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 2013

## Corporate Vision

**A dream we share — a dream of establishing an everlasting retail chain that people love patronizing, and that mingles with their daily lives — Wumart, thereby to provide the public with satisfying products and service and dedicate our wisdom and power to the pursuit of developing modern circulation industry and improving the life quality of the public.**

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# Company Information

## BOARD OF DIRECTORS

### Executive Directors

Madam Xu Ying *(President)*
Mr. Xu Shao-chuan
*(Senior Vice President)*
Dr. Yu Jian-bo
*(Senior Vice President)*

### Independent Non-executive Directors

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

### Non-executive Directors

Dr. Meng Jin-xian *(Chairman)*
Dr. Wu Jian-zhong
Mr. John Huan Zhao
Madam Ma Xue-zheng

## SUPERVISORY COMMITTEE

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

## SENIOR MANAGEMENT

Mr. Chong Xiao-bing
*(Vice President)*
Mr. Wu Du-qing
*(Vice President)*
Mr. Zhang Yu
*(Executive Director of Finance Department)*
Mr. Guo Tu-wei
*(Director of Data Management Centre and Director of Assets Management Department)*

## JOINT COMPANY SECRETARY

Madam Wang Yi
Dr. Liu Wei

## 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

## AUTHORIZED REPRESENTATIVES

Madam Xu Ying
Madam Wang Yi

## 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 Bank
Beijing Rural Commercial Bank

## 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
The PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

## WEBSITE

www.wumart.com

## STOCK CODE

1025

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# Chairman's Statement

TO PROVIDE AFFORDABLE GOODS OF PREMIUM QUALITY TO THE GENERAL PUBLIC

TO CREATE WEALTH AND VALUE FOR SHAREHOLDERS


Dear Shareholders,

On behalf of the Board, I am presenting to you the results of operations of Wumart Stores, Inc. (the “Company”) and its subsidiaries (collectively the “Group”) for the year 2013 (the “Reporting Period”).

In 2013, the Group carried on with its persistent implementation of the national expansion strategy with regional prioritization, opening 54 new stores in Beijing, Tianjin, Hebei and Zhejiang markets, comprising 17 superstores and 37 mini-marts. The Group achieved a total revenue of approximately RMB18,886,306,000, an increase of 9.0% over the corresponding period in 2012, which also represented comparable store sales growth of 3.0%. Consolidated gross profit amounted to approximately RMB3,796,975,000, an increase of 12.1% over the corresponding period in 2012. Net profit attributable to owners of the Group amounted to RMB459,031,000.

In 2013, aiming at the goal of "summing up experience in reform of approaches, conducting in-depth study of retail technology, strengthening basic management for operations, enhancing capability of merchandise procurement, stringently controlling costs, adhering to strict standards, establishing a first-class team, pursuing outstanding results", the Group commenced working around the key projects including "strengthening the leading position in fresh products, improving procurement system, operational standardization, reforming sales and marketing, enhancing category and space management, standardization of leasing, enhancing logistics system, improving the system of training and human resources management and stepping up checking and examination".

**Strengthening the leading position in fresh products.** On 1 April 2013, the fresh business unit of the Group was established, achieving integration among functional departments of procurement, operation, marketing and distribution of fresh merchandises. With such a unit, communication has become smoother and work processes can be more seamlessly integrated to achieve overall enhancement in efficiency. By means of the reforms in its procurement approach and distribution approach, the upgrades in its operational standards and precise execution, as well as innovative marketing initiatives, the Group achieved double-digit growth in its same store sales and consolidated gross profit of fresh merchandises during the Reporting Period.

**Improving procurement system.** It is a core value for a retailer to establish merchandise marketability for its operations. A goal for procurement is to provide new and appealing merchandises of good quality and low prices to the customers in a highly efficient manner, and create greater value for the corporation while serving customers. During the Reporting Period, the Group initiated reforms in its procurement approach with respect of organizational structure, approach to introducing suppliers, supplier mix, and work responsibilities of procurement staff members etc. Intermediate linkages were streamlined so that sourcing prices and in turn selling prices were lowered for the benefit of the general public.

**Operational standardization.** Aiming to create comfortable shopping environment, ensure customer satisfaction with respect to services offered at our stores, and ensure stores' satisfaction with respect to services offered by the headquarters, the Group took a microscopic perspective to focus on basic operational work and foster ongoing improvement to its operational standardization and also step up checking and examination, thereby boosting its management level and enhancing management efficiency.

**Reforming sales and marketing.** During the Reporting Period, the Group conducted comprehensive amendments to commercial circles of stores, enhanced the success rate of mailing of promotional posters and the penetration to members within commercial circles. The all-rounded enhancement of member activities demonstrated the worthiness of the membership as well as the value of their redemption points. Sales to members accounted for approximately 67%, an increase from approximately 50% recorded for 2012. The ongoing innovations made to our marketing activities have aroused customers' interest in participation, and in turn driven up the number of customers and thus sales.

**Enhancing category and space management.** Category and space management was enhanced in order to cater to customer needs. Based on the thoroughly analysis of the Group as well as the market as a whole, the Group decided on the merchandise mix and eliminated low-performance items while keeping those sold well, so that precious display resources were reserved only for those merchandises that offered the best efficiency. Through the centralized management of promotional displays, the Group laid a solid foundation for establishing merchandises' competitive edge, optimizing inventory management, enhancing the operational efficiency of supply chain, simplifying operations of stores, and lowering costs of operations.

**Standardization of leasing.** During the Reporting Period, the Group strengthened the standardization of its leasing in five areas, namely store layout planning, category, brand, efficiency per unit of floor area and basic ground work. This has raised the image of the Group's stores as a whole, posting a growth in rental income of approximately 19.7% over the corresponding period of 2012.

**Enhancing logistics system.** Aiming at establishing a logistics system which is "transparent, precise, highly efficient and multi-model-based", the Group continued to make adjustments to its supply chain business model, operation model, organizational model, incentive model etc, and continued with its upgrade of supplier services and store services. The enhanced supply chain efficiency has translated to the Group's 34.1% growth in its distribution fee income during the Reporting Period, and ensured the sources of opportune products, promotional products and daily necessity products and lowered the out-of-stock rate of stores. They saved the precious space resources of stores, lessened their workload, reduced dissipation, extended the radius of distribution, thereby effectively supporting the Group's development in the Greater Beijing region.

**Improving the system of training and human resources management.** During the Reporting Period, the Group set up its three-tier training system comprising "Development Institute" — "Training Stores" — "Stores", formulating different training and assessment schemes which targeted different groups including those under the "Hundred-people Scheme", management trainees, technicians and newly-admitted managers. By means of face-to-face interactions in groups, online courses, and mentoring programs, approximately 100,000 participants including full-time and part-time staff members and promotional staff members had been trained. The Group's human resources management system has been optimized, covering recruitment, formation of a reserve pool of high-calibre people, performance appraisal and mechanism of supervision and incentives. The Group implemented a Share Incentive Scheme for the first time. Despite the trend of the rigid growth of per-unit staff costs, the Group's efforts in raising labour efficiency, scientific deployment of manpower, and the use of a combination of staff members who work on different modes, has effectively controlled the Group's overall staff costs.

**Stepping up checking and examination.** During the Reporting Period, the Group arranged self-examination of stores, consolidated inspections and specific inspections on a weekly basis to assess and examine thousands of specific work items according to pre-determined standards. Rewards and penalties would be given promptly based on the result as such. With persistent dedications and efforts, stores possessed increasingly stronger execution capability and rising grades in their assessments. Customer satisfaction as to store layout, shopping environment, service quality, etc. was on a rising track, whereas the scores under the mystery shoppers scheme were also going up month after month.

# Chairman's Statement



Year 2013 marked the Group's tenth anniversary since its listing on the Hong Kong Stock Exchange, and a year in which we made even more strenuous efforts than we had in the past. Despite a GDP growth of 7.7%, which was comparable to Year 2012, and China's aggregate retail sales of consumption goods growing by 11.5%, staff costs, rental rates and utility expenses soared at a much faster pace. Competition has been keen among physical businesses of the retail industry which were still in emerging stage, and also between e-commerce businesses which were swiftly taking share of the market and physical businesses of the retail industry. With greater pressure and faster pace, we were also starting to feel the stress. However, we should be grateful to competition, as fierce competition was where we were pushed to undergo our series of innovative measures and rapidly achieve the reform in the operations approach of fresh food products, logistics business model, reform in operations model, and reform in procurement approach, which have all been proven to be right choices that we have made. This is exactly because of such fierce competition that we have conducted such thorough research into our merchandises, that we have refined our management, that we have responded so promptly, and that we have delivered our stronger executive capability.

In 2014, China will maintain its trend of stable and sound economic growth, and consumption will continue to play a pivotal role in that regard. The trend of rigid growth of various costs and expenses is not expected to be alleviated. All retailers will continue to face challenges, whilst those retailers which have formed their core competitive strengths will see enormous opportunities.

Adhering to its persistent implementation of the national expansion strategy with regional prioritization, the Group will maintain its pace of growth and continue to expand its market share. It will consolidate its existing advantage in such areas as information system, budget management, performance appraisal, and at the same time the Group will endeavour to replicate the success stories in fresh food items to grocery and general merchandises to enhance the competitiveness of merchandises in full scale, and select merchandises of good quality and low prices for the customers. It will also optimize its distribution system, strengthen inventory management, and expedite the turnover rate of merchandises. The Group will persistently strengthen its basic operation management, and bring the best of its merchandises, services and shopping environment to the customers. Through new and appropriate promotional activities, the Group will recommend merchandises to its customers.

New and appealing merchandises which are of good quality and low prices, plus comfortable shopping environment and caring services, will drive up customer satisfaction and loyalty, and in turn contribute to the Group's growth in sales and gross profit. Planned, timely, accurate and precise management will raise the Group's overall operation efficiency, and add to better control over costs. Network resources which have been identified, together with a good system of hiring, reserve, training and assessment, will secure sustainable development for the Group.

In 2014, we will strive to enhance the marketability of our merchandises as well as the enhancement of our food safety assurance system. Efforts will be made in enhancing food inspection equipment, increasing the number of quality supervisory staff members and reinforcing our effective mechanism for quality control. Notwithstanding the furtherance of cost pressure under such measures, the Group will continue to see food safety assurance as the most important mission of the Group for Year 2014. Our stores will be renovated to cater to customer satisfaction. We will strive to implement our integrated, streamlined, standardized and systematic management, and create a headquarters which is well-acclaimed from the perspective of stores. We will also strive to optimize our incentive mechanism riding on the enhancement of staff efficiency and control over general staff costs, to provide more training opportunities and build an enterprise which is satisfactory from the employees' perspective. It will also strive to provide an open platform of operation that makes available a level-playing field for a win-win situation for and to the satisfaction of suppliers. It will also strive to stringently control over product quality and food safety, participate in charitable deeds, and create a brand which lives up to the satisfaction of society.

**Dr. Meng Jin-xian**
*Chairman*

11 March 2014

SUMMING UP EXPERIENCE IN REFORM OF APPROACHES

CONDUCTING IN-DEPTH STUDY OF RETAIL TECHNOLOGY

STRENGTHENING BASIC MANAGEMENT FOR OPERATIONS

ENHANCING CAPABILITY OF MERCHANDISE PROCUREMENT



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# Management Discussion and Analysis

CREATE A TOP-NOTCH TEAM
PURSUE OUTSTANDING RESULTS

## FINANCIAL REVIEW

### Five-Year Financial Summary

| RMB'000 | **2013** | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| **Annual results:** | | | | | |
| Total revenue *Note 1* | **18,886,306** | 17,334,077 | 16,395,645 | 14,246,881 | 11,782,009 |
| Consolidated gross profit *Note 2* | **3,796,975** | 3,386,124 | 3,151,877 | 2,800,588 | 2,201,218 |
| Consolidated gross profit margin *Note 3* | **20.10%** | 19.50% | 19.20% | 19.70% | 18.70% |
| Net profit | **459,031** | 601,706 | 586,041 | 529,837 | 437,764 |
| Net profit margin | **2.40%** | 3.50% | 3.60% | 3.70% | 3.70% |
| Earnings per share (RMB) | **0.36** | 0.47 | 0.46 | 0.42 | 0.36 |
| Dividend per share (RMB) | **0.25** | 0.21 | 0.20 | 0.20 | 0.18 |
| **As at 31 December** | | | | | |
| Total assets | **11,419,724** | 10,067,317 | 8,439,080 | 7,448,710 | 6,411,690 |
| Total liabilities | **7,526,753** | 6,355,427 | 5,094,084 | 4,453,180 | 4,030,910 |
| Minority interests | **185,807** | 180,279 | 157,999 | 138,319 | 118,617 |
| Equity attributable to owners of the Company | **3,707,164** | 3,531,611 | 3,186,997 | 2,857,211 | 2,262,163 |
| **Major financial indicators:** | | | | | |
| Return on net assets | **12.7%** | 17.90% | 19.40% | 20.70% | 18.60% |
| Gearing ratio *Note 4* | **14.9%** | 14.10% | 7.50% | 6.70% | 19.20% |
| Trade payable turnover | **79 days** | 77 days | 73 days | 73 days | 77 days |
| Inventory turnover | **31 days** | 31 days | 33 days | 33 days | 30 days |
| Net cashflow from operating activities | **1,481,458** | 1,694,019 | 1,233,935 | 681,600 | 1,105,246 |

*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 borrowings and total equity of the Group at the end of the Reporting Period.

### Total Revenue

For the 12 months ended 31 December 2013 (the "Reporting Period"), the Group recorded a total revenue of approximately RMB18,886,306,000 which grew by 9.0% compared to RMB17,334,077,000 of 2012. The growth in total revenue was attributable to:

(1) Total revenue growth driven by newly opened stores;

(2) The rental income has increased due to the enhancement of the standardization in premises leasing for stores, the renovated store image, as well as the increase in leasing area resulting from the new openings of stores;

(3) For the Reporting Period, comparable store sales growth was approximately 3.0%.

### Consolidated Gross Profit and Consolidated Gross Profit Margin

During the Reporting Period, the Group's consolidated gross profit amounted to RMB3,796,975,000, representing a growth of 12.1% compared to RMB3,386,124,000 of 2012. The Group's consolidated gross profit margin was 20.1%, growing from 19.5% in 2012. The increase in consolidated gross profit margin was mainly attributable to the increase in gross profit margin of fresh items and the increase in rental income.

### Distribution and Selling Expenses

For the Reporting Period, the Group recorded an aggregate distribution and selling expenses (which primarily comprises staff costs and operating expenses) of RMB2,858,417,000, representing a growth of 19.4% as compared to RMB2,394,258,000 of 2012 and accounting for 15.1% of the total revenue, which was 1.3 percentage points above 13.8% recorded for the same period in 2012. The proportional increase was caused by:

(1) The fast increase in rental expenses of the Group as a result of the increase in the number of stores under newly signed leases as well as the increase in rental rates of stores in respect of new openings of stores and rental renewals;

(2) The fast increase in staff costs as a result of the ongoing increase in human resources costs and the increase in staff number due to new store openings and the transforming of fresh operation from consignment to direct operation;

(3) Increase in the per-unit cost of utility expenses including electricity and heating.

### Administrative Expenses

During the Reporting Period, the Group recorded administrative expenses (primarily comprising headquarters expenses of the Group) of RMB508,901,000, growing by 31.1% from RMB388,152,000 recorded for the same period in 2012, and accounting for 2.7% of the total revenue, which was 0.5 percentage points above 2.2% recorded for 2012. It was primarily caused by the rigid growth in staff costs and the increase in headcount as a result of the Group's preparation for talents by actively sourcing mid- to senior- level management as well as management trainees.

### Finance Costs

For the Reporting Period, finance costs of the Group amounted to approximately RMB28,788,000, representing an increase of 5.4% compared to RMB27,312,000 for the same period in 2012. The increase in finance costs was due to the increase in the scale of borrowings by RMB60,000,000.

### Profit before tax and profit attributable to owners of the Group

During the Reporting Period, the Group's profit before tax amounted to RMB716,347,000, a decrease of 17.2% compared to RMB865,405,000 for the same period in 2012. Profit attributable to owners of the Group amounted to RMB459,031,000, a decrease of 23.7% compared to RMB601,706,000 for the same period in 2012. The decrease in profit was attributable to the following major factors:

(1) The extended initial incubation period for new stores;

(2) The loss on one-off disposal of assets resulting from closure of certain stores;

(3) The pace of rising staff cost exceeded the sales growth;

(4) The expedited increase in rental rates under the adjustments on straight-line basis due to the increase in both the number of new stores and the higher rental rates for new stores.

### Liquidity and Financial Resources

During the Reporting Period, net cashflow generated from operating activities amounted to RMB1,481,458,000, representing a decrease of 12.5% compared to RMB1,694,019,000 of 2012. As at 31 December 2013, the Group's cash and bank balances amounted to RMB2,269,912,000.

As at 31 December 2013, the Group's total equity was approximately RMB3,892,971,000 with a gearing ratio, which is defined as the ratio between total borrowings and total equity of the Group at the end of Reporting Period, of 14.9% (31 December 2012: 14.1%).

As at 31 December 2013, the Group recorded current assets of approximately RMB5,821,309,000, which mainly comprised cash and bank balances of approximately RMB2,269,912,000, inventories of approximately RMB1,460,422,000 and trade and other receivables of approximately RMB1,271,742,000.

As at 31 December 2013, the Group had non-current assets of approximately RMB5,598,415,000, which mainly included property, plant and equipment of approximately RMB3,621,250,000, goodwill of approximately RMB844,964,000, deposit paid of approximately RMB255,445,000, loan receivables of RMB166,500,000, rental deposits of approximately RMB164,073,000 and prepaid lease payments of approximately RMB107,252,000.

As at 31 December 2013, the Group recorded net current liabilities of approximately RMB1,632,656,000 and current liabilities of approximately RMB7,453,965,000, mainly comprising trade and other payables of approximately RMB6,724,461,000, short term debenture payable of RMB521,863,000 and tax payable of approximately RMB190,268,000.

During the Reporting Period, the average trade payable turnover of the Group was 79 days (2012: 77 days), and inventory turnover was 31 days (2012: 31 days).

### Capital Structure

The Group's borrowings, cash and cash equivalents were mainly denominated in RMB. As at 31 December 2013, the principal and interest of the short term debenture payable amounted to RMB521,863,000 in total which was settled in January 2014 and carrying interests at fixed rate of 4.77% per annum, which was lower than bank lending rate prevailing in the same period. Entrusted loans payable to associates amounted to RMB60,000,000, which is repayable within three years and carrying interests at fixed rate of 5% per annum.

### Distributable Reserve

The distributable reserve of the Group as at 31 December 2013 amounted to approximately RMB2,030,407,000 (2012: RMB1,876,263,000).

### Pledge of Assets

As at 31 December 2013, leasehold land and buildings with a carrying amount of approximately RMB211,655,000 (2012: RMB217,847,000) have been pledged to secure general banking facilities granted to the Group.

### Substantial Acquisition and Disposal

During the Reporting Period, the Group had no substantial acquisition or disposal in respect of subsidiaries or associates.

### Contingent Liability

As at 31 December 2013, the Group had no significant contingent liability.

### Future Investment Plans

As at 31 December 2013, 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 and 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 cash dividend of RMB0.25 (before tax) per share for the year ended 31 December 2013 to shareholders subject to approval by shareholders at the 2013 annual general meeting (the "AGM").

The last date for registration of shareholding and the book close period in respect of the eligibility of Shareholders to attend the AGM and their entitlement to the final dividend for the year ended 31 December 2013 will be announced separately upon fixing the date on which the AGM is to be held.

## BUSINESS REVIEW

### Expanding retail network

The Group carried on with its business expansion in Beijing, Tianjin, Hebei and Zhejiang markets under its persistent implementation of national expansion strategy with regional prioritization during the Reporting Period. As at 31 December 2013, we had a retail network of 547 stores (31 December 2012: 538 stores) comprising 155 superstores and 392 mini-marts, which were either directly operated or operated and managed through franchise agreements and management agreements entered into by the Group, its associates (other than Beijing Chao Shifa Company Limited ("Chao Shifa")) and a joint venture. The Group's retail network occupied an aggregate saleable area of 818,786 square metres (31 December 2012: 747,638 square metres), excluding saleable area of stores operated by associates and under franchise.

During the Reporting Period, 17 directly-owned new superstores were opened, comprising 9 in Beijing, 4 in Tianjin, 1 in Hebei and 3 in Zhejiang, while 4 were closed down due to demolition and relocation, redevelopment of properties or expiry of contract, comprising 3 in Beijing and 1 in Tianjin. 1 mini-mart in Beijing was re-designated as a superstore. For mini-marts, 37 directly-owned new stores were opened, comprising 23 in Beijing and 14 in Zhejiang, while 21 were closed down due to demolition and relocation or expiry of lease, comprising 10 in Beijing, 11 in Zhejiang. For franchised stores, 7 new stores were opened while 24 were closed down. The cooperation with 3 managed mini-marts was terminated.

Stores operated and managed by the Group, its associates and a joint venture (except the stores of Chao Shifa) as at 31 December 2013 were as follows:

| | Number of Superstores | Number of Mini-marts | Total | Distribution |
|---|---|---|---|---|
| Directly-owned | 152 | 297 | 449 | Beijing, Tianjin, Hebei, Zhejiang |
| Franchised | — | 63 | 63 | Zhejiang |
| Managed | 3 | 32 | 35 | Tianjin, Shanghai |
| **Total** | **155** | **392** | **547** | |

*Note:* Mini-marts comprise Everyday Shops and convenience stores

### Establishing a fresh business unit and achieving core competence of fresh products

On the basis of the Group's reforms of procurement approach of the "direct purchase from production bases + wholesale market opportune products + branded consignment operation" and reforms of operations approach from consignment to direct operation approach which commenced in Year 2012 in the fruits and vegetables categories, which generated more than 20% increase in sales and consolidated gross profit, the Group further highlighted its leading position in fresh products during the Reporting Period and replicated the success stories in fruits, vegetables and dried items categories to meat and seafood categories and underwent its exploration with a focus on introducing branded operators in the Group's cooked food and bakery categories.

On 1 April 2013, the fresh business unit was established, achieving integration among functional departments of procurement, operation, marketing and distribution of fresh merchandises. With such a unit, communication has become smoother and work processes can be more seamlessly integrated to achieve overall enhancement in efficiency. With the common goal of raising the marketability of merchandises and providing fresh merchandises of good quality and low prices to customers, different departments kept their efforts in the exploration, enhancement, summing up and innovation on their journey to achieving simplicity and standardization. In terms of merchandises, with the ongoing accumulation of experience and summing up, the Group has grasped the regularity for different merchandises in different seasons and festivals and prepared in advance for plans of procurement, ordering, distribution, sales and marketing, achieving doubly successful results. For procurement, the procurement team explored the multitude of procurement channels and attended the production bases instead of staying back in office to find out special merchandises of renowned places of origin, from Heilongjiang to Hainan and from Ningxia to Shandong, thereby achieving direct purchase, from production bases, of daily food products such as rice, eggs, watermelons, cabbages and apples, and of specialty merchandises such as lychee, papaya and yellow croaker. They also attended the wholesale market to look for replenishments for key merchandises of production bases. They negotiated with branded operators to introduce old as well as new brands of trustworthy reputation including "No. 1 Tuzhu", "Dole", "Yue Sheng Zhai" and "Dao Xiang Cun". During the Reporting Period, categories including vegetables, meat and fruits underwent large-scale change from consignment to direct operation approach, following which the sales amount of fresh items under direct operation accounted for nearly 70%, an increase from less than 50% previously, thereby substantially


boosting the Group's control over its merchandises and uplifting the consolidated gross profit margin of the Group. For operations, the renovated and standardized of display, training on and checking of operational processes of selling merchandises, shortened distribution time, upgraded distribution technology for cold chain and seafood which contributed to a lower shrinkage rate, have maintained the Group at an industry-leading position. For sales and marketing, to better cater to customer needs, in addition to providing merchandises of good quality and low prices, the fresh business unit also underwent a series of innovative marketing activities.

By means of the reforms in its procurement and distribution approaches, the upgrades in its operational standards and precise execution, as well as innovative sales initiatives, the Group achieved double-digit growth in its sales and consolidated gross profit of fresh merchandises during the Reporting Period, with its Greater Beijing region (including Beijing, Tianjin and Hebei) attaining comparable growth of 14.3% in sales and 17.9% in consolidated gross profit, and Hangzhou region attaining comparable growth of 13.7% in sales and 27.6% in consolidated gross profit of fresh merchandises.

**Embarking upon reforms of procurement approach, laying a solid foundation for uplifting competitiveness of merchandizing**

During the Reporting Period, the Group embarked upon reforms of its procurement approach, covering organizational structure, approach to introducing suppliers, supplier mix, and work duties of procurement staff etc. In line with its increasing scale of sales and its increasingly detailed management, the Group adopted more precise categorization of items. The practice of signing annual procurement contracts in a fair and open manner was widely supported by suppliers. The transparent and fair process of merchandise procurement has ensured the reasonable allocation of display resources which have been committed with the suppliers. Selling prices were thereby lowered to benefit consumers. The reform in procurement approach will continue to be intensified and enhanced in Year 2014. Through data analysis with respect to the Group and the market, only the most suitable items would be maintained while slow moving ones would be eliminated, thereby reducing the number of items and in turn raising efficiency of individual

items. At the end of 2013, through the open-market business invitation in respect of operation right and promotional displays, a platform of operation that makes available a level-playing field for a win-win situation for suppliers was created, and more comprehensive cooperation with suppliers was commenced in terms of category deployment, inventory management, sales and market planning, first launch of new products, staff training etc. In addition, the hierarchical structure has been compressed, thereby lowering procurement costs, reducing selling prices, more precisely selecting merchandises of good quality and low prices for customers, raising competitiveness of products and catering to and in turn creating customer needs and demand.

**Constructing a "transparent supply chain", upgrading services, achieving added values and raising efficiency**

During the Reporting Period, with the support of the EWM warehouse management system and the GPRS positioning system, the Company constructed its "transparent supply chain" which enabled appointment in advance for the distribution of merchandises by suppliers to distribution centres and by distribution centres to stores. Under this structure, suppliers, distribution centres and stores had real-time access to the locations of transportation vehicles, enabling reasonable planning and arrangements at various segments of the supply chain, providing for close connection and raising the overall efficiency.

Process optimization, streamlining of operational standards, ongoing training and stringent examination contributed to the goal of "upgrading services, achieving added values and raising efficiency". With the enhanced accuracy of appointments, work processes and timeliness of work processes, suppliers and stores became increasingly more satisfied with the supply chain services provided. Regarding the distribution centres, value-added services were in place whereby transportation vehicles would, in their return trips, attend suppliers' warehouses for picking up supplies, helping suppliers in their unloading and sorting according to store orders, thereby raising the efficiency of supply chain and at the same time generating more revenue for the Group. Efficiency increased by 12.5% as compared to Year 2012, boosting the overall throughput of the distribution centres. In Beijing, constant-temperature warehouses achieved a maximum incoming load of 600,000 boxes per day and a maximum outgoing load of 500,000 boxes per day; warehouses of fruits and vegetables achieved a maximum daily outgoing load of 1,200 tons; and cold storages achieved a maximum daily outgoing volume of 270 tons in their distribution of meat and seafood products.

The enhanced supply chain efficiency secured the sources of opportune products, promotional products and daily necessity products and lowered the out-of-stock rate of stores. They saved the precious space resources of stores, lessened their workload, reduced dissipation, extended the radius of distribution, thereby effectively supporting the Group's development in the Greater Beijing region.

**Enhancing the level of standard of our operation and stepping up efforts in inspection, resulting in rising customer satisfaction month after month**

During the Reporting Period, the Group further formulated and uplifted the level of standards of its operation in terms of store display, cleanliness and hygiene, store display, inventory management, customer service etc. It conducted in-depth study of the regularity of merchandises and formulated the time for launching, display standards, pricing strategies, and method of sale according to the characteristics of different merchandises, thereby maximizing the merchandises' appeals in their different stages of life cycle for drawing in the number of customers, uplifting transaction amount per customer or raising gross profit. The Group's strategic cooperation with Starbucks, Daphne, Pizza Hut and Ajisen Ramen raised the brand image of the leasing area. Cashier efficiency was enhanced through organizing a cashier contest, putting in place a scheme under which all staff members shall participate in supporting cashier service. Service hotlines, official *weibo*, mobile phone applications and so forth were in place to enable interaction and enhance communication with customers.

During the Reporting Period, the Group arranged repeated training and assessment in respect of operational standards and work processes of each post. Self-examination of stores, consolidated inspections, specific inspections etc. were conducted weekly to assess and examine thousands of specific work items according to pre-determined standards. Rewards and penalties would be given promptly based on the result as such. With persistent dedications and efforts, stores possessed increasingly stronger execution capability and rising grades in their assessments. Customer satisfaction as to store layout, shopping environment, service quality etc. was on a rising track, whereas the scores under the mystery shopping scheme were also going up month after month.

**Membership and Marketing activities**

During the Reporting Period, the Group strengthened its management of sales and marketing to its members. Through optimizing its member management system, the Group achieved the functions including shared use of membership card with Merrymart, bundling of mobile phone numbers with membership cards, management of member status, and saving of remaining values of membership cards. The comprehensive amendments to commercial circles of stores enhanced the success rate of mailing of promotional posters and the penetration to members within commercial circles. The all-rounded enhancement of member activities, enhanced member offers and monthly redemption for members' benefits demonstrated to customers the worthiness of their membership as well as the value of their redemption points. Sales to members accounted for approximately 67%, an increase from approximately 50% recorded for last year.

During the Reporting Period, the Group continued to innovate upon its sales and marketing activities. Campaigns including "Prices to beat those three years ago", "Save 20 *yuan* for every 100 *yuan*", "redemption of bonus points", "100 points for 100 yuan coupon", "wine culture festival", "discounted brand apparel" etc. received strong responses from the market and drove up the number of customers and sales amount.

**Optimization of information system and technological innovation**

During the Reporting Period, the Group continued to maintain its leading position in information system and technology, by undergoing a series of development, optimization and innovation:

The Group implemented the SAP-EWM (SAP Extend Warehouse Management) project, achieving the seamless integration of professional logistics equipment including transmission lines, sorting machines, electronic labelling and hand-held mobile terminals, as well as the highly-efficient synergy achieved between warehouse operations and vehicle transportation. Further, through the internal research and development and optimization, the Group achieved full support of the "cross-docking" + "within-warehouse" modes of distribution operation, thereby reducing one third of the manpower needed for such operation.

In addition, the Group also further optimized its enterprise performance management system, making data analysis more accurate, timely and clear to satisfy the needs of the management that call for rapid responses and highly efficient decision-making.

A self-developed mobile application for members was put to real use at Wumart App, providing members with services including online browse of promotional posters, downloading of coupons, online enquiry of redemption points, and enquiry regarding neighboring stores and remaining values in Meitong Cards (美通卡).

In line with the detailed management of merchandises and product categories, the Group optimized its system of management of merchandises' life cycle, and strengthened the regularity and accuracy of the addition and replacement of merchandises. It also centralized the management of promotional displays in the stores.

A system of service for sharing human resources was also established to enhance system efficiency and data accuracy by collating human resources information at stores for submission to the headquarters. Meanwhile, in order to explore the reasonable deployment of various means of manpower allocation, a system will be in place to administer manning, assessment and remuneration management of part-time staff members who work on hourly-wage basis as well as promotional staff.

### Food safety, energy saving and emission reduction, and social responsibilities

During the Reporting Period, the Group continued, as always, to attach paramount importance to food safety. It enhanced the formation of a food safety standard system, increased the number of professional technical staff for quality control and food safety management, upgraded the contingency plans for food safety, standard of admission of incoming merchandises, operational processes for the hygienic standard of stores, the review standards for the admission of suppliers, and review the standards for admission of raw materials, supplemental materials and merchandises etc. The Group also embarked upon a four-tier inspection mechanism for the quality and safety at stores, namely self-assessment, investigation by mystery shoppers, consolidated inspections and food safety specialty inspections, thereby monitoring the precise execution of various food safety standards.

Beijing Wumart Jingbei Dashijie took the lead in building a complete process for food safety inspections. Comprehensive monitoring equipment have been installed in main-food kitchens and operational chambers for cooked food, whereby customers at the stores can view the safe and hygienic food production processes. Food safety monitoring and security will be a key mission for the Group in Year 2014. That includes the construction of distribution centres and a platform for store merchandise quality inspection and information dissemination. Results of quality inspections can be disseminated at any time, and non-qualifying merchandises will be withdrawn from shelves within two hours. It is by such measures that Wumart can become a trusted and the safest shopping place for customers, who can enjoy their peace of mind by shopping at Wumart.

During the Reporting Period, the Group achieved energy saving and emission reduction as well as control of expenses by providing shade to cold-storage vessels, using energy-saving light bulbs in place of filament lamp, installing timers for some electric equipment, switching air conditioning on or off based on temperature, installing water and electricity meters for commercial tenants, and adopting a person-in-charge system for assigning responsibilities.

During the Reporting Period, the Group proactively performed its social responsibilities and participated in charitable events. Education grants were given to store staff's children who were admitted to university. In addition, it proactively participated in voluntary blood donation organized at community level. Monetary donations were also made to Red Cross, "One Foundation", or staff members who were in great financial difficulties due to contingent events. Such warm-giving actions were taken to lend a helping hand to those in need.

### Enhancing the system of human resources and training, and preparing sufficient manpower for new stores

As at 31 December 2013, the Group had a full-time headcount of 25,863 and part-time headcount of 9,912.

During the Reporting Period, the Group implemented more detailed management of its human resources. Through compressing cycles of shift-taking, managing efficiency of part-time staff members who worked on hourly-wage basis, and taking into account store sales and floor area, the Group streamlined its deployment of manpower and effectively combined the shifts of full-time and part-time staff members. Under the rigid growth of staff costs, the Group achieved control over staff costs by the combination of uplifting efficiency, reducing headcount and implementing multiple modes of employment.

During the Reporting Period, the Group enhanced its three-tier training system comprising "Development Institute" — "Training Stores" — "Stores", formulating different training and assessment schemes which targeted different groups including those under the "Hundred-people Scheme", management trainees, technicians and newly-admitted managers. By means of face-to-face interactions in groups, online courses, and mentoring programs, approximately 100,000 participants including full-time and part-time staff members and promotional staff members had been trained. Working capability of managers was enhanced and a reserve pool of high-calibre people was formed. Through the evaluations conducted by instructors and the existing award mechanism, members were selected to join our team of instructors, and their strengths and motivation were fortified.

## PROSPECTS

Macroeconomic analysis shows that China's economy will follow a steadily rising trend in 2014. While physical businesses of the retail industry are still in emerging stage and e-commerce businesses in that industry are swiftly taking share of the market, competition is expected to remain keen, which will in turn make it an ongoing situation in which less competitive businesses will exit from the market while the fitter ones will survive. Such consolidation process is exactly where outstanding enterprises can attain and demonstrate their core competence and advance to becoming excellent businesses.

Under the guidance of the strategy of national expansion with regional prioritization, the Group has been gaining increasingly greater scale advantage in Beijing, Tianjin, Hebei and Zhejiang markets. In 2014, the Group will continue to remain its pace of store opening as in existing regions and leverage the growing market share and consolidate its existing advantage in such areas as information system, budget management, performance appraisal and so forth via ongoing optimization and innovation. At the same time, through learning, exploration and trials, the Group will endeavour to uplift its new competitive advantage in fresh products, logistics systems, procurement approach and so forth. It will conduct in-depth study of the regularity of its merchandises, extend its advantage in fruits and vegetables and dry goods, and continue to foster its reforms in such categories as seafood products, meat products, cooked food and bakery products. It will steadfastly implement and intensify the reforms in its approach to procurement. This will make it more fair and transparent during the process in which outstanding suppliers beat less competitive ones as they bid for operation rights and promotion displays. It will also enable those staff members who are in charge of procurement to spend more efforts on thinking how they can play a better role as merchandisers, by attending stores and production bases instead of staying back in their offices, in order to select the merchandises of good quality and low prices for the customers and thereby promoting the enhancement of the overall competitiveness of the Company's products. The Group will optimize its distribution system, improve the technology adopted in distributing fresh merchandises, further enhance the efficiency of "cross-docking" operations, and identify opportune products for the "merchandisers" to provide larger capacity for "within warehouse" operation, and plan the transportation routes in a more sensible way bearing in mind the tasks of delivering, picking up and returning merchandises, thereby saving distribution costs. It will continue to promote automatic replenishments and closely work with suppliers for the shared management of inventories, thereby raising turnover efficiency. The Group will strive to strengthen its management of operation basics, and conduct stringent examination and assessment of the various operational standards and work processes. It will optimize the stores and leasing area and arrange renovation of stores on an as-needed basis, which will in turn raise the overall image of our stores and provide more convenient and comfortable shopping environment for our customers. Through the centralized management of promotional displays, the Group will maximize the output efficiency of the resources of promotional displays of stores. Through non-physical decorations, a tidy and passionate environment is expected to be created in our stores. The Group will also strengthen the development of new media including *wechat*, *weibo* and mobile applications for more innovative sales and marketing activities, thereby further raising members' value and uplifting members' loyalty.

Through the concerted efforts of various departments including those in charge of the respective functions of merchandise categories, procurement, distribution, operation and sales and marketing, we believe that the uplifted competitiveness of products, the advantage enjoyed in terms of selling prices, and the refreshed brand image will in turn raise customer satisfaction and loyalty, thereby promoting the Company's growth of sales and gross profit. Through the headquarters' more well-planned guidance, more supportive services, more detailed management and more enhanced execution capability of stores, the Company's overall operation efficiency will be uplifted, and costs will be reaped under better control. Based on the uplifted efficiency and control over general staff costs, the headcount can become more streamlined, whilst human resources can be recruited and performance can be appraised in a stringent and scientific approach. An effective supervision and incentive mechanism will ensure that good performers are well-rewarded whilst worse ones will be penalized. In addition, a system for staff training and for forming a pool of talents within the Group is in place, combining theoretical as well as practical elements, to boost the satisfaction and loyalty of those who possess the attributes of integrity and hard-work and who are willing and able to learn and endeavour, thereby forming a pool of human resources sufficient to cope with the fast and sustainable development of the Company.

Over the past two years, the Group implemented a series of reforms covering the approach to operation of fresh products, business model and operation model for distribution, as well as the procurement approach. In 2014, the Group will consolidate what it has achieved from the reforms in the past two years, and speed up the process of exploring and implementing new reform measures based on the unity, simplicity, standardization and system-based principles. It is through such ongoing efforts that the Group will accumulate power to drive future growth and maintain its leading and expanding edge amidst keener competition in future, and will in turn create fruitful and long-lasting returns to our shareholders.

# DIRECTORS

### Executive Directors

**Madam Xu Ying**, aged 49, 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.

**Mr. Xu Shao-chuan**, aged 42, Executive Director and Senior Vice President of the Company, general manager of Beijing Supermarket Business Unit. 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 Inc. ("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. He was appointed as general manager of directly operated centre of the Company in September 2007. He was appointed as general manager of Beijing Supermarket Business Unit in April 2010. Mr. Xu was appointed as Executive Director of the Company with effect from 17 May 2013.

**Dr. Yu Jian-bo**, aged 48, Executive Director, Senior Vice President of the Company overseeing the information centre, the supply chain and fresh business unit. 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. Dr. Yu holds senior positions in subsidiaries of the Company.

### Non-executive Directors

**Dr. Meng Jin-xian**, aged 57, Non-executive Chairman 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. From December 2010 to October 2013, Dr. Meng has acted as the chairman of Yinchuan Xinhua Commercial Group Co Ltd. ("Xinhua Commercial"). Since October 2013, Dr. Meng has been Chairman of the Company. Since November 2002, he has acted as a Director of the Company. Dr. Meng holds senior positions in subsidiaries of the Company.

**Dr. Wu Jian-zhong**, aged 56, Non-executive Director 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 post-doctoral 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. From November 2006 to October 2013, Dr. Wu has acted as the Chairman of the Company. In addition, Dr. Wu is currently the Chairman of Beijing Wangshang Shijie E-business Co., Ltd ("Wangshang Shijie E-business"). Dr. Wu holds senior positions in subsidiaries of the Company.

**Mr. John Huan Zhao**, aged 51, 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), non-executive director of Lenovo Group Limited and director of Fiat Industrial S.P.A.. Mr. Zhao has served as a Non-executive Director of the Company since November 2009.

**Madam Ma Xue-zheng**, aged 61, 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 Limited since 1997 and 2000, respectively. Madam Ma has served as a non-executive vice chairman of the board of directors of Lenovo Group Limited for the period from 2007 to 2013. Since November 2013, Madam Ma has been re-designated as independent non-executive director. From September 2003 to April 2007, Madam Ma served as a director of Sohu.com Inc., a NASDAQ listed company. From June 2004 to June 2013, Madam Ma has served as an independent non-executive director of Standard Chartered Hong Kong. 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. From June 2009 to April 2011, Madam Ma was appointed as non-executive director of Daphne International Holdings Limited. From June 2009 to November 2013, she was appointed as a member of the Listing Committee of the Hong Kong Stock Exchange. Madam Ma has served as the Chairman of Boyu Capital since March 2011. Since December 2012, Madam Ma was appointed as a non-executive director of Stelux Holdings International Limited. Since May 2013, Madam Ma has been appointed as non-executive director of Unilever PLC and Unilever N.V. Since November 2013, Madam Ma has been appointed as non-executive director of the Securities and Futures Commission of Hong Kong. Madam Ma has served as a Non-executive Director of the Company since June 2010.

## Independent non-executive Directors

**Mr. Han Ying**, aged 79. 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 70. 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 57. 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), chief accountant and managing partner of Beijing Yongtuo Certified Public Accountants (Special General Partnership) and chairman of Beijing Yongtuo Engineering Co., Ltd since 1999. In addition, Mr. Lu also served as committee member and fellow of China Institute of Certified Public Accountants, 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 43, is an Independent Non-Executive Director of the Company and chairman of China Alpha Fund 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 has served as Managing Director and Head of Asset Management of CITIC Securities International Investment Management (HK) Limited, the Managing Director of First Shanghai Capital Limited, the Managing Director of First Shanghai Financial Holding Limited, a wholly-owned 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) (April 2007 to June 2013), the shares of which are listed on Shenzhen Stock Exchange, an independent non-executive director of Yanzhou Coal Mining Company Limited (stock code: 1171) (June 2008 to May 2011), an independent non-executive director of China Aerospace International Holdings Limited (stock code: 31) (March 2007 to March 2013) and an executive director of China New Economy Fund Limited (stock code: 80) (February 2010 to July 2013), the shares of which are listed on The Stock Exchange of Hong Kong Limited respectively. Mr. Wang has been council member of Lingnan (University) College of Sun Yat-sen University, Guangzhou, since June 2013. Mr. Wang has over ten years experience in investment banking and securities industry. Since June 2011, he has served as an Independent Non-executive Director of the Company.

## SUPERVISORS

### Independent Supervisors

**Mr. Fan Kui-jie**, aged 50. 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 50. 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 39, is a Supervisor of the Company. He is the assistant to president of the Company and general manager of fresh business unit of the Group. He 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 vice 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 been the director of Supply Chain Department of the Company since October 2012. He has served as a Supervisor nominated by employees since 21 September 2010. Since February 2014, Mr. Zhang has been the assistant to president of the Company and general manager of fresh business unit of the Group.

## SENIOR MANAGEMENT

**Mr. Chong Xiao-bing**, aged 49, is the Vice President of the Company and general manager of its Eastern China business. 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 to president of the Company and vice general manager of Beijing Supermarket Business Unit from August 2011 to February 2013. Since February 2013, Mr. Chong has been appointed as Vice President of the Company and general manager of its Eastern China business.

**Mr. Wu Du-qing**, aged 37, Vice President of the Company and Executive General Manager of Beijing Supermarket Business Unit. 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 various sections of stores, manager and store manager of the Company and the vice director of Supply Chain Department. He was director of Supply Chain Department during the period from July 2011 to September 2012. He was appointed as director of Fresh Items Procurement Department in September 2012. Mr. Wu was appointed as the assistant to president of Wumart Stores, Inc. and executive general manager of the fresh business unit in March 2013, and was appointed as the general manager of the fresh business unit in July of the same year. Since February 2014, Mr. Wu has been the Vice President of the Company and the executive general manager of the Beijing Supermarket Business Unit.

**Mr. Zhang Yu**, aged 44, executive director of Finance Department of the Company. Mr. Zhang holds a Master's degree in business administration of Renmin University of China and is qualified as a PRC certified public accountant. Since joining Wumart in 2004, he has been in charge of finance of Convenient Store of the Group, and the financial controller of subsidiaries and deputy director of the Finance Department of the Group.

**Mr. Guo Tu-wei**, aged 46, the director of Data Management Centre and director of Assets 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, director and assistant finance director of the Finance Department of Wumart. Mr. Guo also served as vice director of Information Division from October 2000 to May 2009. He has served as director of Data Management Centre and director of Assets Management Department of the Company since June 2009.

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 2013, together with the audited consolidated financial statements of the Group for the year ended 31 December 2013.

## PRINCIPAL ACTIVITIES

The Group is principally engaged in the operation and management of retail chains of superstores and mini-marts in Beijing, Tianjin, Zhejiang province and Hebei province. Its brands mainly include "Wumart Hypermarket", "Wumart Everyday Shops", "Wumart Minimarts", "Merry Mart", "Jingbei Shopping Mall", "Aoshikai Wumart", "Zhejiang Gongxiao Supermarket", "Huzhou Laodafang Supermarket".

## 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, JOINT VENTURE AND ASSOCIATES

As of 31 December 2013, The Company had one joint ventures namely Beijing Aoshikai Wumart Company Ltd., and two associates namely Beijing Chao Shifa Company Limited and Beijing Chongwenmen Vegetable Market Supermarket Company Limited.

For information regarding major subsidiaries, joint ventures and associates of the Company, please refer to Note 42 of the consolidated financial statements of this Annual Report.

## SHAREHOLDERS' EQUITY

Movement in shareholders' equity for the Reporting Period are set out in the consolidated statement of changes in equity on page 62 of this Annual Report.

## FIXED ASSETS

Movements in fixed assets for the Reporting Period are set out in Note 17 to the financial statements of this Annual Report.

## ACCOUNTS

The audited results of the Group for the year ended 31 December 2013 is set out in the consolidated statement of profit or loss and other comprehensive income on page 59 of the Annual Report.

The financial position of the Group as of 31 December 2013 is set out in the consolidated statement of financial position on pages 60 to 61 of the Annual Report.

The cash flow of the Group for the year ended 31 December 2013 is set out in the consolidated statement of cash flow on pages 63 to 64 of the Annual Report.

## SHARE CAPITAL

As at 31 December 2013, the class of shares and the number of shares are as follows:

| **Name of shareholders** | **Class of shares** | **Number of shares** (shares) | **Percentage of total share capital** % |
|---|---|---|---|
| Wumei Holdings | Domestic shares | 497,932,928 | 38.86 |
| | H shares | 1,375,000 | 0.11 |
| Wangshang Shijie E-business | Domestic shares | 160,457,744 | 12.52 |
| Zhang Bin | Domestic shares | 24,482,300 | 1.91 |
| Hony Capital RMB I, L.P. | Domestic shares | 23,619,364 | 1.84 |
| Beijing Toma Wangluo Technology Co., Ltd. | Domestic shares | 23,269,228 | 1.82 |
| Legend Holdings Limited | Domestic shares | 7,306,752 | 0.57 |
| Beijing Shuangchen Express Co., Ltd. | Domestic shares | 7,137,800 | 0.56 |
| Ci Ying | Domestic shares | 500,000 | 0.04 |
| Wealth Retail Holdings Limited | H shares | 25,000,000 | 1.95 |
| Fit Sports Limited | H shares | 5,000,000 | 0.39 |
| Public | H shares | 505,193,000 | 39.43 |
| Total share capital | | 1,281,274,116 | 100 |

## INTERESTS HELD BY SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

As at 31 December 2013, the interests or short positions of persons other than directors, supervisors and chief executives of the Company in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the Securities and Futures Ordinance of Hong Kong (the "SFO") were as follows:

### Substantial shareholders holding domestic shares of the Company

| Name | Number of domestic shares (shares) | Percentage of total domestic share capital % | Percentage of total share capital % |
|---|---|---|---|
| Dr. Zhang Wen-zhong*(Note 1, 5)* | 497,932,928 | 66.86 | 38.86 |
| Beijing Jingxi Guigu Technology Company Limited ("Jingxi Guigu")*(Note 1, 5)* | 497,932,928 | 66.86 | 38.86 |
| Beijing CAST Technology Investment Company ("CAST Technology Investment")*(Note 1, 5)* | 497,932,928 | 66.86 | 38.86 |
| Wumei Holdings*(Note 2, 5)* | 497,932,928 | 66.86 | 38.86 |
| Yinchuan Xinhua Commercial (Group) Co., Ltd. ("Xinhua Commercial")*(Note 3, 5)* | 497,932,928 | 66.86 | 38.86 |
| Wangshang Shijie E-business*(Note 4, 5)* | 160,457,744 | 21.55 | 12.52 |

*Notes:*

1. As at 31 December 2013, Jingxi Guigu is owned as to 100% by Dr. Zhang Wen-zhong, and therefore Dr. Zhang Wenzhong 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 98.31% 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 31 December 2013, Wumei Holdings directly holds approximately 66.86% Domestic Shares of the Company. In addition, Xinhua Commercial 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 Commercial, Wumei Holdings is entitled to control the exercise of one-third or more of the voting power at general meetings of Xinhua Commercial subsequent to the completion of the share transfer agreement. Accordingly, Wumei Holdings will be deemed to be interested in the shares of the Company held by Xinhua Commercial subsequent to the completion of the share transfer agreement. As at 31 December 2013, the conditions to the aforesaid share transfer agreement were yet to be satisfied.

3. According to the share transfer agreement entered into between Wumei Holdings and Xinhua Commercial, approximately 66.86% of the domestic shares of the Company would be held by Xinhua Commercial directly subsequent to the completion of the transactions under the agreement. As at 31 December 2013, the share transfer agreement was yet to be completed. On 16 January 2009, Xinhua Commercial 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" issued by the China Securities Regulatory Commission, Xinhua Commercial would re-convene a board meeting in due course to consider the said share issue.

4. As at 31 December 2013, Wangshang Shijie E-business is owned as to 70% by Dr. Wu Jian-zhong, director of the Company. Dr. Wu Jian-zhong is therefore deemed, by virtue of the SFO, to be interested in the shares of the Company held by Wangshang Shijie E-business, and in turn a substantial shareholder of the domestic shares.

5. As disclosed in the joint announcement dated 4 March 2014 issued by the Company and Wumei Holdings, two wholly-owned subsidiaries of Wumei Holdings and Wangshang Shijie E-business entered into and completed subscription agreement on the same date. Accordingly, Wumei Holdings holds, through its interests in two wholly-owned subsidiaries, 64% interest in Wangshang Shijie E-business. By virtue of the SFO, Dr. Zhang Wen-zhong, Jingxi Guigu, CAST Technology Investment and Wumei Holdings are deemed to be interested in shares of the Company held by Wangshang Shijie E-business. Since 4 March 2014 and up to the date hereof, Dr. Zhang Wen-zhong, Jingxi Guigu, CAST Technology Investment and Wumei Holdings are deemed respectively to be interested in 658,390,672 Domestic Shares of the Company, which account for 88.41% of the total number of Domestic Shares in issue and 51.39% of the total number of issued share capital.

## Substantial shareholders holding H shares of the Company

| Name | Number of H shares (shares) | Percentage of total H share capital % | Percentage of total share capital % |
|---|---|---|---|
| JPMorgan Chase & Co.(Note 1) | 101,370,571 | 18.89 | 7.91 |
| Genesis Asset Managers, LLP(Note 2) | 64,417,375 | 12.01 | 5.03 |
| Massachusetts Financial Services Company ("MFS")(Note 3) | 53,879,000 | 10.04 | 4.21 |
| Sun Life Financial, Inc. ("SLF")(Note 4) | 53,879,000 | 10.04 | 4.21 |
| T. Rowe Price Associates, Inc. and its affiliates(Note 5) | 49,118,906 | 9.15 | 3.83 |
| Capital Research and Management Company(Note 6) | 49,009,000 | 9.13 | 3.83 |
| Prudential plc(Note 7) | 48,456,887 | 9.03 | 3.78 |
| The Capital Group Companies, Inc.(Note 8) | 47,473,000 | 8.85 | 3.71 |

*Notes:*

1. Including long position of 538,361 H shares held by JPMorgan Chase & Co. in its capacity as a beneficial owner, long position of 43,605,000 H shares as an investment manager and long position of 57,227,210 H shares as a trustee company/approved lending agent.

2. Long position of these 64,417,375 H shares are held by Genesis Asset Managers, LLP in its capacity as an investment manager.

3. Long position of these 53,879,000 H shares are held by Massachusetts Financial Services Company through its interest in a series of controlled corporations and in its capacity as an investment manager.

4. Long position of these 53,879,000 H shares are held by Sun Life Financial, Inc. through its interest in a series of controlled corporations and in its capacity as an investment manager.

5. Long position of these 49,118,906 H shares are held by T. Rowe Price Associates, Inc. and its affiliates in its capacity as a beneficial owner.

6. Long position of these 49,009,000 H shares are held by Capital Research and Management Company in its capacity as an investment manager.

7. Long position of these 48,456,887 H shares are held by Prudential plc through its interest in a series of controlled corporations and in its capacity as interest of corporation controlled by the substantial shareholder.

8. Long position of these 47,473,000 H shares are held by The Capital Group Companies, Inc. through Capital Research and Management Company and in its capacity as interest of corporation controlled by the substantial shareholder.

Save as disclosed above, other than the Directors, supervisors and chief executives of the Company, 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.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Information on Directors, Supervisors and senior management of the Company are set out on pages 2 to 3 of this Annual Report. Their biographies are set out on pages 25 to 29 of this Annual Report.

## REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The remuneration of Directors, Supervisors and senior management of the Company are set out on pages 91 to 92 of this Annual Report. During the Reporting Period, there was no arrangement under which any Directors or Supervisors waived their remuneration.

Remuneration of senior management members of the Company set out in this Annual Report, other than Directors and Supervisors, falls within the following bands:

| Band | **2013 Number** | 2012 Number |
|---|---|---|
| RMB0–500,000 | **2** | 2 |
| RMB500,001–1,000,000 | **2** | 3 |

## DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

The Directors and supervisors of the Company have entered into service contracts or letters of appointment with the Company, with their terms of office commencing on 28 June 2011 or 17 May 2013 and ending on the date of conclusion of the 2013 annual general meeting of the Company.

None of the Directors and supervisors of the Company has entered into or proposes to enter into a service contract with any member of the Group which is not determinable by the relevant member of 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" and "letters of appointment" above and those set out in Note 13 to the consolidated financial statements, there was no material contract (as defined in the Listing Rules and are still in force during or at the end of the year) in relation to the Group's business in which a Director or supervisor of the Company had material interests, whether directly or indirectly.

## INDEPENDENCE OF INDEPENDENT DIRECTORS

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, and considered that all independent Non-executive Directors were still independent persons.

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

As at 31 December 2013, 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 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 Divisions 7 and 8 of Part XV of the SFO or otherwise pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") were as follows:

| | **Number of domestic shares** (shares) | **Percentage of total domestic share capital** % | **Percentage of total share capital** % | **Type of interests** |
|---|---|---|---|---|
| Dr. Wu Jian-zhong[(Note)] | 160,457,744 | 21.55 | 12.52 | Interests in controlled corporation |

*Note:* Dr. Wu Jian-zhong holds 70% of the shareholding of Wangshang Shijie E-business, a promoter 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.

As disclosed in the joint announcement dated 4 March 2014 issued by the Company and Wumei Holdings, two wholly-owned subsidiaries of Wumei Holdings and Wangshang Shijie E-business entered into and completed subscription agreement on the same date. Accordingly, the interests held by Dr. Wu Jian-zhong in Wangshang Shijie E-business fell to 25.2%. By virtue of the SFO, since 4 March 2014 and up to the date hereof, Dr. Wu Jian-zhong no longer held any interest or short position in any of the shares, underlying shares or debentures of the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2013, none of the Directors, supervisors and chief executives of the Company 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 Divisions 7 and 8 of Part XV of the SFO or otherwise pursuant to the Model Code.

## 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.

## AUDIT COMMITTEE

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

The Audit Committee has reviewed the Group's audited consolidated financial report and operating results and significant accounting policies etc. for the year ended 31 December 2013 and listened to the opinion on the audit results expressed by the auditor.

## CONNECTED TRANSACTIONS

### Non-exempt Continuing Connected Transactions

*Entrusted Operation and Management Agreement (2011)*

The Company entered into the Entrusted Operation and Management Agreement (2011) with Wumei Holdings and relevant subsidiaries on 5 May 2011, for the supply by the Company of merchandise, distribution of merchandise and provision of management services for Wumei Holdings' subsidiaries in Tianjin ("Tianjin Affiliates[(Note 1)]"), and for the supply and delivery of merchandise to the subsidiaries of Wumei Holding in the Eastern China region ("Eastern China Affiliates[(Note 2)]").

Wumei Holdings is the controlling shareholder of the Company and is a connected person of the Company under the Listing Rules. The Entrusted Operation and Management Agreement (2011) constitutes a continuing connected transaction which is non-exempt from the requirements for approval by independent shareholders of the Company. The Company has fulfilled the procedures regarding reporting, announcement and approval by independent shareholders of the Company.

According to the Entrusted Operation and Management Agreement (2011), for the year 2013, the annual cap for the supply and delivery of merchandises as well as provision of management services by the Group for Wumei Holdings and its subsidiaries, as approved by independent shareholders, are RMB791,000,000, RMB23,730,000 and RMB510,000 respectively. During the Reporting Period, the actual transacted amount were RMB151,084,000, RMB4,526,000 and RMB190,000 respectively.

*Property Leasing Agreement (2010)*

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"), both subsidiaries of the Company, 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.

Wumei Zhidi is a subsidiary of Wumei Holdings, the controlling shareholder of the Company, and is a connected person of the Company under the Listing Rules. The Property Leasing Agreement (2010) constitutes a continuing connected transaction which is exempt from the requirements for approval by independent shareholders of the Company. The Company has fulfilled the procedures regarding reporting and announcement.

According to the Property Leasing Agreement (2010), the annual cap under the Property Leasing Agreement (2010) for 2013 was RMB10,441,920, while the actual payment of rental of RMB10,441,920 was paid by the Company.

The Company's auditor had issued the letter in respect of the Group's continuing connected transactions disclosed above in accordance with Rule 14A.38 of the Listing Rules 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 Entrusted Operation and Management Agreement (2011) and Property Leasing Agreement (2010) and based on the Company's pricing policies; and

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

Each of the independent non-executive Directors of the Company has confirmed that they 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, 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 annual caps for the respective transactions under the aforesaid agreements.

*Notes:*

1. Tianjin Affiliates include: Subsidiaries of Wumei Holdings namely Tianjin Hedong Wumart Trading Co., Ltd., Tianjin Hebei Wumart Convenience Stores Co., Ltd., Tianjin Hezuo Wumart Trading Co., Ltd., Tianjin Nankai Shidai Wumart Commerce Co., Ltd., Tianjin Hongqiao Wumart Convenience Stores Co., Ltd. and Tianjin Wumart Huaxu Commerce Development Co., Ltd..

2. Eastern China Affiliate(s) include: Subsidiary of Wumei Holdings namely Shanghai Wuguang Commerce Company, Ltd..

### Renewal of Continuing Connected Transactions

*Management Agreement (2014–2016) and Property Leasing Agreement (2014–2016)*

As various agreements governing continuing connected transactions between the Company and the controlling shareholder will expire at the end of 2013, on 20 December 2013, (i) the Company and Wumei Holdings entered into the Management Agreement (2014–2016) for a term of three years from 1 January 2014 to 31 December 2016 and the annual caps of continuing connected transactions for the three years ending 31 December 2016 are fixed under such agreement, pursuant to which, the Group will continue to provide Wumei Holdings Group with the supply and delivery of merchandise and management services; (ii) Wumart Hypermarket, a subsidiary of the Company, entered into the Property Leasing Agreement (2014–2016) with Wumei Zhidi, a subsidiary of Wumei Holdings, to continue 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 2014 to 31 December 2016 and the annual caps of continuing connected transactions for the three years ending 31 December 2016 are fixed under such agreement.

In accordance with Chapter 14A of the Listing Rules, the transactions contemplated under the Management Agreement (2014–2016) and the Property Leasing Agreement (2014–2016) constitute continuing connected transactions of the Company. As one or more of the applicable percentage ratios of the estimated annual caps of the continuing connected transactions under the Management Agreement (2014–2016) and the Property Leasing Agreement (2014–2016) are more than 0.1% but less than 5%, the said transactions are subject to the reporting, annual review and announcement requirements but are exempt from the requirement of independent shareholders' approval under Chapter 14A of the Listing Rules. The Company has fulfilled the procedures regarding reporting and announcement.

### Non-exempt Connected Transactions

*Proposed grant of incentive shares to connected persons*

As approved on the EGM and Class Meetings on 17 May 2013, the Company has adopted a Share Incentive Scheme Regarding Non-tradable and Non-listed Domestic Shares.

The Board resolved at the meeting of the Board held on 20 December 2013 to propose the grant of, at a price of RMB4.63 per share, 1,000,000 Incentive Shares to each of the three Executive Directors, namely Madam Xu Ying, Mr. Xu Shao-chuan and Dr. Yu Jian-bo; and 500,000 Incentive Shares to Mr. Zhang Zheng-yang, a Supervisor of the Company under the Share Incentive Scheme Regarding Non-tradable and Non-listed Domestic Shares. As the Directors Madam Xu Ying, Mr. Xu Shao-chuan and Dr. Yu Jian-bo, and the Supervisor Mr. Zhang Zheng-yang are all connected persons of the Company, the grant of the Incentive Shares by the Company to them constitutes non-exempt connected transactions of the Company and shall be subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules. The proposals have been approved by the shareholders of the Company at the first extraordinary general meeting 2014 held on 14 March 2014.

Save as disclosed above, none of the related-party transactions or continuing related-party transactions set out in Note 38 to the financial statements fall within the meaning of discloseable connected transactions or continuing connected transactions under the Listing Rules. The connected and continuing connected transactions of the Company are in compliance with the disclosure requirements of Chapter 14A of the Listing Rules.

## COMPETING INTERESTS

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

The Group operates its supermarket chain business in Beijing, Tianjin, Hebei and Zhejiang. Except the Tianjin region, there is no direct competition between the Group and Wumei Holdings due to the absence of similar business in the same regions. To avoid potential competition, The Company entered into the non-competition agreement with Wumei Holdings on 29 October 2003 and entered into and renewed the trademark licensing agreement on 29 October 2003 and 29 October 2013. On 5 May 2011, the Company entered into Entrusted Operation and Management Agreement (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 non-competition agreement and Entrusted Operation and Management Agreement (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

Remunerations of executive Directors and Staff-representative supervisors of the Company are, as approved by shareholders on general meetings of the Company, determined by the Board based on the management positions of the respective persons in the Group. Remuneration of independent non-executive Directors and external supervisors are determined based on workload and market conditions and are considered and approved by shareholders on general meetings of the Company. Non-executive directors do not take up any management role in the Group nor do they receive any salary in the Group.

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 mid-level management and other employees, remunerations are determined based on the relative importance of the positions held and the responsibilities shouldered by the positions as well as other factors. 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. For other employees, remunerations are determined based on the categories of the employees concerned and the nature of their respective work, as well as personal performance and performance of the Group.

The Company pays housing funds and social security fund on behalf of employees on a monthly basis, according to the relevant national and local laws and regulations on labour affairs and social security. In particular, social security funds include pension insurance, medical insurance, unemployment insurance, maternity insurance, work injury insurance etc.

## SHARE INCENTIVE SCHEME REGARDING NON-TRADABLE AND NON-LISTED DOMESTIC SHARES

As approved on the EGM and Class Meetings on 17 May 2013, the Company has adopted a Share Incentive Scheme Regarding Non-tradable and Non-listed Domestic Shares (For details, please refer to the circular dated 2 April 2013 issued by the Company).

Relevant resolution has been passed at the meeting of the Board held on 20 December 2013 in respect of the initial grant of 6,050,000 Incentive Shares, at a price of RMB4.63 per share, to the eligible Participants who are not Connected Persons of the Company under the Scheme. On the same meeting, the Board also resolved at such meeting to propose the grant of 1,000,000 Incentive Shares to each of the three executive Directors, namely Madam Xu Ying, Mr. Xu Shao-chuan and Dr. Yu Jian-bo; and 500,000 Incentive Shares to Mr. Zhang Zheng-yang, a Supervisor of the Company. The proposals have been approved by Shareholders on the first extraordinary general meeting 2014 held on 14 March 2014.

On 20 December 2013, the board of directors approved 6,050,000 incentive shares to be granted to selected Participants (non-connected Participants) and proposed to grant 3,500,000 incentive shares to three directors and a supervisor (the “Connected Participants”). None of the non-connected Participants have agreed to the terms and conditions of the Incentive Share Scheme as at 31 December 2013.

There is no incentive share issued as at 31 December 2013.

## PENSION SCHEME

Pursuant to the provisions of the relevant national and local laws and regulations of the PRC, 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. 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 are set out in Note 12 of the consolidated financial statements.

## MANAGEMENT CONTRACT

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.

## INDEPENDENT AUDITOR

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

## PUBLIC FLOAT AND MARKET CAPITALISATION

Based on the publicly available information known to the Company and to the best of the Directors’ knowledge, during the Reporting Period and as of the date of this report, the public float of the Company was in compliance with that stipulated under Rule 8.08 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. As at 31 December 2013, the market capitalisation of the Company’s publicly-held shares was approximately HK$6,760,757,000.

# Report of the Supervisory Committee

Dear Shareholders,

During 2013 (the “Reporting Period”), 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 “Company Law”), 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 to ensure the regulated operations of the Company and for the protection of the interests of shareholders and the benefits of the Group.

## I. WORK DONE BY THE SUPERVISORY COMMITTEE IN 2013

In 2013, there was no change to the composition of the Supervisory Committee. During the Reporting Period, the Supervisory Committee convened two physical meetings, details of which are listed below:

On 26 March 2013, the 4th meeting of the 4th session of the Supervisory Committee was convened, on which the Supervisory Committee considered and passed the 2012 Annual Report, the 2012 work report of the Supervisory Committee and the 2012 financial report of the Company, and received the auditor’s report on “the Auditing of the 2012 Consolidated Statements of Wumart Stores, Inc.”.

On 20 December 2013, the 5th meeting of the 4th session of the Supervisory Committee was convened, on which the Work Report on the Internal Control of the Company 2013 was considered and passed.

During the Reporting Period, the members of the Supervisory Committee observed on Board meetings of the Company from time to time and attended the annual general meeting of the Company, reviewed the Company’s financial position, operations and management, and supervised the Company’s implementation of resolutions of shareholders’ general meetings and Board meetings according to the resolutions of shareholders’ general meetings and Board meetings.

## II. SUPERVISORY COMMITTEE’S VIEWS ON THE WORK OF THE COMPANY IN 2013

### 1. Legal Operations of the Company

The Supervisory Committee considers that, during the Reporting Period, the Company managed to abide strictly by the laws and regulations of China. The operation and management of the Company were in compliance with the requirements and stipulations of the Company Law, the Articles of Association of the Company and the Listing Rules, and the decision-making procedures were legal and effective. The management of the Company implemented rigorously the resolutions of the shareholders’ general meetings and Board meetings, and continually enhanced its internal control system to improve its risk-guarding capability. The Directors and senior management of the Company managed to perform their duties diligently during the Reporting Period. 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 harmed the interests of the Company when performing duties of the Company.

**2. Financial Position of the Company**

The 2013 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 contents of the audited 2013 financial report and the 2013 annual report of the Company are true, accurate and complete, and that the audit opinion of the auditor is fair and objective.

**3. Operation Position of the Company**

During the Reporting Period, by monitoring the financial and operation management and compliance of the Company's operations as well as its risk management functionality, the Supervisory Committee considers that the Group has established a sound system of internal control and has made tremendous improvements in the formulation and implementation of internal work processes, thereby effectively controlling the various operational risks within the Group. The Group is in compliance with laws and regulations of China, the Articles of Associations of the Company and the work processes of the Group.

**4. Connected Transactions of the Company**

During the Reporting Period, the continuing connected transactions of the Company were implemented in accordance with the terms of the agreement governing connected transactions which have been signed, at such fees as shall be in compliance with the pricing benchmarks stated in the relevant agreements. 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.

**5. Acquisition and Disposal of Assets**

During the Reporting Period, save as disclosed herein, the Company did not have any acquisition or disposal of assets, nor were there any circumstances in which shareholders' interests are jeopardized or in which any asset of the Company was lost.

**6. Internal Control of the Company**

The Supervisory Committee rigorously reviewed the 2013 Internal Control Work Report of the Company. The Supervisory Committee considers that the Company has established a sound system of internal control and there have been ongoing improvements on the work processes and implementation, thereby more effectively controlling the operation risks encountered by the Company.

**7. Implementation of Resolutions of Shareholders' General Meeting of the Company**

During the Reporting Period, the Supervisory Committee monitored the Board's implementation of the resolutions of shareholders' general meetings. The Supervisory Committee considers that the Board of the Company managed to perform its duties rigorously, implement the relevant resolutions of shareholders' general meeting and push forward the healthy and steady growth of the Company.

**8. The board of directors and management of the Company**

During the Reporting Period, 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. There has been no significant abuse of powers undermining the interests of the Company and infringing the interests of shareholders.

The Company maintained steady and ongoing development during the past year 2013. The Supervisory Committee expresses its gratitude to the Board and the senior management for their responsible, diligent and prudent work.

The Supervisory Committee is fully confident in the future prospects of the Company. In 2014, the Supervisory Committee will continue to perform its supervisory duties diligently, prudently and faithfully. It will continually enhance learning, uplift the level of supervision, discharge its duties and functions in compliance with the requirements and stipulations of the Articles of Association of the Company and laws and regulations of China. It will actively protect the lawful interests of the Company and shareholders as always, and will ensure that shareholders' interests are maximized.

By order of the Supervisory Committee
**Fan Kui-jie**
*Chairman*

Beijing, the PRC

11 March 2014

Establishment and execution of a corporate governance system applicable to the development situation of the Company are the cornerstones of the Company's development. With the development of business scope, based on the Company's strict compliance with relevant laws and regulations, the Company has been optimizing its corporate governance system. We also guarantee compliance with corporate governance practices and strive for execution of best practices so as to protect the rights of stakeholders, including shareholders and customers, suppliers, employees and the general public.

## SUMMARY OF CORPORATE GOVERNANCE

The Company has established a corporate governance structure comprising general meeting of the shareholders, the Board, Supervisory Committee and the Management in accordance with Company Law of the PRC, the Securities Law of the PRC and the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Such structure gives a clear division of authority and responsibilities among the authority, decision-making and regulatory bodies and the Management, and creates a mutual coordination and balanced mechanism for standard operation.

## CORPORATE GOVERNANCE CODE

The Board is responsible to prepare and review from time to time the policies and practices of corporate governance of the Company and to make amendments to the Company's principles and system, policies and procedures in a timely manner in accordance with the updates of the relevant regulations from time to time to ensure the compliance of its operation. For the year ended 31 December 2013, the Company has complied with the principles and code provisions set out in Corporate Governance Code under the Appendix 14 of the Listing Rules and adopted the recommended best practices in various aspects of corporate governance.

## 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 several responsibilities to all shareholders for the management, supervision and operations of the Company.

## Composition and Appointment of the Board

In accordance with the Articles of Association of the Company, the Fourth Session of the Board of the Company comprised eleven Directors. During the Reporting Period, the Board comprised three Executive Directors, four Non-executive Directors and four Independent Non-executive Directors with details as follows:

**Executive Directors**

| | |
|---|---|
| Xu Ying | Executive Director, President |
| Xu Shao-chuan | Executive Director, Senior Vice President |
| Yu Jian-bo | Executive Director, Senior Vice President |

**Non-executive Directors**

| | |
|---|---|
| Meng Jin-xian | Chairman *(Note)* |
| Wu Jian-zhong | Non-executive Director *(Note)* |
| 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 | Independent Non-executive Director |

*Note:* On 22 March 2013, Dr. Meng Jin-xian was re-designated as a Non-executive Director from an Executive Director. On 9 July 2013, Dr. Wu Jian-zhong was re-designated as a Non-executive Director from an Executive Director. On 29 October 2013, Dr. Wu Jian-zhong resigned as the Chairman of the Company due to personal reasons, and Dr. Meng Jin-xian was elected by the Board as the Chairman of the Company.

During the Reporting Period, the composition of the Board of the Company complied with the Listing Rules, which requires a minimum of one third of the independent non-executive directors on board, and that at least one of the independent non-executive directors must possess appropriate professional qualification or accounting or relevant financial management expertise. The Executive Directors of the Company have extensive operational, management experience and expertise in the retail industry while the Non-executive Directors of the Company have extensive industry experience in various fields including capital market, investment, legal and financial 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.

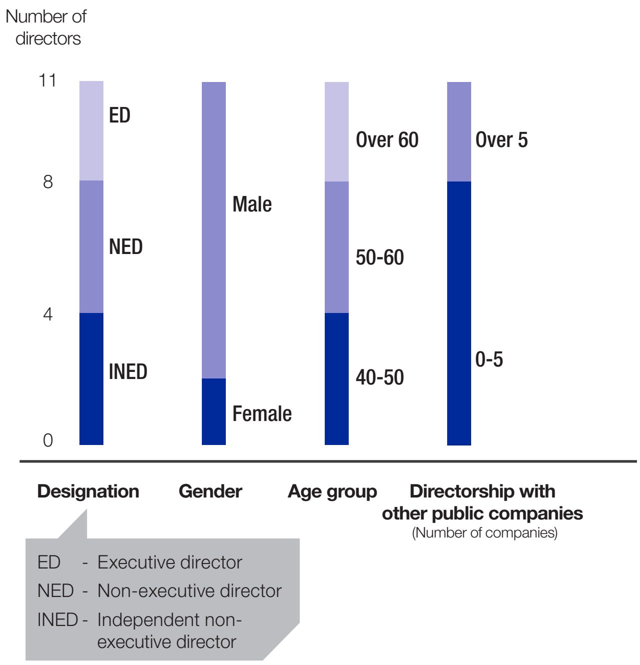
To the best of the knowledge of the Board, members of the Board (including the Chairman and the President) were not connected to each other in any manner (including financial, business, family or other significant connections) requiring disclosure during the Reporting Period.

The appointment period of the members of the Board (including Non-Executive Directors) commenced from the conclusion of the 2010 AGM and will end at the conclusion of the 2013 AGM. Please refer to the section headed "Profile of Directors, Supervisors and Senior Management" in this report for the appointment period and other details of each of the directors.

## Diversity of Directors

The Company has adopted its diversity policy with respect to the composition of the Board. In assessing candidates running for directorships, the Nomination Committee will take into account a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, technical expertise and the ability to fulfill the requirements of the Board.

As at the date of this report, the diversity of the Board of the Company is as illustrated below. Further details on the biographies and experience of the Directors are set out on page 25 to page 29 of this annual report.




## Meetings held by the Board in 2013

During the Reporting Period, there were 18 Board meetings held (including written resolutions). The primary resolutions considered included the annual report and results announcement of 2012 of the Company, profit distribution proposals for the year of 2012, appointment of the Company's external auditors, work report of the Board for 2012, the actual implementation of continuing connected transactions amounts for the year of 2012, the proposal to convene the 2012 AGM, the interim report and interim results announcement of 2013, the first quarterly and third quarterly financial statements of 2013, the general mandate for shares issuance, the share incentive scheme regarding tradable and non-listed Domestic Shares, the initial grant of incentive shares to the participants pursuant to the share incentive scheme regarding tradable and non-listed Domestic Shares, election of Chairman, appointment of Directors, Secretary to the Board and Company Secretary, amendments to the Articles of Association and continuing connected transactions of the Company from 2014 to 2016. The 2013 internal control report was also heard.

Attendance of Directors at meetings of the Board in 2013:

| | Number of meetings held | Number of meetings required to attend | Number of meetings attended | Percentage of attendance |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| Xu Ying | 18 | 17 (Note 2) | 17 | 100% |
| Xu Shao-chuan | 18 | 10 (Note 3) | 10 | 100% |
| Yu Jian-bo | 18 | 17 (Note 2) | 17 | 100% |
| **Non-executive Directors** | | | | |
| Meng Jin-xian | 18 | 18 | 18 | 100% |
| Wu Jian-zhong | 18 | 18 | 18 | 100% |
| John Huan Zhao | 18 | 18 | 18 | 100% |
| Ma Xue-zheng | 18 | 18 | 18 | 100% |
| **Independent Non-executive Directors** | | | | |
| Han Ying | 18 | 18 | 18 | 100% |
| Li Lu-an | 18 | 18 | 18 | 100% |
| Lu Jiang | 18 | 18 | 18 | 100% |
| Wang Jun-yan | 18 | 18 | 18 | 100% |

*Notes:*

1. According to the Articles of Association of the Company, any Director who fails to attend the meeting for cause, may appoint other Director(s) to attend the meeting on his/her behalf.

2. During the Reporting Period, the Company held 18 Board meetings, one of which was the meeting of the Chairman and Non-executive Directors, including Independent Non-executive Directors.

3. Mr. Xu Shao-chuan was appointed as an Executive Director of the Company since 17 May 2013.

Attendance of Directors at general meetings in 2013:

| | Number of meetings required to attend | Number of meetings attended |
|---|---|---|
| **Executive Directors** | | |
| Xu Ying | 4 | 4 |
| Xu Shao-chuan | 1 *(note 1)* | 1 |
| Yu Jian-bo | 4 | 4 |
| **Non-executive Directors** | | |
| Meng Jin-xian | 4 | 1 |
| Wu Jian-zhong | 4 | 4 |
| John Huan Zhao | 4 | 0 |
| Ma Xue-zheng | 4 | 1 |
| **Independent Non-executive Directors** | | |
| Han Ying | 4 | 0 |
| Li Lu-an | 4 | 4 |
| Lu Jiang | 4 | 0 |
| Wang Jun-yan | 4 | 0 |

1. Mr. Xu Shao-chuan was appointed as a director of the Company since 17 May 2013.

## Responsibilities of the Board

The Board is a standing decision-making body of the Company and is accountable to the general meeting of the shareholders. It 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. All members of the Board shall take joint and respective responsibilities to all shareholders for the management, supervision and operations of the Company.

In accordance with the Articles of Association of the Company, responsibilities of the Board mainly are 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; appoint or remove the President, finance director and secretary to the Board; appoint or remove the Vice Presidents in accordance with the nomination by the President, and any other duties delegated by the general meeting and the Articles of Association of the Company.

According to the Code, the Board has the following powers in corporate governance:

- Formulating and reviewing the principles and policies of corporate governance of the Company;
- Reviewing and monitoring the overall implementation of policies of corporate governance of the Company, and ensuring compliance with laws, regulations and regulatory requirements;

- Reviewing the Company's compliance with the Code and other relevant rules;
- Approving the annual corporate governance report of the Company, and allowing disclosure as such on the respective websites of the Stock Exchange and of the Company;
- Formulating, reviewing and monitoring policies on shareholders' communication and ensuring effectiveness of policies;
- Reviewing and monitoring training and continuing professional development of directors and senior management;
- Such other corporate governance matters as shall be responsible for by the Board.

The Board is responsible for overseeing the preparation of financial statements of each financial period, so that such financial statements give a true and fair view of the financial position, operating results and cash flows of the Company during the period.

The Board is responsible for exercising 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 also conducting review of and supervision over the effectiveness of the internal control system and risk management programs.

Regular Board meetings were convened for reviewing annual and interim 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 gives a notice of at least 7 days in advance, and delivers complete documents at least 3 days prior to meetings of the Board and its committees to all Directors so that the Directors can make informed decisions in fulfillment of their duties and responsibilities as the Directors of the Company.

The Director shall abstain from voting on resolutions in relation to proposed transaction or matter in which he/she or any of his/her associates has conflict of interests or material interests to be considered by the Board, and such Director will not be counted in the number of persons voting. The Company has obtained confirmation from each of the Directors that neither the Director nor his/her associates has conducted any connected transactions with or is materially interested in the Company or its subsidiaries during the Reporting Period.

During the Reporting Period, the Board has reviewed the corporate governance policies and practices of the Company, the training and continuing professional development of the directors and senior management, the Company's compliance policies and practices with respect to laws and regulations, compliance with the Model Codes, compliance with the Corporate Governance Code and the disclosures made in this Corporate Governance Report.

### Nomination of Directors

The Company has in place a Procedures for Shareholders' Nomination of Candidates to Run for Directorship. Candidates for Directors may be selected and considered by the Board and the Nomination Committee based on 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 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 the Reporting Period, all Directors performed their duties with dedication and diligence to facilitate ongoing improvements of the Company's results, core competitiveness and optimization of corporate governance.

### Directors' Remuneration

Remuneration provided to the Executive Directors and supervisors representing employees shall be determined by the Board upon approval by the shareholders in general meeting or staff representative meeting of the Company with reference to the individual's management functions in the Company. Criteria include the operational conditions of the Company, industry practice in China and the remuneration level of directors and supervisors of listed companies engaging in the same industry in China. Non-executive Directors do not receive any remuneration. Remuneration to independent non-executive directors and independent supervisors of the Company shall be proposed by the Board and be subject approval by the shareholders in general meeting.

### 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 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, that all the Directors and supervisors have complied with the "required standard of dealings" and the Company's code of practice in relation to securities dealings during the Reporting Period.

### Continuing Professional Development (CPD) of Directors and Supervisors

To uplift the professionalism of the Directors and Supervisors on an ongoing basis for better discharge of their duties, the Company provides CPD training to its Directors and Supervisors. During the Reporting Period, based on the record maintained by the Company, all Directors and Supervisors participated in training sessions which covered a wide range of areas including amendments to the Listing Rules, seminars on corporate governance and financial analysis regarding retail industry. The Company also arranges pre-appointment training for newly appointed directors.

### Independence of the Independent Directors

None of the Independent Non-executive Directors of the Company are under the employment 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.

## AUDIT COMMITTEE

### Composition of the Audit Committee

The Audit Committee of the Company comprises three members, all of whom are Independent Non-executive Directors. Details are 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

In accordance with the Rules of Meeting Procedures of the Audit Committee, the Audit Committee is primarily responsible for overseeing and reviewing the Group's financial performance, effectiveness of internal control and risk management, making recommendations to the Board on the appointment of auditors, reviewing the Company's arrangements by which employees can express their concerns over improper behaviors in financial reporting, reviewing the annual reports and interim reports of the Company, and the significant accounting policies and practices adopted in the preparation of financial reports. Its functions are in compliance with the relevant requirements under the Listing Rules.

### Meeting of the Audit Committee

During the Reporting Period, the Audit Committee convened two meetings to consider and approve matters which primarily included the following: Continuing connected transactions in practice in 2012; annual report 2012, interim report 2013 and interim results announcement 2013 of the Group and approval of auditors' remuneration for the Board's approval.

Attendance at meetings of the Audit Committee in 2013:

| | Number of meetings held | Number of meetings required to attend | Number of meetings attended | Percentage of attendance |
|---|---|---|---|---|
| Han Ying | 2 | 2 | 2 | 100% |
| Li Lu-an | 2 | 2 | 2 | 100% |
| Lu Jiang | 2 | 2 | 2 | 100% |

## REMUNERATION COMMITTEE

### Composition of the Remuneration Committee

The Remuneration Committee of the Company comprises three members, the majority of whom are Independent Non-executive Directors. Details are 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

In accordance with the Rules of Meeting Procedures of the Remuneration Committee, the primary duties of the Remuneration Committee are to assist the Board in the management of the overall remuneration structure of the Company, make recommendations to the Board on the formulation of remuneration plans or packages of Directors, supervisors, 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; ensuring that none of the Directors or any of their associates fixes his/her own remuneration; approving contracts of executive directors and performing such other matters as authorized by the Board.

### Meeting of the Remuneration Committee

During the Reporting Period, the Remuneration Committee convened two meetings to consider and approve the adoption of the share incentive scheme regarding tradable and non-listed Domestic Shares and the list of participants for the initial grant of incentive shares, and to propose the issues for the Board's consideration. The respective remuneration policies applicable to the directors and senior management staff of the Company were also reviewed.

Attendance at meetings of the Remuneration Committee in 2013:

| | Number of meetings held | Number of meetings required to attend | Number of meetings attended | Percentage of attendance |
|---|---|---|---|---|
| Li Lu-an | 2 | 2 | 2 | 100% |
| Han Ying | 2 | 2 | 2 | 100% |
| Xu Ying | 2 | 2 | 2 | 100% |

## NOMINATION COMMITTEE

### Composition of the Nomination Committee

The Nomination Committee of the Company comprises three members, the majority of whom are Independent Non-executive Directors. Details are as follows:

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

### The Primary Duties of the Nomination Committee

In accordance with the Rules of Meeting Procedures of the Nomination Committee, the main functions of the Nomination Committee are to review the structure, size and composition of the Board (including skill sets, knowledge and experience); make recommendations to the Board in respect of any proposed changes; research on the standard and procedure of selection of directors and senior management and to make recommendations to the Board thereon; identify potential candidates for the positions of directors and senior management, conduct review on such candidates and make recommendations thereon; select and nominate persons to become directors and/or senior management or advise the Board thereon; assess the independence of independent non-executive directors; and make recommendations to the Board regarding the appointment or re-appointment of directors and successive plans for directors.

### Meeting of the Nomination Committee

During the Reporting Period, the Nomination Committee convened one meeting to review the structure, size and composition of the Board; verify the independence of independent directors and review other matters in relation to compliance.

Attendance at meetings of the Nomination Committee in 2013:

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

## 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 conferred by laws and regulations and the Articles of Association of the Company. The management takes charge of the Company's operation and management, including the implementation of the Company's annual business plan and investment plan organization; draft plans for the establishment of the Company's internal management structure; draft plans for the establishment of branch companies of the Company; formulate the Company's basic management system and the basic rules and regulations of the Company; propose the appointment or dismissal of the Company's vice-president and chief financial officer; appoint or dismiss management personnel other than those required to be appointed or dismissed by the Board; and exercise other duties and powers conferred by the Articles of Association and 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. Meng Jin-xian (on 29 October 2013, Dr. Wu Jian-zhong resigned as the Chairman and Dr. Meng Jin-xian was elected as the Chairman of the Company), responsible for leading 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.

### Statement on Directors' Responsibility for Financial Statements

The Board is responsible for overseeing 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 preparing the accounts of the Company for the year ended 31 December 2013, the Directors confirmed that:

(1) all HKFRSs had been adopted;

(2) suitable accounting policies had been selected and applied consistently; and

(3) 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 maintain and ensure the sound, proper and effective functioning of the Company's internal control system; while the Company's management is responsible for planning and implementation of internal control procedures. To foster the regulated operation and healthy development of the Company, uplift the level of its operation and management, secure the safety and completeness of the Company's assets, and guard against and control management risks, the Company has, taking into account its own features of operations and actual situations, gradually established an internal control system linking the relevant levels and segments within the Company's structure, and created a more comprehensive internal control structure and more optimized internal control system. During the Reporting Period, the Company exercised control over its financial operations, daily management, systems and processes etc., guarding itself against operational, financial and management risks to the fullest extent by means of surveillance, audit and review efforts. At the same time, the Company was also aware that internal control shall be compatible with its operational scale, business scope, competitive landscape and risk level, and that adjustments shall be made to keep in pace with any changes of the circumstances. The Company shall continue to optimize its internal control system, regulate the implementation of its internal control system, strengthen the surveillance and review in respect of its internal control, and promote its healthy and sustainable development. During the Reporting Period, the Board reviewed the internal control system of the Company and its subsidiaries and confirmed that the internal control of the Company and its subsidiaries are effective and conducted on an ongoing basis.

## REMUNERATION OF THE AUDITORS

At the 2012 annual general meeting held on 28 June 2013, the re-appointment of Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the PRC and International Auditors, respectively, of the Company for 2013 and the authorization of the Board to fix the remuneration of the auditors, were approved. The audit fee paid by the Company for 2013 amounted to RMB4,850,000.

The 2013 Auditor's Report of the Company was prepared in accordance with Hong Kong Accounting Standards by Deloitte Touche Tohmatsu, whose audit opinions and reporting responsibilities are set out in the auditors' report in this Annual Report. Deloitte Touche Tohmatsu Certified Public Accountants LLP will furnish the 2013 Audit Report of the Company based on the accounting statements prepared in accordance with PRC accounting standards.

## INVESTOR RELATIONS

During the Reporting Period, amendments were made to the scope of operations set out in the Articles of Association of the Company based on operational needs and in line with amendments made to the relevant laws, regulations and rules. Approval has been obtained from the shareholders in the first extraordinary general meeting 2013 of the Company held on 27 May 2013.

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.

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 general meeting. Shareholders are entitled to participate and vote at general meetings, as well as directly communicate with the Directors and senior management.

Each matter is presented as a separate resolution at a general meeting, including the election of Directors and Supervisors.

Pursuant to the Articles of Association of the Company, shareholders holding, either individually or in aggregate, 10% (inclusive of 10%, the amount of shareholdings being calculated as at the date of deposit of the requisition(s)) or more of the shares of the Company, issued and outstanding, carrying the right to vote at the meeting sought to be held may in writing require the Board to convene a shareholders' extraordinary general meeting or a class meeting thereof, stating the object of the meeting.

If the Board fails to issue a notice of such a meeting within thirty (30) days from the date of receipt of the requisition(s), the demanding shareholder(s) may themselves convene such a meeting (in a manner as similar as possible to the manner in which shareholders' general meetings are convened by the Board) within four (4) months from the date of receipt of the requisition(s) by the Board.

Shareholders may submit relevant enquiries to the Board, by post to 11/F Wumart Commercial Building, 158-1 West 4th Ring North Road, Haidian District, Beijing, PRC, or via email to wumart@wu-mart.com. Such enquiries will be treated in a proper manner with the availability of sufficient contact information furnished by the Company. Shareholders may have access to copies of minutes of meetings, free of charge, within the business hours of the Company. Shareholders may directly propose their recommendations at shareholders' general meetings.

The Company makes timely, accurate and complete information disclosures in strict compliance with the Listing Rules. During the Reporting Period, the annual report of 2012 and interim report of 2013 were published for timely disclosure of important information and its progress.

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

During the Reporting Period, in compliance with the Corporate Governance Code and Corporate Governance Report under Appendix 14 of the Listing Rules and the System for Communications between Wumart, Inc. and its Shareholders, the Company maintained sustainable and smooth communication with the shareholders. The Company has dedicated personnels for investor relations work and for arranging meeting between the Company's management and investors, so as to enable investors to keep abreast of its operations and development plans. Some of the directors of the Company attended the 2012 annual general meeting to answer questions raised by shareholders.

Attendance of Investors meetings and conferences in 2013:

| Date | Name of meetings/conferences | Venue |
|---|---|---|
| May 2013 | 18th CLSA Securities China Forum | Beijing |
| June 2013 | J.P. Morgan's China Summit 2013 | Beijing |
| November 2013 | BoA Merrill Lynch China Conference 2013 | Beijing |

## AGM

During the Reporting Period, the Company's 2012 annual general meeting was convened on 28 June 2013. 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.

## JOINT COMPANY SECRETARIES

During the Reporting Period, Ms. Xie Dong, the original Secretary to the Board and Company Secretary, resigned on 28 June 2013. The Board appointed Ms. Wang Yi as Secretary to the Board and appointed Ms. Wang Yi and Dr. Liu Wei as the Joint Company Secretaries of the Company.

Biographical details of Ms. Wang Yi:

Ms. Wang Yi, aged 31, currently serves as associate director of the Finance Department and Investor-relations Director of the Company. Ms. Wang served successively as assistant to the President, secretary to the Executive Committee, Investor-relations Assistant, Investor-relations Director and senior manager of the Finance Department since she joined the Company in July 2006. She was appointed as associate director of the Finance Department of the Company in March 2013. Ms. Wang graduated from Nankai University with a bachelor's degree in economics in June 2004 and a master's degree in economics in June 2006.

Biographical details of Dr. Liu Wei:

Dr. Liu Wei, aged 56, is currently chairman of the China Group and managing partner of DLA Piper's Beijing Office. Dr. Liu has PRC lawyer qualification and is also a solicitor qualified to practice law in Hong Kong and England. Dr. Liu graduated from the Northwest University of China, the Chinese University of Political Science and Law and the University of Cambridge with a bachelor's degree in Chinese literature, a master's degree in law and a PhD in Law in 1982, 1986 and 1996, respectively. He also completed his Postgraduate Certificate in Laws (PCLL) with the University of Hong Kong in 2000.

Deloitte.
德勤

**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 59 to 127, which comprise the consolidated statement of financial position as at 31 December 2013, and consolidated statement of profit or loss and other 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 2013 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

11 March 2014

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the year ended 31 December 2013*

| | NOTES | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| Revenue | 5 | **16,988,172** | 15,362,984 |
| Cost of sales | | **(15,089,331)** | (13,947,953) |
| Gross profit | | **1,898,841** | 1,415,031 |
| Other revenues | 5 | **1,898,134** | 1,971,093 |
| Investment and other income and other gains | 7 | **357,882** | 299,166 |
| Distribution and selling expenses | | **(2,858,417)** | (2,394,258) |
| Administrative expenses | | **(508,901)** | (388,152) |
| Other losses | 8 | **(56,287)** | (20,524) |
| Impairment losses | 9 | **—** | (1,567) |
| Share of profit of associates | 21 | **8,342** | 8,277 |
| Share of profit of a joint venture | 22 | **5,541** | 3,651 |
| Finance costs | 10 | **(28,788)** | (27,312) |
| Profit before tax | | **716,347** | 865,405 |
| Income tax expense | 11 | **(222,336)** | (226,688) |
| Total profit and other comprehensive income for the year | 12 | **494,011** | 638,717 |
| Total profit and other comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **459,031** | 601,706 |
| Non-controlling interests | | **34,980** | 37,011 |
| | | **494,011** | 638,717 |
| Earnings per share | | | |
| — basic (RMB yuan per share) | 16 | **0.36** | 0.47 |

# Consolidated Statement of Financial Position



*At 31 December 2013*

| | NOTES | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| Non-current Assets | | | |
| Property, plant and equipment | 17 | **3,621,250** | 3,409,876 |
| Rental deposits | | **164,073** | 249,508 |
| Prepaid lease payments | 18 | **107,252** | 143,386 |
| Goodwill | 19 | **844,964** | 844,964 |
| Intangible assets | 20 | **82,046** | 86,599 |
| Interests in associates | 21 | **149,587** | 145,241 |
| Interest in a joint venture | 22 | **100,330** | 99,598 |
| Deferred tax assets | 32 | **106,968** | 104,906 |
| Deposit paid | 33 | **255,445** | — |
| Loan receivables | 24 | **166,500** | — |
| | | **5,598,415** | 5,084,078 |
| Current Assets | | | |
| Inventories | 23 | **1,460,422** | 1,111,511 |
| Loan receivables | 24 | **84,720** | 330,973 |
| Trade and other receivables | 25 | **1,271,742** | 1,036,977 |
| Amounts due from related parties | 26 | **179,675** | 169,067 |
| Prepaid lease payments | 18 | **66,594** | 90,026 |
| Held-for-trading investments | 27 | **110,000** | 32,489 |
| Restricted bank balances | 28 | **378,244** | 53,355 |
| Bank balances and cash | 28 | **2,269,912** | 2,158,841 |
| | | **5,821,309** | 4,983,239 |
| Current Liabilities | | | |
| Trade and other payables | 29 | **6,724,461** | 5,571,517 |
| Amounts due to related parties | 26 | **17,373** | 39,474 |
| Tax liabilities | | **190,268** | 206,489 |
| Borrowings | 30 | **521,863** | 524,500 |
| | | **7,453,965** | 6,341,980 |
| Net Current Liabilities | | **(1,632,656)** | (1,358,741) |
| Total Assets less Current Liabilities | | **3,965,759** | 3,725,337 |

*At 31 December 2013*

| | NOTES | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| Capital and Reserves | | | |
| Share capital | 31 | **1,281,274** | 1,281,274 |
| Share premium and reserves | | **2,425,890** | 2,250,337 |
| Equity attributable to owners of the Company | | **3,707,164** | 3,531,611 |
| Non-controlling interests | | **185,807** | 180,279 |
| Total Equity | | **3,892,971** | 3,711,890 |
| Non-current Liabilities | | | |
| Deferred tax liabilities | 32 | **12,788** | 13,447 |
| Borrowings | 30 | **60,000** | — |
| | | **3,965,759** | 3,725,337 |

The consolidated financial statements on pages 59 to 127 were approved and authorised for issue by the Board of Directors on 11 March 2014 and are signed on its behalf by:

| **Xu Ying** | **Xu Shao-chuan** |
|---|---|
| DIRECTOR | DIRECTOR |

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2013*

| | 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 2012 | 1,281,274 | 745,018 | (733,253) | 331,500 | 1,562,458 | 3,186,997 | 157,999 | 3,344,996 |
| Profit and total comprehensive income for the year | — | — | — | — | 601,706 | 601,706 | 37,011 | 638,717 |
| Dividends paid by the Company (note 15) | — | — | — | — | (257,092) | (257,092) | — | (257,092) |
| Dividends paid to non-controlling interests | — | — | — | — | — | — | (14,731) | (14,731) |
| Profit appropriations (note i) | — | — | — | 30,809 | (30,809) | — | — | — |
| At 31 December 2012 | 1,281,274 | 745,018 | (733,253) | 362,309 | 1,876,263 | 3,531,611 | 180,279 | 3,711,890 |
| Profit and total comprehensive income for the year | — | — | — | — | 459,031 | 459,031 | 34,980 | 494,011 |
| Dividends declared by the Company (note 15) | — | — | — | — | (269,068) | (269,068) | — | (269,068) |
| Dividends paid to non-controlling interests | — | — | — | — | — | — | (11,102) | (11,102) |
| Profit appropriations (note i) | — | — | — | 35,819 | (35,819) | — | — | — |
| Acquisition of the non-controlling interests (note ii) | — | — | (14,410) | — | — | (14,410) | (18,350) | (32,760) |
| At 31 December 2013 | 1,281,274 | 745,018 | (747,663) | 398,128 | 2,030,407 | 3,707,164 | 185,807 | 3,892,971 |

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, the company 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.

(ii) In December 2013, the Group acquired 15% the non-controlling interests of Shaoxing Commercial Supermarket Company Limited at a cash consideration of RMB32,760,000. After the acquisition, the Group obtained 100% equity interest of Shaoxing Commercial Supermarket Investment Co., Ltd. The difference between the carrying amount of the net assets acquired and the fair value of consideration paid was recognised directly in equity and attributed to owners of the Company.

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2013*

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit before tax | **716,347** | 865,405 |
| Adjustments for: | | |
| Finance costs | **28,788** | 27,312 |
| Interest income | **(61,998)** | (42,941) |
| Share of profit of associates | **(8,342)** | (8,277) |
| Share of profit of a joint venture | **(5,541)** | (3,651) |
| Depreciation for property, plant and equipment | **341,878** | 312,256 |
| Release of prepaid lease payments | **90,026** | 66,907 |
| Amortisation for intangible assets | **4,553** | 6,547 |
| Loss on disposal/write-off of property, plant and equipment | **55,042** | 18,200 |
| Impairment loss in respect of intangible assets | **–** | 1,567 |
| Operating cash flows before movements in working capital | **1,160,753** | 1,243,325 |
| Decrease (increase) in inventories | **(348,911)** | 74,873 |
| Increase in trade and other receivables | **(227,765)** | (31,799) |
| Increase in amounts due from related parties | **(10,608)** | (36,349) |
| Decrease (increase) in rental deposits | **85,435** | (67,920) |
| Increase in prepaid rental payments | **(55,905)** | (154,229) |
| Increase in held-for-trading investments | **(77,511)** | (8,897) |
| Increase in trade and other payables | **1,209,033** | 964,559 |
| Decrease in amounts due to related parties | **(22,101)** | (29,030) |
| Cash generated from operations | **1,712,420** | 1,954,533 |
| Interest received on bank deposit | **10,316** | 11,066 |
| Income tax paid | **(241,278)** | (271,580) |
| **NET CASH FROM OPERATING ACTIVITIES** | **1,481,458** | 1,694,019 |

# Consolidated Statement of Cash Flows



*For the year ended 31 December 2013*

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| **INVESTING ACTIVITIES** | | |
| Purchases of property, plant and equipment | **(707,964)** | (907,844) |
| Withdrawal of restricted bank balances | **53,355** | 66,331 |
| Placement of restricted bank balances | **(378,244)** | (53,355) |
| Proceeds from disposal of property, plant and equipment | **2,885** | 3,312 |
| Proceeds from disposal of interest in an associate | **125** | — |
| Deposit paid | **(230,000)** | — |
| Repayment of loan receivables | **309,000** | — |
| Advance of loan | **(196,500)** | — |
| Interest received on loan receivables | **18,935** | 18,142 |
| Dividend received from associates | **3,871** | 3,822 |
| Dividend received from a joint venture | **4,809** | 8,074 |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(1,119,728)** | (861,518) |
| **FINANCING ACTIVITIES** | | |
| New bank loans raised | **60,000** | 100,000 |
| Issue of short term debenture | **500,000** | 500,000 |
| Acquisition of the non-controlling interests | **(32,760)** | — |
| Repayment of short-term debenture | **(500,000)** | — |
| Repayment of bank loans | **—** | (350,000) |
| Interest paid | **(31,425)** | (2,812) |
| Dividends paid to owners of the company | **(235,372)** | (257,092) |
| Dividends paid to non-controlling interests of subsidiaries | **(11,102)** | (14,731) |
| **NET CASH USED IN FINANCING ACTIVITIES** | **(250,659)** | (24,635) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **111,071** | 807,866 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **2,158,841** | 1,350,975 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR,** represented by bank balances and cash | **2,269,912** | 2,158,841 |

*For the year ended 31 December 2013*

## 1. GENERAL

The Company is registered in the PRC as a joint stock company with limited liability. Its H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK").

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

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

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

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

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") in the current period.

| | |
|---|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2009–2011 Cycle |
| Amendments to HKFRS 7 | Disclosures — Offsetting Financial Assets and Financial Liabilities |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance |
| HKFRS 10 | Consolidated Financial Statements |
| HKFRS 11 | Joint Arrangements |
| HKFRS 12 | Disclosure of Interests in Other Entities |
| HKFRS 13 | Fair Value Measurement |
| HKAS 19 (as revised in 2011) | Employee Benefits |
| HKAS 27 (as revised in 2011) | Separate Financial Statements |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income |

In addition, the Group has early adopted the amendments to HKAS 36 Impairment of Financial Assets: Recoverable Amount Disclosures for Non-Financial Assets in advance of it effective date.

Except as described below, the application and early adoption 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 on the disclosures set out in these consolidated financial statements.

*For the year ended 31 December 2013*

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

**New and revised Standards on consolidation, joint arrangements, associates and disclosures**

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 Consolidated Financial Statements, HKFRS 11 Joint Arrangements, HKFRS 12 Disclosure of Interests in Other Entities, HKAS 27 (as revised in 2011) Separate Financial Statements and HKAS 28 (as revised in 2011) Investments in Associates and Joint Ventures, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

The impact of the application of these standards is set out below.

**Impact of the application of HKFRS 10 Consolidated Financial Statements**

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 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee. The directors have assessed its involvement in its subsidiaries and considered the application of HKFRS 10 has had no material impact on the consolidated financial statements.

**Impact of the application of HKFRS 11 Joint Arrangements**

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures, and the guidance contained in a related interpretation, HK(SIC) — Int13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers, has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements — joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 contemplated three types of joint arrangements — jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity). The directors have assessed its involvement in its joint arrangement and considered its investment in the joint arrangement is a joint venture. The application of HKFRS 11 has had no material impact on the consolidated financial statements.

*For the year ended 31 December 2013*

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

**Impact of the application of HKFRS 12**

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements. (please see notes 21, 22 and 42(b) for details).

**HKFRS 13 Fair Value Measurement**

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply 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 for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements (please see note 35 for the disclosures).

**Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income**

The Group has applied the amendments to HKAS 1 Presentation of Items of Other Comprehensive Income. Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. Other amendments to HKAS 1 do not have any impact on the presentation of the consolidated financial statements.

*For the year ended 31 December 2013*

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

**Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets**

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

These amendments are effective for annual period beginning on or after 1 January 2014. The directors have early adopted the amendments in advance of effective date and prepared the disclosures relating to recoverable amount of non-financial assets in accordance with the amendments.

**New and revised HKFRSs in issue but not yet effective**

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

| | |
|---|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2010–2012 Cycle[4] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2011–2013 Cycle[2] |
| HKFRS 9 | Financial Instruments[3] |
| Amendments to HKFRS 9 and HKFRS 7 | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment Entities[1] |
| Amendments to HKAS 19 | Defined Benefit Plans: Employee Contributions[2] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[1] |
| Amendments to HKAS 39 | Novation of Derivatives and Continuation of Hedge Accounting[1] |
| HK (IFRIC) — Int 21 | Levies[1] |

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Available for application — the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
5 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

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.

*For the year ended 31 December 2013*

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

### New and revised HKFRSs in issue but not yet effective (Continued)

*HKFRS 9 Financial Instruments*

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are 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.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that 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 of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The directors anticipate that the adoption of HKFRS 9 in the future may not have significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31 December 2013.

*For the year ended 31 December 2013*

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

### New and revised HKFRSs in issue but not yet effective (Continued)

*HK (IFRIC) — Int 21 Levies*

HK (IFRIC) — Int 21 Levies addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The directors of the Company anticipate that the application of HK (IFRIC) — Int 21 will have no effect on the Group's consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRS 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 at the end of each reporting period, 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 and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventory or value in use in HKAS 36 Impairment of Assets.

*For the year ended 31 December 2013*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

*For the year ended 31 December 2013*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Changes in the Group's ownership interests in existing subsidiaries**

Changes in the Group's ownership interests in existing 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 amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's 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 when 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 its carrying amount, 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 on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. 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.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

**Investments in associates and joint ventures**

An associate is an entity over which the Group has significant influence. 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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

*For the year ended 31 December 2013*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Investments in associates and joint ventures (Continued)**

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), 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 the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee 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 and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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 or a joint venture. 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 of disposal) 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.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment (or a portion thereof) is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale is accounted for using the equity method.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Investments in associates and joint ventures (Continued)**

Upon disposal or partial disposal of the Group's interest in an associate or a joint venture in which the Group lost significant influence or joint control and discontinued the use of equity method, any retained interest that is within the scope of HKAS 39 is measured at fair value on that date, the difference between the carrying amount of the associate or joint venture at the date, and the proceeds from disposing of such interest (or partial interest) in the associate or joint venture and the fair value of the retained interest is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the Group lost significant influence or joint control over the investee.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement of the previously held interest or the retained interest to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

**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.

*For the year ended 31 December 2013*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition (Continued)

Revenue from sale of goods is recognised when the goods are delivered and title is passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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.

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).

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Property, plant and equipment**

Property, plant and equipment other than construction in progress as described below are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent 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.

**Intangible assets**

*Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are recognised separately from goodwill and 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 with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses (if any). Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives.

*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.

*For the year ended 31 December 2013*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Intangible assets (Continued)**

*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.

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives 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 (or cash-generating unit) 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 (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

*For the year ended 31 December 2013*

## 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.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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 recognised 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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. 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.

**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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Equity-settled share-based payment arrangements**

For incentive shares granted by the Company that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of incentive shares granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity.

At the end of the reporting period, the Group revises its estimates of the number of incentive shares that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity.

For incentive shares that vest immediately at the date of grant, the fair value of the incentive shares granted is expensed immediately to profit or loss.

**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 before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and 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 generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those 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 arrangements, 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.

*For the year ended 31 December 2013*

## 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 they relate 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 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

***Financial assets (Continued)***

*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.

*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).

*For the year ended 31 December 2013*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

***Financial assets (Continued)***

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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 financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation

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

An impairment loss of loans and receivables is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the 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 financial asset is reduced by the impairment loss directly for all financial assets with the exception of loan receivables, trade and other receivables and amounts due from related parties, 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 loan receivables, trade and other receivables and amounts due from related parties is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

*For the year ended 31 December 2013*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments (Continued)**

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

The Group's accounting policy for financial liabilities are set out as below.

*Financial liabilities*

Financial liabilities (including borrowings, 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.

***Derecognition***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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 and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

*For the year ended 31 December 2013*

## 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 amount may not be recoverable. Factors that would indicate impairment may include, but are not limited to, any significant change in economic environment, operating cash flows associated with the cash-generating unit containing the intangible assets. The recoverable amount is determined by the calculation of the value in use. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. During the year ended 31 December 2013, no impairment loss (2012: RMB1,567,000) has been recognised in respect of operating lease contracts (see note 20). Any further changes to the economic environment and operating cash flows will affect the estimation of the recoverable amount of the cash-generating unit, additional impairment losses would be recognised.

**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 2013, the carrying amount of goodwill is RMB844,964,000 (2012: RMB844,964,000) and no impairment loss has been recognised. Details of the recoverable amount calculation are disclosed in note 19.

*For the year ended 31 December 2013*

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

**Deferred tax assets**

As at 31 December 2013, a deferred tax assets of RMB106,968,000 (2012: RMB104,906,000) 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 obsolete or non-strategic assets that have been abandoned or sold. As at 31 December 2013, the carrying amount of property, plant and equipment is RMB3,621,250,000 (2012: RMB3,409,876,000). Details of the useful lives of property, plant and equipment are disclosed in note 17.

**Estimated impairment of loan receivables, trade receivables 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 2013, the carrying amount of loan receivables, trade receivables and other receivables is RMB615,549,000 (31 December 2012: RMB661,377,000), net of allowance for doubtful debts of RMB18,328,000 (31 December 2012: RMB18,328,000).

*For the year ended 31 December 2013*

## 5. REVENUE AND OTHER REVENUES

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Revenue | | |
| Sales of goods | **16,988,172** | 15,362,984 |
| Other revenues | | |
| Rental income from leasing of shop premises | **608,621** | 508,259 |
| Income from suppliers, including store display income and promotion income | **1,289,513** | 1,462,834 |
| | **1,898,134** | 1,971,093 |
| Total revenue | **18,886,306** | 17,334,077 |

## 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.

*For the year ended 31 December 2013*

## 7. INVESTMENT AND OTHER INCOME AND OTHER GAINS

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Investment and other income: | | |
| Government subsidies (note) | **26,954** | 30,965 |
| Sales of scrapped materials | **17,555** | 19,431 |
| Compensation received from lessees for cancellation of lease contract | **5,950** | 2,170 |
| Delivery service income | **168,340** | 128,090 |
| Compensation received from suppliers for delaying goods delivery | **3,904** | 13,000 |
| Interest on bank deposits | **10,316** | 11,066 |
| Interest on loan receivables | **51,682** | 31,875 |
| Others | **25,988** | 37,713 |
| | **310,689** | 274,310 |
| Other gains: | | |
| Fair value changes of held-for-trading investments | **47,193** | 24,856 |
| | **357,882** | 299,166 |

Note: The Group was awarded government subsidies totalled RMB26,954,000 during the year (2012: 30,965,000), for the recognition of the Group's contribution to local community and fulfilling other conditions which the local government considered necessary.

## 8. OTHER LOSSES

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Net foreign exchange loss | **1,245** | 2,324 |
| Loss on disposal/write-off of property, plant and equipment | **55,042** | 18,200 |
| | **56,287** | 20,524 |

The Group closed down a few non-performing stores during the current year and disposed/write- off the related property, plant and equipment which resulted in a loss of RMB55,042,000 (2012: RMB18,200,000).

*For the year ended 31 December 2013*

## 9. IMPAIRMENT LOSSES

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Impairment loss recognised in respect of intangible assets | – | 1,567 |

## 10. FINANCE COSTS

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Interests on: | | |
| — Bank loans wholly repayable within five years | **2,025** | 2,812 |
| — Short term debenture | **26,763** | 24,500 |
| | **28,788** | 27,312 |

## 11. INCOME TAX EXPENSE

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| The charge (credit) comprises: | | |
| PRC income tax | **225,057** | 243,225 |
| Deferred tax (note 32) | **(2,721)** | (16,537) |
| | **222,336** | 226,688 |

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%.

*For the year ended 31 December 2013*

## 11. INCOME TAX EXPENSE (Continued)

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Profit before tax | **716,347** | 865,405 |
| Taxation at the PRC Enterprise Income Tax rate of 25% (2012: 25%) | **179,087** | 216,351 |
| Tax effect of share of profit of associates and a joint venture | **(3,471)** | (2,982) |
| Tax effect of expenses not deductible for tax purpose | **3,500** | 2,258 |
| Tax effect of tax losses not recognised | **61,190** | 17,550 |
| Utilisation of tax losses previously not recognised | **(17,970)** | (6,489) |
| Income tax expense for the year | **222,336** | 226,688 |

## 12. PROFIT FOR THE YEAR

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Profit for the year has been arrived at after charging: | | |
| Depreciation for property, plant and equipment | **341,878** | 312,256 |
| Release of prepaid lease payments | **90,026** | 66,907 |
| Amortisation for intangible assets (included in distribution and selling expenses) | **4,553** | 6,547 |
| Total depreciation and amortisation | **436,457** | 385,710 |
| Operating lease rentals in respect of rented premises | **927,221** | 737,262 |
| Auditor's remuneration | **4,850** | 4,850 |
| Staff costs: | | |
| Directors' emoluments | **3,021** | 3,648 |
| Other staff costs | | |
| — Salaries and other benefit | **1,058,347** | 843,380 |
| — Contributions to retirement benefits schemes | **105,578** | 84,856 |
| | **1,166,946** | 931,884 |
| Share of tax of associates and a joint venture (included in share of profit of associates and a joint venture) | **5,581** | 5,223 |
| Cost of inventories recognised as expense | **15,089,331** | 13,947,953 |

*For the year ended 31 December 2013*

## 13. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS

### (a) Executive directors, chief executive and independent non-executive directors

The emoluments paid or payable to each of the seven (2012: eight) directors and the chief executive were as follows:

| | Xu Ying (ii) | Yu Jian-bo | Xu Shao-chuan (iii) | Han Ying | Li Lu-an | Lu Jiang | Wang Jun-yan | Meng Jin-xian (iv) | Wu Jian-zhong (v) | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **2013** | | | | | | | | | | |
| Fees | **–** | **–** | **–** | **78** | **78** | **78** | **78** | **–** | **–** | **312** |
| Other emoluments | | | | | | | | | | |
| Salaries and other benefits | **739** | **967** | **739** | **–** | **–** | **–** | **–** | **–** | **–** | **2,445** |
| Contributions to retirement benefits schemes | **88** | **88** | **88** | **–** | **–** | **–** | **–** | **–** | **–** | **264** |
| Total emoluments | **827** | **1,055** | **827** | **78** | **78** | **78** | **78** | **N/A** | **N/A** | **3,021** |
| **2012** | | | | | | | | | | |
| Fees | – | – | – | 78 | 78 | 78 | 78 | – | – | 312 |
| Other emoluments | | | | | | | | | | |
| Salaries and other benefits | 739 | 961 | – | – | – | – | – | 696 | 652 | 3,048 |
| Contributions to retirement benefits schemes | 72 | 72 | – | – | – | – | – | 72 | 72 | 288 |
| Total emoluments | 811 | 1,033 | N/A | 78 | 78 | 78 | 78 | 768 | 724 | 3,648 |

Notes:

(i) The amounts disclosed above included directors' fees of RMB312,000 (2012: RMB312,000) payable to independent non-executive directors. No other emoluments were paid to the independent non-executive directors during the year.

(ii) Ms. Xu Ying is also the chief executive of the Company and her emoluments disclosed above include those for services rendered by her as the chief executive.

(iii) Mr. Xu Shao-chuan was elected to be the executive director and vice president of the Company in the current year.

(iv) Mr. Meng Jin-xian was redesignated as the non-executive director and chairman of the Company (an executive director prior to the redesignation) in the current year.

(v) Mr. Wu Jian-zhong was redesignated as the non-executive director of the Company (an executive director prior to the redesignation) in the current year.

*For the year ended 31 December 2013*

## 13. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (Continued)

**(b) Supervisors**

The emoluments paid or payable to each of the three (2012: three) supervisors were as follows:

| | Zhang. Zheng-yang RMB'000 | Fan. Kui-jie RMB'000 | Xu. Ning-chun RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **2013** | | | | |
| Fees | **–** | **48** | **48** | **96** |
| Other emoluments | | | | |
| Salaries and other benefits | **822** | **–** | **–** | **822** |
| Contributions to retirement benefits schemes | **88** | **–** | **–** | **88** |
| Total emoluments | **910** | **48** | **48** | **1,006** |
| **2012** | | | | |
| Fees | – | 48 | 48 | 96 |
| Other emoluments | | | | |
| Salaries and other benefits | 530 | – | – | 530 |
| Contributions to retirement benefits schemes | 72 | – | – | 72 |
| Total emoluments | 602 | 48 | 48 | 698 |

None of the directors and supervisors waived any emoluments during the current and prior year.

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## 14. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals included four (2012: four) directors, the chief executive and a supervisor for the year (details of whose emoluments are set out in note 13 above), the emoluments of the remaining one (2012: one) highest paid individual for the year was as follows:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Salaries and other benefits | **742** | 739 |
| Retirement benefits scheme contributions | **88** | 72 |
| | **830** | 811 |

The emolument was within the following bands:

| | 2013<br>No. of employees | 2012<br>No. of employees |
|---|---|---|
| HK$ nil to HK$ 1,000,000 | **1** | 1 |

## 15. DIVIDENDS

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Dividends recognised as distribution during the year: | | |
| 2012 final — RMB0.21 (2012: 2011 final paid RMB0.20) per share | **269,068** | 257,092 |

Subsequent to the end of the reporting period, the final dividend of RMB0.25 (2012:RMB0.21) per share with the total amount of RMB320,318,500 (2012:RMB269,068,000) in respect of the year ended 31 December 2013 has been proposed by the directors and is subject to approval by the shareholders in forthcoming general meeting.

*For the year ended 31 December 2013*

## 16. EARNINGS PER SHARE

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Profit for the year attributable to owners of the Company | **459,031** | 601,706 |

| | 2013<br>'000 | 2012<br>'000 |
|---|---|---|
| Number of shares: | | |
| Number of shares for the purpose of basic earnings per share | **1,281,274** | 1,281,274 |

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

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## 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 1 January 2012 | 1,721,326 | 1,252,210` | 590,597 | 173,578 | 44,518 | 16,061 | 3,798,290 |
| Additions | 463,368 | 221,495 | 84,389 | 39,539 | 9,373 | 171,006 | 989,170 |
| Transfer | — | 158,653 | 1,661 | — | — | (160,314) | — |
| Disposals/write-off | — | (21,364) | (17,019) | (10,853) | (10,001) | — | (59,237) |
| At 31 December 2012 | 2,184,694 | 1,610,994 | 659,628 | 202,264 | 43,890 | 26,753 | 4,728,223 |
| Additions | — | 267,099 | 95,782 | 27,110 | 4,289 | 223,899 | 618,179 |
| Transfer | — | 140,193 | — | — | — | (140,193) | — |
| Disposals/write-off | — | (77,397) | (26,561) | (10,804) | (12,780) | — | (127,542) |
| At 31 December 2013 | 2,184,694 | 1,940,889 | 728,849 | 218,570 | 35,399 | 110,459 | 5,218,860 |
| **ACCUMULATED DEPRECIATION** | | | | | | | |
| At 1 January 2012 | (225,495) | (459,252) | (271,721) | (72,426) | (12,804) | — | (1,041,698) |
| Depreciation expense | (55,541) | (147,817) | (81,239) | (22,100) | (5,559) | — | (312,256) |
| Eliminated on disposals/write-off of assets | — | 3,677 | 12,304 | 9,759 | 9,867 | — | 35,607 |
| At 31 December 2012 | (281,036) | (603,392) | (340,656) | (84,767) | (8,496) | — | (1,318,347) |
| Depreciation expense | (56,380) | (185,273) | (73,372) | (22,025) | (4,828) | — | (341,878) |
| Eliminated on disposals/write-off of assets | — | 24,160 | 20,549 | 10,537 | 7,369 | — | 62,615 |
| At 31 December 2013 | (337,416) | (764,505) | (393,479) | (96,255) | (5,955) | — | (1,597,610) |
| **CARRYING AMOUNTS** | | | | | | | |
| At 31 December 2013 | 1,847,278 | 1,176,384 | 335,370 | 122,315 | 29,444 | 110,459 | 3,621,250 |
| At 31 December 2012 | 1,903,658 | 1,007,602 | 318,972 | 117,497 | 35,394 | 26,753 | 3,409,876 |

## 17. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

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

Leasehold land and buildings with a carrying amount of approximately RMB211,655,000 (2012: RMB217,847,000) have been pledged to secure general banking facilities granted to the Group.

At 31 December 2013, included in the leasehold land and buildings is a building acquired upon the acquisition of a subsidiary in 2008 with carrying amount of approximately RMB7,490,000 (2012: RMB7,692,000) whereby the Group is still in the progress of obtaining the Housing Ownership Certificate.

## 18. PREPAID LEASE PAYMENTS

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| The Group's prepaid lease payments comprise: | | |
| Medium-term leasehold land in the PRC | **25,618** | 27,662 |
| Prepaid lease rentals | **148,228** | 205,750 |
| | **173,846** | 233,412 |
| Analysed for reporting purposes as: | | |
| Current assets | **66,594** | 90,026 |
| Non-current assets | **107,252** | 143,386 |
| | **173,846** | 233,412 |

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

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## 19. GOODWILL

| | RMB'000 |
|---|---|
| COST AND CARRYING AMOUNTS | |
| At 1 January 2012, 31 December 2012 and 2013 | 844,964 |

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Hangzhou Tiantian Wumart Commerce Company, Ltd.<br>— Superstores | **350,386** | 350,386 |
| Beijing Merrymart Chain stores Development Company, Ltd.<br>— Superstores | **260,148** | 260,148 |
| Beijing Huixin Hypermarket — Superstores | **143,560** | 143,560 |
| Zhejiang Gongxiao Supermarket Company, Ltd.<br>— Superstores and Minimarts | **88,611** | 88,611 |
| Huzhou Laodafang Supermarket Company, Ltd.<br>— Superstores and Minimarts | **1,256** | 1,256 |
| Beijing Wumart Bolante Convenience Stores Company, Ltd.<br>— 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 11.30% (2012: 12.26%). 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.

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## 20. INTANGIBLE ASSETS

| | Land use right | Operating lease contracts (note i) | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| COST | | | |
| At 1 January 2012 and 31 December 2012 and 2013 | 90,727 | 27,790 | 118,517 |
| ACCUMULATED AMORTISATION AND IMPAIRMENT | | | |
| At 1 January 2012 | (11,981) | (11,823) | (23,804) |
| Amortisation expense | (2,705) | (3,842) | (6,547) |
| Impairment losses recognised in profit or loss | — | (1,567) | (1,567) |
| At 31 December 2012 | (14,686) | (17,232) | (31,918) |
| Amortisation expense | (2,705) | (1,848) | (4,553) |
| At 31 December 2013 | (17,391) | (19,080) | (36,471) |
| CARRYING AMOUNTS | | | |
| At 31 December 2013 | 73,336 | 8,710 | 82,046 |
| At 31 December 2012 | 76,041 | 10,558 | 86,599 |

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

(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 |

*For the year ended 31 December 2013*

## 21. INTERESTS IN ASSOCIATES

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Cost of investments in associates, unlisted | **107,964** | 108,089 |
| Share of post-acquisition profits, net of dividends received | **53,888** | 49,417 |
| Impairment of interest in an associate, unlisted (note i) | **(12,265)** | (12,265) |
| | **149,587** | 145,241 |

As at 31 December 2013, the Group had interests in the following associates:

| Name of entity | Form of business structure | Place of establishment | Principal place of operation | Registered capital | Proportion of Ownership interest/ voting rights held by the Group 2013 | 2012 | Principal activities |
|---|---|---|---|---|---|---|---|
| Beijing Chao Shifa Company Limited (i) ("Chao Shifa") | Established | PRC | Beijing, PRC | 91,980 | **25.03%** | 25.03% | Operation of superstores |
| Beijing Chongwenmen Vegetable Market Supermarket Company Limited ("Chongwenmen Market") | Established | PRC | Beijing, PRC | 60,000 | **49%** | 49% | Operation of superstores and mini-marts |
| Beijing New Life Investment and Development Company Limited | Established | PRC | Beijing, PRC | 10,000 | **49%** | 49% | Operation of investment,real estimate management |
| Beijing Meiyijia Marketing Limited (ii) | Established | PRC | Beijing, PRC | 500 | **–** | 25% | Operation of design,production agency and distribution of advertisements in the PRC |

**(i)** Included in the cost of investment in associates at 31 December 2013 was goodwill of RMB45,260,000 (2012: RMB45,260,000). The carrying amount of the goodwill represents goodwill of RMB57,525,000 arising from acquisition of Chao Shifa, and the impairment loss RMB12,265,000 was recognised in year 2011.

**(ii)** In the prior year, the Group held a 25% interest in Beijing Meiyijia Marketing Limited and accounted for the investment as an associate. In August 2013, the Group disposed of its entire interest in Beijing Meiyijia Marketing Limited to a third party for a cash proceed of RMB125,000 (received in September 2013). This transaction has not resulted in any gains or losses.

## 21. INTERESTS IN ASSOCIATES (Continued)

**(iii) Summarised financial information of material associates:**

All of these associates are accounted for using the equity method in these consolidated financial statements.

*(a) Chao Shifa*

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Current assets | **767,322** | 779,125 |
| Non-current assets | **239,323** | 260,036 |
| Current liabilities | **705,885** | 732,675 |
| Non-current liabilities | **92,362** | 105,192 |
| Revenue | **2,640,873** | 2,589,009 |
| Total profit and other comprehensive income for the year | **7,104** | 10,696 |

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Net assets of the Chao Shifa | **208,398** | 201,294 |
| Proportion of the Group's ownership interest in Chao Shifa (%) | **25.03** | 25.03 |
| Goodwill | **45,260** | 45,260 |
| Carrying amount of the Group's interest in Chao Shifa | **96,592** | 94,831 |

*For the year ended 31 December 2013*

## 21. INTERESTS IN ASSOCIATES (Continued)

### (iii) Summarised financial information of material associates: (Continued)

*(b) Chongwenmen Market*

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Current assets | **232,567** | 291,995 |
| Non-current assets | **129,494** | 41,446 |
| Current liabilities | **263,221** | 240,849 |
| Revenue | **272,640** | 225,836 |
| Profit for the year | **13,430** | 11,452 |
| Total profit and other comprehensive income for the year | **14,148** | 11,452 |
| Dividends received from the associate during the year | **3,871** | 3,822 |

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Net assets of the Chongwenmen Market | **98,840** | 92,592 |
| Proportion of the Group's ownership interest in Chongwenmen Market (%) | **49.00** | 49.00 |
| Carrying amount of the Group's interest in Chongwenmen Market | **48,095** | 45,385 |

*For the year ended 31 December 2013*

## 21. INTERESTS IN ASSOCIATES (Continued)

### (iv) Aggregate information of associates that are not individually material

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| The Group's share of profit and other comprehensive income | **–** | – |
| Aggregate carrying amount of the Group's interests in these associates | **4,900** | 5,025 |

## 22. INTEREST IN A JOINT VENTURE

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Cost of unlisted investment in a joint venture | **100,000** | 100,000 |
| Share of post-acquisition profit or loss and other comprehensive income, net of dividends received | **330** | (402) |
| | **100,330** | 99,598 |

As at 31 December 2013, the Group had interest in the following joint venture:

| Name of entity | Form of business structure | Place of incorporation/ operation | Registered capital | Proportion of ownership interest held by the Group | | Proportion of voting power held by the Group | | Principal activity |
|---|---|---|---|---|---|---|---|---|
| | | | RMB'000 | 2013 | 2012 | 2013 | 2012 | |
| Beijing Aoshikai Wumart Company Ltd. | Established | PRC | 200,000 | **50%** | 50% | **50%** | 50% | Operation of superstores |

Summarised financial information in respect of the Group's joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

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## 22. INTEREST IN A JOINT VENTURE (Continued)

The joint venture is accounted for using the equity method in these consolidated financial statements.

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Current assets | **66,833** | 90,781 |
| Non-current assets | **194,379** | 184,730 |
| Current liabilities | **60,552** | 76,315 |
| The above amounts of assets and liabilities include the following: | | |
| Cash and cash equivalents | **40,337** | 49,946 |
| Revenue | **337,243** | 325,871 |
| Total profit and other comprehensive income for the year | **11,801** | 7,303 |
| Group's share of profit of a joint venture for the year | **5,541** | 3,651 |
| Dividends received | **4,809** | 8,074 |
| The above profit for the year include the following: | | |
| Depreciation and amortisation | **6,187** | 6,843 |
| Interest income | **203** | 166 |
| Income tax expense | **4,261** | 4,052 |

*For the year ended 31 December 2013*

## 22. INTEREST IN A JOINT VENTURE (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in joint venture recognised in the consolidated financial statements:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Net assets | **200,660** | 199,196 |
| Proportion of the Group's ownership interest (%) | **50.00** | 50.00 |
| Carrying amount of the Group's interest | **100,330** | 99,598 |

## 23. INVENTORIES

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Merchandise for resale | **1,456,564** | 1,109,744 |
| Consumables | **3,858** | 1,767 |
| | **1,460,422** | 1,111,511 |

## 24. LOAN RECEIVABLES

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Fixed-rate loan receivables | **251,220** | 330,973 |
| Analysed as: | | |
| Current | **84,720** | 330,973 |
| Non-current | **166,500** | — |
| | **251,220** | 330,973 |

*For the year ended 31 December 2013*

## 24. LOAN RECEIVABLES (Continued)

To secure properties for new stores, the Group entered into the following loan agreements with certain lessors.

| Loan receivables comprise: | Maturity Date | Effective interest rate (%) | Carrying amount | |
|---|---|---|---|---|
| | | | 31/12/2013 RMB'000 | 31/12/2012 RMB'000 |
| Loans to a subordinate entity of the District Government (i) | August 2013 | 13.42 | **54,720** | 330,973 |
| Loan to lessor A (ii) | March 2014 | 6.72 | **30,000** | — |
| Loan to lessor B (iii) | March 2015 | 7.41 | **46,500** | — |
| Loan to lessor C (iv) | February 2016 | 8.15 | **120,000** | — |

(i) 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 (the "Entity") for 6 months to finance the development of the Project. The loan was interest bearing at 6.1% per annum. In addition, the Group was entitled to receive a certain percentage of return estimated by reference to the aggregate development costs (the "Estimated Return"). The District Government also agreed 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. The maturity of the loan was extended to August 2013 and interest bearing at 5.6% per annum from August 2012 onwards. Taking into account the effect on the Estimated Return, the effective interest of the loan receivable was 13.42% (2012: estimated to be 11.27%). The Entity repaid the principal and the interests(excluding the Estimated Return) during the current year. As the Group is still negotiating the Award with the District Government and considering the uncertainty of the estimated future cash inflows, the Group did not recognise the Award upon the completion of the land auction.

(ii) The Group entered into an entrusted loan agreement through Hangzhou City Commercial Bank Co., Ltd. with lessor A on 17 December 2013. According to the agreement, the Group lent RMB30,000,000 to lessor A for three months. The loan was interest bearing at 6.72% per annum, which was repaid in February 2014.

(iii) The Group entered into an entrusted loan agreement through Bank of Beijing Co., Ltd. with lessor B and a lease agreement for a property for 20 years. The Group lent RMB46,500,000 to lessor B for 2 years. The loan was interest bearing at 7.41% per annum and secured by 100% equity interest of lessor B.

(iv) The Group entered into a loan agreement and a lease agreement for a property for 20 years with lessor C. The Group lent RMB120,000,000 to lessor C for 3 years. The loan was interest bearing at 8.15% per annum and secured by 71.99% equity interest of lessor C.

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## 25. TRADE AND OTHER RECEIVABLES

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Trade receivables | **169,855** | 85,675 |
| Prepayments to suppliers | **337,737** | 253,203 |
| Deductible input value added tax | **482,523** | 374,704 |
| Rental deposits | **87,153** | 78,666 |
| Other receivables | **194,474** | 244,729 |
| | **1,271,742** | 1,036,977 |

Trade receivables represent receivables from supply of merchandise to franchised stores and retail sales customers. The 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. Credit limits attributed to franchised stores are reviewed twice in every year. The Group's retail sales to customers are mainly conducted on cash basis, including payments by cash, credit cards and mobile phone payment.

The following is an aged analysis of trade receivables based on the date of goods are delivered and services are provided which approximated the respective dates on which revenue was recognised.

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| 0—30 days | **111,198** | 81,192 |
| 31—60 days | **47,730** | 4,483 |
| >60 days | **10,927** | — |
| | **169,855** | 85,675 |

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB10,927,000 (31December 2012: Nil) which are past due as at the reporting date for which the Group has not provided for impairment loss based on the high credit quality of the counterparty, which is a leading mobile services provider in Mainland China. The past due balance has been subsequently collected in January 2014.

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## 26. AMOUNTS DUE FROM/TO RELATED PARTIES

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Amounts due from associates (note a) | **75,769** | 59,982 |
| Amount due from a joint venture (note a) | **51,057** | 63,602 |
| Amounts due from subsidiaries of the Company's shareholder which has significant influence over the Company ("Company's Controlling Shareholder") (note a) | **52,849** | 45,483 |
| | **179,675** | 169,067 |
| Amounts due to associates (note b) | **9,481** | 12,757 |
| Prepayments from subsidiaries of the Company's Controlling Shareholder | **7,892** | 26,717 |
| | **17,373** | 39,474 |

Note:

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| 0–30 days | **90,092** | 85,022 |
| 31–60 days | **41,523** | 40,759 |
| 61–90 days | **38,331** | 30,947 |
| 91–180 days | **9,729** | 12,339 |
| | **179,675** | 169,067 |

Included in above is an amount of RMB48,060,000 (2012: RMB43,286,000) 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 amounts are aged within 60 days.

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## 27. HELD-FOR-TRADING INVESTMENTS

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Listed securities — Equity securities — PRC | **–** | 3,489 |
| Other investments | **110,000** | 29,000 |
| Total | **110,000** | 32,489 |

Other investments are financial products operated by financial institutions. The financial product was non-principal protected with variable returns and can be redeemed by the Group any time at its discretion from the counterparty issuer. The fair value of the financial products was determined based on the price provided by financial institutions.

## 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 0.35% to 2.85% (2012: 0.35% to 2.8%) 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:

| | 2013 RMB equivalent'000 | 2012 RMB equivalent'000 |
|---|---|---|
| Hong Kong dollar ("HK dollar") | **85,446** | 88,109 |
| United States dollar ("US dollar") | **315** | 325 |

**Restricted bank balances**

The restricted bank balances represent deposits pledged for advance of deposit card and bill payables. As at 31 December 2013, restricted bank balances of RMB378,244,000 (2012: RMB53,355,000) carry interest from 0.35% to 2.85% (2012: 0.35%) per annum.

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## 29. TRADE AND OTHER PAYABLES

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Bill payables | **115,366** | 141,345 |
| Trade payables | **3,579,270** | 2,944,745 |
| Advances from customers | **2,074,423** | 1,498,455 |
| Deposits received from lessee | **287,648** | 280,043 |
| Rent and other accrual | **301,587** | 261,333 |
| Other payables | **332,471** | 445,596 |
| Dividends payable | **33,696** | — |
| | **6,724,461** | 5,571,517 |

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

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| 0–30 days | **3,279,740** | 2,764,498 |
| 31–60 days | **338,170** | 257,037 |
| 61–90 days | **28,836** | 21,769 |
| Over 90 days | **47,890** | 42,786 |
| | **3,694,636** | 3,086,090 |

The average credit period on purchase of merchandises is 60 days (2012: 60 days).

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## 30. BORROWINGS

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Short term debenture — unsecured (note a) | **521,863** | 524,500 |
| Bank loan — unsecured (note b) | **60,000** | — |
| | **581,863** | 524,500 |
| Fixed-rate borrowings: | | |
| Within one year (note a) | **521,863** | 524,500 |
| In more than two years but not more than five years (note b) | **60,000** | — |
| | **581,863** | 524,500 |

Note:

(a) On 30 January 2013, the Company issued short term debenture of a principal amount of RMB500,000,000 through the lead underwriter, China Minsheng Banking Company Limited, with a maturity of one year. The short term debenture carried fixed interest at 4.77% per annum.

On 29 February 2012, the Company issued short term debenture of a principal amount of RMB500,000,000 through the lead underwriter, China Minsheng Banking Company Limited, with a maturity of one year. The short term debenture carried fixed interest at 5.88% per annum, and was repaid in February 2013.

(b) The loan carried fixed interest at 5% per annum and with a maturity period of three years.

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## 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 2012 (note) | 744,706 | 536,568 | 1,281,274 | 1,281,274 |
| At 31 December 2012 and 2013 | 744,706 | 536,568 | 1,281,274 | 1,281,274 |

Note:

Domestic Shares and H Shares are all ordinary shares in the share capital of the Company. However, H Shares may only be subscribed for by, and traded in currencies other than RMB between, legal or natural persons of Hong Kong, the Macau Special Administrative Region, Taiwan or any country other than the PRC. Domestic Shares must be subscribed for and traded only by PRC citizen in RMB. All dividends in respect of H Shares are to be paid by the Company in HK dollar 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.

## 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 periods:

| | Impairment for deposit paid for acquisition of an associate RMB'000 | Effective rent RMB'000 | Tax losses RMB'000 | Pre-operating expenses RMB'000 | Differences in tax depreciation RMB'000 | Fair value adjustments on business combination RMB'000 | Impairment provisions RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2012 | 4,582 | 70,863 | 18,523 | 434 | 3,889 | (26,435) | 3,066 | 74,922 |
| Charged (credited) to profit or loss | — | 14,242 | (742) | (434) | 1,125 | 1,954 | 392 | 16,537 |
| At 31 December 2012 | 4,582 | 85,105 | 17,781 | — | 5,014 | (24,481) | 3,458 | 91,459 |
| Charged (credited) to profit or loss | — | 11,585 | (9,560) | — | (760) | 1,456 | — | 2,721 |
| At 31 December 2013 | 4,582 | 96,690 | 8,221 | — | 4,254 | (23,025) | 3,458 | 94,180 |

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## 32. DEFERRED TAXATION (Continued)

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:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Deferred tax assets | **106,968** | 104,906 |
| Deferred tax liabilities | **(12,788)** | (13,447) |
| | **94,180** | 91,459 |

At 31 December 2013, the Group had unused tax losses of RMB474,387,000 (2012: RMB339,746,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB32,885,000 (2012: RMB71,124,000) of such losses. No deferred tax asset has been recognised in respect of other tax losses of RMB441,502,000 (2012: RMB268,622,000) due to unpredictability of future profit stream, which will expire from the year of 2014 to 2018.

## 33. DEPOSIT PAID

In November and December 2013, the Group entered into a series of agreements, including a cooperation agreement, a loan agreement and relevant supplementary agreements (hereinafter collectively refer to "the Agreements") with two independent third parties, a cooperative economy organisation (小紅門鄉經濟組織合作社, "the Organisation") and its subordinate entity (the "Project Entity"), which was set up for development and construction of a commercial property (the "Property"). According to the Agreements, the Group will obtain the operating right of the Property for 40 years for an upfront consideration of RMB450,000,000 payable by four instalments through acquiring 75% equity interest of the Project Entity (the "Equity Interest"). The Equity Interest will be transferred to the Group after the Group paid the third instalment of RMB100,000,000 when the Project Entity obtains the land use right certificate of the Property. The Group is entitled to 100% operating result of the Project Entity and required to pay RMB220,000,000 in aggregate by instalments to the Organisation in the forthcoming 40 years. After 40 years, the Group will return the Equity Interest to the Organisation for nil consideration and the operating right of the Property will be terminated.

As at 31 December 2013, the first and second instalments, amounting to RMB255,445,000 had been paid, including RMB230,000,000 injected to the Project Entity under a loan agreement.

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## 34. 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 2012.

The capital structure of the Group consists of net debt, which includes borrowings 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 borrowings.

## 35. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Financial assets | | |
| *Fair value through profit or loss* | | |
| Held-for-trading investments | **110,000** | 32,489 |
| *Loans and receivables* | | |
| *(including cash and cash equivalents)* | | |
| Loan receivables | **251,220** | 330,973 |
| Trade receivables | **169,855** | 85,675 |
| Other receivables | **194,474** | 244,729 |
| Amounts due from related parties | **179,675** | 169,067 |
| Restricted bank balances | **378,244** | 53,355 |
| Bank balances and cash | **2,269,912** | 2,158,841 |
| | **3,443,380** | 3,042,640 |
| Rental deposits | **27,106** | 26,013 |
| Financial liabilities | | |
| *Amortised costs* | | |
| Bill payables | **115,366** | 141,345 |
| Trade payables | **3,579,270** | 2,944,745 |
| Other payables | **332,471** | 351,528 |
| Amounts due to related parties | **9,481** | 12,757 |
| Dividends payable | **33,696** | — |
| Borrowings | **581,863** | 524,500 |
| | **4,652,147** | 3,974,875 |
| Deposits received from lessee | **287,648** | 280,043 |

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## 35. FINANCIAL INSTRUMENTS (Continued)

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

The Group's major financial instruments include held-for-trading investments, loan receivables, borrowings, 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 (interest rate and currency 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 interest rate risk and foreign currency exchange rate. 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 borrowings (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 its borrowings at fixed-rate of interest so as to minimise the cash flow interest rate risk.

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 rate risk on 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 of interest rate risk on bank balances is insignificant.

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## 35. 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 that are subject to currency risk at the reporting date are as follows:

| | Assets | |
|---|---|---|
| | 2013<br>**RMB'000** | 2012<br>RMB'000 |
| Hong Kong dollar ("HK dollar") | **85,446** | 88,109 |
| United States dollar ("US dollar") | **315** | 325 |

Sensitivity analysis

The Group is mainly exposed to the risk of fluctuations in the exchange rate between HK dollar/US dollar against RMB.

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 post-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 | |
|---|---|---|---|---|
| | 2013<br>**RMB'000** | 2012<br>RMB'000 | 2013<br>**RMB'000** | 2012<br>RMB'000 |
| Profit or loss | **3,204** | 3,304 | **12** | 12 |

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## 35. FINANCIAL INSTRUMENTS (Continued)

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

***Credit risk management***

As at 31 December 2013, 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. A majority of the loan receivables are secured by the equity interests of the counterparties to minimise the credit risk. 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 credit-rating agencies.

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 and certain lessors of the Group. The Group does not have any other significant concentration of credit risk. Trade receivables consist of various franchised stores and retail sale customers located in Beijing, Tianjin and Zhejiang province.

***Liquidity risk management***

At 31 December 2013, the Group had net current liabilities amounting to RMB1,632,656,000 (2012: 1,358,741,000). 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 borrowings as a significant source of liquidity. For the year ended 31 December 2013, the Group had cash generated from operating activities of approximately RMB1,481,458,000 (2012: RMB1,694,019,000). Other than the cash generated from operating activities, the Group's management is responsible to maintain sufficient funding from borrowings. In the current year, the Group had also raised funds through the issuance of RMB500,000,000 short term debenture. The management also monitors the utilisation of borrowings and ensures compliance with borrowing covenants. As at 31 December 2013, three banking facilities of RMB900,000,000 in aggregate are available, which comprised: (a) a banking facility of RMB200,000,000 from China Bohai Bank which is available until 26 August 2014, (b) a banking facility of RMB200,000,000 from Guangdong Development Bank which is available until 14 April 2014, (c) a banking facility of RMB500,000,000 from China Minsheng Banking Company Limited which is available until 10 October 2015. None of the banking facilities of RMB900,000,000 has been utilised as of the end of the reporting period and the date of issuance of these consolidated financial statements.

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# 35. FINANCIAL INSTRUMENTS (Continued)

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

***Liquidity risk management (Continued)***

The directors believe that the Group will have sufficient funds available to meet its financial obligations in the foreseeable future based on management's working capital forecast.

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 | 1–3 months | 3 months to 1 year | 1–5 years | Total undiscounted cash flows | Carrying amount at year end |
|---|---|---|---|---|---|---|---|
| | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At 31 December 2013** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | | **670,641** | **3,279,740** | **110,422** | **—** | **4,060,803** | **4,060,803** |
| Amount due to related parties | | **9,481** | **—** | **—** | **—** | **9,481** | **9,481** |
| Borrowings — fixed rate | **4.89** | **—** | **524,600** | **2,250** | **64,000** | **590,850** | **581,863** |
| Deposits received from lessee | | **—** | **—** | **287,648** | **—** | **287,648** | **287,648** |
| | | **680,122** | **3,804,340** | **400,320** | **64,000** | **4,948,782** | **4,939,795** |
| **At 31 December 2012** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | | 856,171 | 2,800,534 | 322,289 | — | 3,978,994 | 3,978,994 |
| Amount due to related parties | | 12,757 | — | — | — | 12,757 | 12,757 |
| Borrowings — fixed rate | 5.88 | — | 529,400 | — | — | 529,400 | 524,500 |
| Deposits received from lessee | | — | — | 280,043 | — | 280,043 | 280,043 |
| | | 868,928 | 3,329,934 | 602,332 | — | 4,801,194 | 4,796,294 |

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## 35. FINANCIAL INSTRUMENTS (Continued)

### (c) Fair value measurements of financial instruments

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

| Financial assets | Fair value as at (RMB'000) 31/12/2013 | | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|---|
| 1) Listed equity securities classified as held-for-trading financial assets | Listed equity securities in Mainland China: | | Level 1 | Quoted bid prices in an active market. |
| | **Industry** | **Amount** | | |
| | Retail | — | | |
| 2) Unlisted open-ended funds classified as held-for-trading financial assets | Unlisted open-ended funds in Mainland China: | | Level 2 | Quoted prices for identical assets in markets that are not active. |
| | **Industry** | **Amount** | | |
| | Finance | — | | |
| 3) Financial products classified as held-for-trading financial assets | Financial products in Mainland China: | | Level 2 | Based on the fair value of underlying assets and liabilities which are substantially derived from level 2 inputs. |
| | **Industry** | **Amount** | | |
| | Finance | 110,000 | | |

There were no transfers between Level 1 and Level 2 in the current and prior years.

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.

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## 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:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Within one year | **920,438** | 777,044 |
| In the second to fifth year inclusive | **3,744,618** | 2,957,670 |
| Over five years | **8,169,245** | 7,084,315 |
| | **12,834,301** | 10,819,029 |

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:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Within one year | **783,509** | 447,371 |

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## 37. CAPITAL AND OTHER COMMITMENTS

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Capital expenditure | | |
| In respect of property, plant and equipment contracted for but not provided in the consolidated financial statements | **391,637** | 233,199 |
| Other commitment | | |
| In respect of the Equity Interest (see note 33) but not provided in the consolidated financial statements | **414,555** | — |

Other commitment includes the remaining amount payable for the 75% equity interest in the Project Entity (whose sole activity is development and construction of a commercial property) and its 100% operating results in accordance with the Agreements set out in note 33.

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Capital expenditure | | |
| In respect of property, plant and equipment authorised but not contracted for | **274,705** | 247,596 |

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## 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:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Sales of goods to a joint venture | **215,776** | 233,803 |
| Sales of goods to subsidiaries of the Company's Controlling Shareholder | **151,084** | 179,087 |
| Sales of goods to associates | **149,710** | 120,598 |
| Purchase of goods from associates | **72,268** | 89,181 |
| Rental expense to a subsidiary of the Company's Controlling Shareholder | **17,636** | 17,003 |
| Service fee income from associates and a joint venture in respect of merchandise delivery services | **5,478** | 5,296 |
| Service fee income from subsidiaries of the Company's Controlling Shareholder in respect of merchandise delivery services | **4,526** | 5,373 |
| Management fee income from subsidiaries of the Company's Controlling Shareholder | **190** | 150 |

As at 31 December 2013, the Company's Controlling Shareholder provided guarantee to secure general banking facilities of RMB400,000,000 (2012: RMB200,000,000) granted to the Group.

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

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Short-term benefits | **8,498** | 6,825 |
| Post-employment benefits | **790** | 790 |
| | **9,288** | 7,615 |

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

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## 39. RETIREMENT BENEFIT SCHEMES

The PRC employees of the Group are members of state-managed retirement benefit schemes operated by the local governments. The Group is required to contribute a specified percentage of their payroll costs to the retirement benefit schemes to fund the benefits. The retirement benefit cost charged to profit or loss for the year ended 31 December 2013, amounts to RMB105,578,000 (2012: RMB84,856,000).

## 40. SHARE INCENTIVE SCHEME

On 17 May 2013, the board of directors was authorised to issue up 12,812,741 new domestic shares, which were represents 1% and 1.72% of the aggregate amount of the Company's total issued shares and total issued domestic shares, respectively, as incentive shares to directors (other than the independent directors) and supervisors (other than external supervisors) of the Company, core management personnel and key personnel of the Group, and other persons as approved by the board (the "Participants", hereinafter collectively referred to as the "Incentive Share Scheme"). According to the Incentive Share Scheme, the incentive shares will be granted to the Participants when they meet certain conditions. The incentive shares shall be automatically unlocked on the unlocking dates in accordance with the relevant proportions and during the next 5 years. Details of the Incentive Share Scheme are set out in the Company's announcement dated 2 April 2013.

On 20 December 2013, the board of directors approved 6,050,000 incentive shares to be granted to selected Participants (non-connected Participants) and proposed to grant 3,500,000 incentive shares to three directors and a supervisor (the "Connected Participants"). None of the non-connected Participants have agreed to the terms and conditions of the Incentive Share Scheme as at 31 December 2013. The proposed grant of incentive shares to Connected Participants will be subject to the approval of the extraordinary general meeting on 14 March 2014.

There is no incentive share issued as at 31 December 2013.

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## 41. EVENT AFTER THE REPORTING PERIOD

On 4 March 2014, Lhasa Wisdom Network Excellent Investment Management Co. Ltd. ("Lhasa Wisdom") and Beijing Green Safe Agricultural Products Logistics and Information Center Co. Ltd ("Beijing Green"), which are the wholly owned subsidiaries of the Company's shareholder, Wumei Holdings, Inc. ("Wumei Holdings"), had entered into and completed the subscription agreement with Beijing Wangshang Shijie E-Business Co., Ltd. ("Beijing Wangshang"), which holds approximately 21.55% of all Domestic Shares and approximately 12.52% of the total issued share capital of the Company.

According to the subscription agreement, Lhasa Wisdom and Beijing Green agreed to subscribe for new shares in Beijing Wangshang amounting in aggregate to 64% of the enlarged share capital of Beijing Wangshang. Upon completion of the subscription of new shares in Beijing Wangshang, the total issued share capital of the Company controlled by Wumei Holdings and the parties acting in concert with it has been increased from approximately 40.88% to approximately 53.41%. Pursuant to the Hong Kong Code on Takeovers and Mergers, Wumei Holdings and the parties acting in concert with it are required to make a mandatory unconditional general offer. Details of the subscription agreement are set out in the Company's announcement dated on 4 March 2014.

## 42. SUBSIDIARIES

### (a) General information of 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/ operation | Paid up issued/ registered ordinary share capital | Proportion of ownership interest and proportion of voting power held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | Directly | | Indirectly | | |
| | | | 2013 % | 2012 % | 2013 % | 2012 % | |
| Beijing Wumart Bolante Convenience. Stores Company Limited | Beijing, PRC | 10,000,000 | **80** | 80 | **–** | – | Operation of mini-marts |
| Beijing Wumart Stores Company Limited | Beijing, PRC | 10,000,000 | **80** | 80 | **16** | 16 | Operation of superstores |
| Beijing Mencheng Wumart Shangcheng Company Limited | Beijing, PRC | 1,000,000 | **70** | 70 | **–** | – | Operation of superstore |
| Beijing Wumart Tongfu Commerce Company Limited | Beijing, PRC | 1,000,000 | **55** | 55 | **–** | – | Operation of superstore |
| Beijing Wumart Tianxiang Convenience Stores Company Limited | Beijing, PRC | 1,000,000 | **60** | 60 | **–** | – | Operation of mini-marts |
| Beijing Tongtang Wumart Convenience Stores Company Limited | Beijing, PRC | 1,000,000 | **100** | 100 | **–** | – | Operation of mini-marts |
| Beijing Wumart Jingxi Convenience Stores Company Limited | Beijing, PRC | 1,000,000 | **75** | 75 | **–** | – | Operation of mini-marts |
| Beijing Wumart Gulou Commerce and Trading Company Limited | Beijing, PRC | 10,000,000 | **65** | 65 | **–** | – | Operation of superstores |

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## 42. SUBSIDIARIES (Continued)

### (a) General information of subsidiaries (Continued)

| Name of subsidiary | Place/Country of incorporation or registration/ operation | Paid up issued/ registered ordinary share capital | Proportion of ownership interest and proportion of voting power held by the Company – Directly 2013 % | Directly 2012 % | Indirectly 2013 % | Indirectly 2012 % | Principal activities |
|---|---|---|---|---|---|---|---|
| Beijing Wumart Convenience Stores Company Limited | Beijing, PRC | 50,000,000 | 80 | 80 | – | – | Operation of mini-marts |
| Beijing Jiahe Wumart Commerce Company Limited | Beijing, PRC | 10,000,000 | 80 | 80 | 14.4 | 14.4 | Operation of superstores |
| Tianjin Wumart WeiLai Commercial Development Company Limited | Tianjin, PRC | 100,000,000 | 99.8 | 99.8 | 0.19 | 0.19 | Operation of superstores |
| Wumart (Tianjin) Chain Stores Company Limited | Tianjin, PRC | 97,639,384 | – | – | 100 | 100 | Operation of superstores |
| Baoding Wumart Stores Company Limited | Beijing, PRC | 1,000,000 | 80 | 80 | 19.2 | 19.2 | Operation of superstores |
| Beijing Wumart Hypermarket Commercial Management Company Limited | Beijing, PRC | 10,000,000 | 95 | 95 | 4.8 | 4.8 | Operation of superstores |
| Beijing Wumart Jingbei Dashijie Commercial and Trading Company Limited | Beijing, PRC | 20,000,000 | 95 | 95 | 4.8 | 4.8 | Operation of superstores |
| Beijing Wumart Distribution Technology Company Limited | Beijing, PRC | 8,000,000 | 80 | 80 | 20 | 20 | Operation of superstores |
| Beijing Wumart Home Appliance Company Limited | Beijing, PRC | 20,000,000 | 100 | 100 | – | – | Operation of home appliance wholesales |
| Beijing Merrymart Chain stores Development Company Limited | Beijing, PRC | 52,480,000 | 100 | 100 | – | – | Operation of superstores |
| Hangzhou Tiantian Wumart Commerce Company Limited | Zhejiang, PRC | 50,000,000 | 100 | 100 | – | – | Operation of superstores |
| Shaoxing Commercial Supermarket Company Limited (note iii) | Zhejiang, PRC | 21,000,000 | 100 | 85 | – | – | Operation of mini-marts |
| Zhejiang Gongxiao Supermarket Company Limited | Zhejiang, PRC | 21,000,000 | – | – | 63.64 | 54.09 | Operation of mini-marts |
| Huzhou Laodafang Supermarket Company Limited (note i) | Zhejiang, PRC | 5,000,000 | – | – | 32.46 | 27.59 | Operation of mini-marts |
| Wumart Jialian (Hangzhou) Commerce Company Limited | Zhejiang, PRC | 68,269,000 | – | – | 100 | 100 | Operation of superstores |
| Wumart Jiacheng (Hangzhou) Commerce Company Limited | Zhejiang, PRC | 68,272,000 | – | – | 100 | 100 | Operation of superstores |

*For the year ended 31 December 2013*

## 42. SUBSIDIARIES (Continued)

### (a) General information of subsidiaries (Continued)

| Name of subsidiary | Place/Country of incorporation or registration/ operation | Paid up issued/ registered ordinary share capital | Proportion of ownership interest and proportion of voting power held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | Directly | | Indirectly | | |
| | | | 2013 % | 2012 % | 2013 % | 2012 % | |
| Langfang Wumart Commerce Company Limited | Hebei, PRC | 5,000,000 | **100** | 100 | **–** | – | Operation of superstores |
| Zhangjiakou Wumart Commerce Company Limited | Hebei, PRC | 10,000,000 | **100** | 100 | **–** | – | Operation of superstores |
| Tianjin Wumart Lianjing Commerce Company Limited | Tianjin, PRC | 10,000,000 | **100** | – | **–** | – | Operation of superstores |
| Beijing Jingtaiyi Wumart Supermarket Company Limited (note ii) | Beijing, PRC | 10,000,000 | **100** | – | **–** | – | Operation of superstores |
| Beijing Jingshun Wumart Supermarket Company Limited (note ii) | Beijing, PRC | 10,000,000 | **100** | – | **–** | – | Operation of superstores |
| Xianghe Wumart Supermarket Company Limited (note ii) | Hebei, PRC | 5,000,000 | **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.

Note (ii): Newly established during the year ended 31 December 2013.

Note (iii): In December 2013, the Group acquired 15% the non-controlling interests of Shaoxing Commercial Supermarket Company Limited at a cash consideration of RMB32,760,000. After the acquisition, the Group obtained 100% equity interest of Shaoxing Commercial Supermarket Investment Co., Ltd. The difference between the carrying amount of the net assets acquired and the fair value of consideration paid was recognised directly in equity and attributed to owners of the Company.

Other than the short term debenture issued by the Company, none of the subsidiaries had issued any debt securities at the end of the year.

In the opinion of the directors of the Company, the Group does not have any non-wholly owned subsidiaries with material non-controlling interests.

*For the year ended 31 December 2013*

## 43. FINANCIAL INFORMATION OF THE COMPANY

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

| | NOTES | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| Non-current Assets | | | |
| Property, plant and equipment | | **592,234** | 514,706 |
| Rental deposits | | **81,673** | 101,374 |
| Investments in subsidiaries | | **2,329,596** | 2,295,596 |
| Investment in associates | | **95,699** | 95,824 |
| Investment in a joint venture | | **100,000** | 100,000 |
| Deferred tax assets | | **21,262** | 17,405 |
| Loan receivables | | **120,000** | — |
| Deposit for acquisition of an asset | | **255,445** | — |
| | | **3,595,909** | 3,124,905 |
| Current Assets | | | |
| Inventories | | **342,757** | 222,315 |
| Loan receivables | | **54,720** | 330,973 |
| Trade and other receivables | | **474,705** | 465,949 |
| Amounts due from related parties | | **100,232** | 38,692 |
| Amounts due from subsidiaries | | **1,903,436** | 2,317,630 |
| Held-for-trading investments | | **100,000** | 353 |
| Restricted bank balances | | **357,559** | 38,700 |
| Bank balances and cash | | **1,103,531** | 959,675 |
| | | **4,436,940** | 4,374,287 |
| Current Liabilities | | | |
| Trade and other payables | | **2,329,921** | 2,082,980 |
| Amounts due to related parties | | **11,418** | 334,651 |
| Amounts due to subsidiaries | | **2,775,470** | 2,082,821 |
| Tax liabilities | | **68,082** | 67,750 |
| Borrowings | | **521,863** | 524,500 |
| | | **5,706,754** | 5,092,702 |
| Net Current Liabilities | | **(1,269,814)** | (718,415) |
| Total assets less Current Liabilities | | **2,326,095** | 2,406,490 |
| Capital and Reserves | | | |
| Share capital | 31 | **1,281,274** | 1,281,274 |
| Share premium and reserves | | **1,044,821** | 1,125,216 |
| Total equity | | **2,326,095** | 2,406,490 |

*For the year ended 31 December 2013*

## 43. FINANCIAL INFORMATION OF THE COMPANY (Continued)

| | Share capital | Share premium | Statutory common reserve fund | Retained profits | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2012 | 1,281,274 | 745,018 | 194,862 | 247,631 | 2,468,785 |
| Profit and total comprehensive income for the year | — | — | — | 194,797 | 194,797 |
| Dividend paid by the Company | — | — | — | (257,092) | (257,092) |
| Profit appropriations | — | — | 23,200 | (23,200) | — |
| At 31 December 2012 | 1,281,274 | 745,018 | 218,062 | 162,136 | 2,406,490 |
| Profit and total comprehensive income for the year | — | — | — | 188,672 | 188,672 |
| Dividend declared by the Company | — | — | — | (269,068) | (269,068) |
| Profit appropriations | — | — | 21,448 | (21,448) | — |
| At 31 December 2013 | 1,281,274 | 745,018 | 239,510 | 60,292 | 2,326,094 |

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 | 2011 RMB'000 | 2010 RMB'000 | 2009 RMB'000 |
| **RESULTS** | | | | | |
| Revenue | **16,988,172** | 15,362,984 | 14,562,642 | 12,571,524 | 10,511,410 |
| Cost of sales | **(15,089,331)** | (13,947,953) | (13,243,768) | (11,446,293) | (9,580,791) |
| Gross profit | **1,898,841** | 1,415,031 | 1,318,874 | 1,125,231 | 930,619 |
| Other revenues | **1,898,134** | 1,971,093 | 1,833,003 | 1,675,357 | 1,270,599 |
| Investment and other income | **357,882** | 299,166 | 228,148 | 143,568 | 94,306 |
| Distribution and selling expenses | **(2,858,417)** | (2,394,258) | (2,104,200) | (1,839,130) | (1,369,093) |
| Administrative expenses | **(508,901)** | (388,152) | (322,843) | (314,470) | (252,078) |
| Other losses | **(56,287)** | (20,524) | (68,236) | (9,175) | — |
| Impairment losses | **—** | (1,567) | (14,648) | — | — |
| Share of profit of associates | **8,342** | 8,277 | 5,353 | 7,061 | 5,072 |
| Share of profit of a joint venture | **5,541** | 3,651 | 4,071 | 3,334 | 610 |
| Finance costs | **(28,788)** | (27,312) | (15,941) | (14,527) | (32,473) |
| Profit before tax | **716,347** | 865,405 | 863,581 | 777,249 | 647,562 |
| Income tax expense | **(222,336)** | (226,688) | (245,071) | (217,712) | (156,202) |
| Profit for the year | **494,011** | 638,717 | 618,510 | 559,537 | 491,360 |
| Attributable to: | | | | | |
| Owners of the Company | **459,031** | 601,706 | 586,041 | 529,837 | 437,764 |
| Non-controlling interests | **34,980** | 37,011 | 32,469 | 29,700 | 53,596 |
| | **494,011** | 638,717 | 618,510 | 559,537 | 491,360 |
| Earnings per share | | | | | |
| — Basic (RMB yuan per share) | **0.36** | 0.47 | 0.46 | 0.42 | 0.36 |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 | 2011 RMB'000 | 2010 RMB'000 | 2009 RMB'000 |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | **11,419,724** | 10,067,317 | 8,439,080 | 7,448,710 | 6,411,690 |
| Total liabilities | **(7,526,753)** | (6,355,427) | (5,094,084) | (4,453,180) | (4,030,910) |
| | **3,892,971** | 3,711,890 | 3,344,996 | 2,995,530 | 2,380,780 |
| Equity attributable to Owners of the Company | **3,707,164** | 3,531,611 | 3,186,997 | 2,857,211 | 2,262,163 |
| Non-controlling interests | **185,807** | 180,279 | 157,999 | 138,319 | 118,617 |
| | **3,892,971** | 3,711,890 | 3,344,996 | 2,995,530 | 2,380,780 |