**54.09**	54.09	Operation of mini-marts
Huzhou Laodafang Supermarket Company Limited *(note i)*	Zhejiang, PRC	Ordinary	5,000,000	**-**	–	**27.59**	27.59	Operation of mini-marts
Wumart Jialian (Hangzhou) Commerce Company Limited	Zhejiang, PRC	Ordinary	68,269,000	**-**	–	**100**	100	Operation of superstores
Wumart Jiacheng (Hangzhou) Commerce Company Limited	Zhejiang, PRC	Ordinary	68,272,000	**-**	–	**100**	100	Operation of superstores

Note (i): Zhejiang Gongxiao Supermarket Company Limited, a subsidiary of the Group hold 51% equity and voting power of Huzhou Laodafang Supermarket Company Limited.

40. FINANCIAL INFORMATION OF THE COMPANY

Financial information of the Company at the end of the reporting period includes:

	2011 **RMB'000**	2010 RMB'000
Non-current Assets		
Property, plant and equipment	**329,104**	313,340
Rental deposits	**50,981**	35,445
Investments in subsidiaries	**2,279,596**	2,215,382
Investment in associates	**95,824**	103,189
Investment in a jointly controlled entity	**100,000**	100,000
Deferred tax assets	**11,512**	5,955
	2,867,017	2,773,311
Current Assets		
Inventories	**197,312**	236,798
Loan receivables	**317,240**	–
Trade and other receivables	**307,841**	205,879
Amounts due from related parties	**43,094**	84,269
Amounts due from subsidiaries	**3,102,339**	1,698,322
Prepaid lease payments	**–**	4,472
Held-for-trading investments	**14,479**	10,105
Restricted bank balances	**66,006**	16,000
Bank balances and cash	**510,681**	295,470
	4,558,992	2,551,315
Current Liabilities		
Trade and other payables	**1,411,763**	862,237
Amounts due to related parties	**28,177**	17,065
Amounts due to subsidiaries	**3,188,557**	1,626,387
Tax liabilities	**78,727**	70,857
Bank loans	**250,000**	200,000
	4,957,224	2,776,546
Net Current Liabilities	**(398,232)**	(225,231)
Total assets less Current Liabilities	**2,468,785**	2,548,080
Capital and Reserves		
Share capital	**1,281,274**	320,319
Share premium and reserves	**1,187,511**	2,227,761
Total equity	**2,468,785**	2,548,080

Financial Summary

	For the year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Revenue from sales of goods	**14,562,642**	12,571,524	10,511,410	8,759,263	7,118,755
Cost of sales	**(13,243,768)**	(11,446,293)	(9,580,791)	(7,987,333)	(6,580,967)
Gross profit	**1,318,874**	1,125,231	930,619	771,930	537,788
Other revenues	**1,833,003**	1,675,357	1,270,599	990,527	747,050
Investment and other income	**228,148**	143,568	94,306	253,061	121,901
Distribution and selling expenses	**(2,104,200)**	(1,839,130)	(1,369,093)	(1,003,014)	(754,420)
Administrative expenses	**(322,843)**	(314,470)	(252,078)	(272,873)	(219,065)
Other losses	**(68,236)**	(9,175)	–	–	–
Impairment losses recognised in respect of assets	**(14,648)**	–	–	–	–
Share of profit of associates	**5,353**	7,061	5,072	27,731	43,332
Share of profit (loss) of a jointly controlled entity	**4,071**	3,334	610	25	(2,426)
Finance costs	**(15,941)**	(14,527)	(32,473)	(20,406)	(16,589)
Profit before tax	**863,581**	777,249	647,562	746,981	457,571
Income tax expense	**(245,071)**	(217,712)	(156,202)	(190,013)	(131,992)
Profit for the year	**618,510**	559,537	491,360	556,968	325,579
Attributable to:					
Owners of the Company	**586,041**	529,837	437,764	490,343	300,078
Non-controlling interests	**32,469**	29,700	53,596	66,625	25,501
	618,510	559,537	491,360	556,968	325,579
Earnings per share – Basic (RMB yuan per share)	**0.46**	0.42	0.36	0.40	0.25

	As at 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	**8,439,080**	7,448,710	6,411,690	6,366,034	4,697,768
Total liabilities	**(5,094,084)**	(4,453,180)	(4,030,910)	(3,729,204)	(2,467,209)
	3,344,996	2,995,530	2,380,780	2,636,830	2,230,559
Equity attributable to Owners of the Company	**3,186,997**	2,857,211	2,262,163	2,442,214	2,110,205
Non-controlling interests	**157,999**	138,319	118,617	194,616	120,354
	3,344,996	2,995,530	2,380,780	2,636,830	2,230,559