Wumart Stores, Inc.

北京物美商業集團股份有限公司

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

Stock Code : 8277

National Grand Prize for Advancement of Commercial Technology

Emerging Market Retailer of the Year World Retail Congress

2009 Retail Innovation Award

Significant Enterprise Informatization Achievement Award

ANNUAL REPORT 2009

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

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Company Information

BOARD OF DIRECTORS

Executive Directors
Dr. Wu Jian-zhong *(Chairman)*
Mr. Zhu You-nong *(President)*
Madam Xu Ying *(Vice President)*
Dr. Meng Jin-xian *(Vice President)*

Non-executive Directors
Mr. Wang Jian-ping *(Vice Chairman)*
Mr. John Huan Zhao

Independent Non-executive Directors
Mr. Han Ying
Mr. Li Lu-an
Mr. Lu Jiang

SUPERVISORY COMMITTEE
Mr. Fan Kui-jie *(Chairman)*
Madam Xu Ning-chun
Madam Yan Li-xia

SENIOR MANAGEMENT
Dr. Yu Jian-bo *(Vice President)*
Mr. Xu Shao-chuan *(Vice President)*

COMPANY SECRETARY
Madam Xie Dong

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

REMUNERATION COMMITTEE
Dr. Wu Jian-zhong *(Chairman)*
Mr. Han Ying
Mr. Li Lu-an

COMPLIANCE OFFICER
Dr. Wu Jian-zhong

AUTHORIZED REPRESENTATIVES
Dr. Wu Jian-zhong
Madam Xie Dong

AUDITOR
Deloitte Touche Tohmatsu

LEGAL ADVISERS
As to Hong Kong Law:
DLA Piper Hong Kong

As to PRC Law:
Haiwen & Partners

PRINCIPAL BANKERS
Industrial and Commercial Bank of China
China Merchants Bank
China Minsheng Banking
Beijing Rural Commercial Bank

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
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Wanchai
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The PRC

HEAD OFFICE
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Shijingshan 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
8277

Highlights

- Total revenue amounted to approximately RMB11,782,009,000, representing a growth of 20.8% over 2008;
- Consolidated gross profit amounted to approximately RMB2,201,218,000, representing a growth of 24.9% over 2008;
- Net profit amounted to approximately RMB437,764,000, representing a growth of 21.2% from RMB361,339,000 for 2008 before a net gain on disposal of an associate through a share swap amounting to RMB129,004,000;
- Net profit margin was approximately 3.7%, sustained the net profit margin of 3.7% for 2008 before a net gain on disposal of an associate through a share swap amounting to RMB129,004,000;
- Basic earnings per share was approximately RMB0.36, representing a growth of approximately 20.0%, compared to approximately RMB0.30 for 2008 before a net gain on disposal of an associate through a share swap amounting to RMB129,004,000;
- Retail network expanded to 469 outlets;
- Comparable store sales increased by 6.9% over 2008; and
- Proposed final dividend of RMB0.18 (before tax) per share.

Major Awards

Jan.	2009	"Top Ten PRC Exemplary Chain Store Brand" and "Most Valuable Brand in the PRC Exemplary Chain Stores" named in an award jointly organized by some 30 central and local media, including the China Association of Economic Newspapers and Journals and China Beijing TV Station
Feb.	2009	"Customer Satisfaction Brand of China" named by China General Chamber of Commerce
Mar.	2009	Top 500 PRC Companies in Corporate Informatisation and the "Significant Corporate Informatisation Achievement Award"
May	2009	"Emerging Market Retailer of the Year" at the Third World Retail Congress
Oct.	2009	"Leading Innovator of the Year" at the 14th Asia-Pacific Retailers Convention
Oct.	2009	"Best IT Project Implementation in Informatisation Award of 2009" at the 3rd Sino-U.S. CIO Summit for the successful implementation of the WINBOX project
Nov.	2009	"Top 100 PRC Chainstores — Retail Innovation Award 2009" for Wumart's "Multiple-Combination Promotion Model"
Dec.	2009	The Wumart North China Logistics Centre was named as a "National Exemplary Logistics Base" by the China Federation of Logistics & Purchasing

Chairman's Statement

In 2009, faced with the global financial crisis, the Group persevered with its principle of "Overcome Challenges, Sustain Growth" and pushed ahead with sweeping changes in the way we think and work to drive better results. Pragmatic, results driven and always eager to learn, we continued to live up to the values and corporate culture of Wumart, through learning from the best management practices and ideas the industry has to offer. Bringing Wumart's advanced IT, logistics technology and operation technology to full play, and by deploying them flexibly, we were able to achieve solid results throughout the operation, which has in turn strengthened our core competencies. The Group has made good progress in a number of areas after a year of hard work. In Beijing, it was able to maintain its leadership position, while in Tianjin and Zhejiang, the Group grew so rapidly that it is now a major retailer in those regions. It was a year full of challenging tasks, but the Group did not let slip and went on to deliver a set of satisfactory financial figures for its shareholders and supporters.

I am pleased to present the report on the audited results of Wumart Stores, Inc. (the "Company" or "Wumart") and its subsidiaries (collectively the "Group" or "Wumart Group") for the year ended 31 December 2009 (the "Reporting Period").

Record-high total revenue and net profit. Total revenue for 2009 amounted to approximately RMB11,782,009,000, representing a growth of 20.8% over 2008. Net profit amounted to approximately RMB437,764,000, representing a growth of 21.2% over the net profit of 2008 before a net gain on disposal of an associate through a share swap. Comparable store sales increased by 6.9% over 2008. Our retail network expanded to 469 outlets. In recognition of our outstanding results and efforts in the ongoing development of operational technologies, Wumart received a number of major awards, such as the "Emerging Market Retailer of the Year" at the Third World Retail Congress, and the "Top 100 PRC Chainstores — Retail Innovation Award 2009".

Further market penetration. We made strong efforts to leverage untapped potentials of the Beijing market and explore the Tianjin and Zhejiang markets. During 2009, the Group expanded its retail network through organic growth opening 9 superstores and 7 minimarts in Beijing, 5 superstores in Tianjin, and 3 superstores and 44 minimarts in Zhejiang. While pursuing organic growth, we were also actively identifying opportunities for acquisition to enlarge our market share. We completed the acquisition of the remaining 25% minority interests in Beijing MerryMart Chainstores Development Co., Ltd. ("MerryMart") in Beijing, 51% interests in Huzhou Laodafang Supermarket Company Limited (湖州老大房超市有限公司) ("Huzhou Laodafang") in Zhejiang which owned 2 superstores and 33 minimarts, and four supermarkets of Tianjin Lotus Supermarket Chain Store Co., Ltd. (天津易初蓮花連鎖超市有限公司) ("Lotus") in Tianjin. Thanks to in-depth market penetration efforts, we have become the leading retail operator in Beijing, Tianjin and Zhejiang with swift growth in market shares.

Significant enhancement in the Wumart brand image with wider market recognition. The brand image of Wumart has been constantly enhanced through external as well as internal efforts: the outward appearance of the shops is improved through systematic adjustment and renovation works to project a modern, trendy and fresh image of the store to the consumers, while internal enhancements are facilitated by the provision of quality services and optimised merchandise mix and display. Following the acquisition of Zhejiang Gongxiao Supermarket and Huzhou Laodafang, Wumart's brand image is set to gain exposure and recognition among consumers.

Initial deliverables from business format optimisation and category optimisation. A number of minimarts have been converted into new Everyday Shops as we defined the Everyday Shops business format to investigate the potential profitability of opening Wumart Everyday Shops, as part of our ongoing efforts in business format optimisation. Significant growth in single-store daily sales and daily number of patrons has been reported as a result. Substantial improvements in the merchandise mix as well as the quality of suppliers were also promoted as the Group continued its efforts on category optimisation, building a solid foundation for the further elevation of its merchandise management standards.

Improved efficiency through in-depth WINBOX application and optimisation. The launch of our proprietary R2POS system has facilitated the implementation of the multiple-combination promotion model with a number of new promotion records. The application of EFT promotion has shortened the lead-time for card payment and saved millions of Yuan last year in card payment costs. Gross profit reimbursement for the Group was enhanced following the optimisation of relevant system functions during the Reporting Period, resulting in considerable increase in gross profit. The asset management module which went live in March 2009 facilitated fundamental changes in four aspects: system-run instead of manual asset management, dynamic instead of passive management, preemptive risk control instead of aftermath tracking and asset preservation instead of potential losses, resulting in significantly enhanced efficiency.

Chairman's Statement

Initial success for the conversion of our logistics department into a stand-alone business with the launching of our North China Logistics Centre. Since the beginning of the Reporting Period, the Group has started to transform its corporate logistics department into a logistics enterprise and turn it into a profit centre instead of a cost centre. The transformation got a good result in 2009. The Group's Baiziuan Distribution Centre posted profit for 5 consecutive months. Towards the end of 2009, the new North China Logistics Centre with an area of close to 70,000 square metres commenced operations as the single largest distribution centre in North China. "Highly informatised, sufficiently mechanised and reasonably automated" on the back of top-rate equipment and software, the North China Logistics Centre is set to significantly enhance the Group's logistics management standards and core competencies.

Teaming up with international investors to accelerate business development. With a pro-active and open-minded approach towards development, the Group entered into the "Wumart Stores, Inc. Domestic Shares Subscription Agreement" with Legend Holdings Limited ("Legend Holdings") and Hony Capital RMB I, L.P. ("Hony Capital"), as well as the "Wumart Stores, Inc. H Shares Subscription Agreement" with TPG Asia V, L.P. ("TPG") and Fit Sports Limited during the Reporting Period, pursuant to which 23,619,364 and 7,306,752 domestic shares were issued to Hony Capital and Legend, respectively, during the Reporting Period. The expertise of Legend Holdings and TPG in corporate governance, management and operations and their experience in the global retail industry are set to contribute significantly to the future development and success of the Group.

PROSPECTS

Having delivered a strong performance despite the difficult environment in 2009, Wumart is ready to meet any further challenges and opportunities ahead in 2010. We are conscious of the fact that there are already global retail giants competing head-on with us in our home market. As far as Wumart is concerned, the battles ahead will be won or lost on management and technologies, core competitive edge and supply chain. We are confident that Wumart, with its decade-long dominance in regional markets, its advanced logistics technologies and supply chain system, the determination of its people and ability to progress and to outperform, has an edge over its competitors that would drive its development and operational capabilities, especially given the economic stimulus launched by the government to promote growth, expand domestic consumption, realign structures and improve the livelihood of its people and improving market sentiments.

Chairman's Statement

In 2010, we will continue to persist in the implementation of our regional development strategy and achieve deeper regional penetration. Stronger development efforts will be committed to Beijing, Tianjin and Zhejiang, seeking to pursue leadership in these regions through increased market share and stronger profitability through organic growth as well as sales increment of superstores.

2010 will be a year of technological enhancement as Wumart seeks to give more depth to its operations. We will dedicate every effort to upgrading our technologies in the areas of IT, logistics and operation. Complex and portable technologies and functions will be centralised at the headquarters, so that less technical difficulties will be encountered by shop operations. Efforts will be made to significantly improve on-site management skills and standards so that defined processes will be established for each business. Our logistics technology will be further enhanced to advance the efficiency of Wumart's supply chain. Operational process will be modified and improved to help create a full-process supply-chain enterprise. We will also be looking at significantly improving management skills to enhance business operation, including management skills for fresh-food operations. We believe that a robust and effective management and operation structure is essential to the future development of Wumart, as well as to the further strengthening of its competitive edge.

In 2010, the Group will continue to increase its efforts to train up teams with specialised skills, whose members are capable, versatile and committed. The ultimate aim of staff training is to develop human resources so that that they become valuable assets to the Group. As Wumart continues to grow and thrive, it will attract more and more talent to join its workforce. The Company is well-placed to provide promising and rewarding career opportunities to all those who are committed to growing together with Wumart.

With 2010 promising a mixed fortune of challenges and hopes, I remain deeply convinced that:

2010 is going to be yet another year of challenges and opportunities. I am confident that Wumart can and will make further progress as long as we are ready to learn and try out new things, undeterred in the face of disruptions and adversities. With the standardisation and industrialisation of our operations, as well as the enhancements in career opportunities and remuneration for our staff, we are well-equipped to meet any challenges ahead, and accomplish our goal of becoming the best player in the retail industry.

Last but not least, I would like to extend my sincere gratitude to all members of the Board, the management team and the staff for their hard work and dedication throughout the past year.

Dr. Wu Jian-zhong
Chairman

Beijing, the PRC
23 March 2010

Management Discussion and Analysis

FINANCIAL REVIEW

Five-Year Financial Summary

RMB'000	2009	2008	2007	2006	2005
Total revenue Note 1	11,782,009	9,749,790	7,865,805	5,693,349	3,918,598
Revenue	10,511,410	8,759,263	7,118,755	5,159,666	3,539,319
Gross profit of sales	930,619	771,930	537,788	347,364	250,103
Consolidated gross profit Note 2	2,201,218	1,762,457	1,284,838	881,047	629,382
Consolidated gross profit margin Note 3	18.7%	18.1%	16.3%	15.5%	16.1%
Net profit	437,764	361,339	300,078	212,308	164,533
Net profit margin Note 4	3.7%	3.7%	3.8%	3.7%	4.2%
Earnings per share	RMB0.36 Note 5	RMB0.30	RMB0.25	RMB0.18	RMB0.14
Dividend per share	RMB0.18	RMB0.15	RMB0.13	RMB0.07	RMB0.045
Total assets	6,411,690	6,366,034	4,697,768	4,491,057	2,748,638
Total liabilities	4,030,910	3,729,204	2,467,209	2,502,146	1,445,866
Net assets	2,262,163	2,442,214	2,110,205	1,895,551	1,280,015
Return on net assets	18.6%	15.9%	15.0%	13.4%	13.4%
Gearing ratio Note 6	19.2%	23.6%	12.3%	8.8%	6.1%
Trade payable turnover	77 days	75 days	89 days	86 days	82 days
Inventory turnover	30 days	27 days	23 days	19 days	21 days

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: Net profit margin represents net profit as a percentage of total revenue.

Note 5: During the Reporting Period, the Group issued 30,926,116 new shares to Legend Holdings and Hony Capital. Basic earnings per share for 2009 is calculated on the basis of the weighted average number of 1,229,110,400 shares in issue.

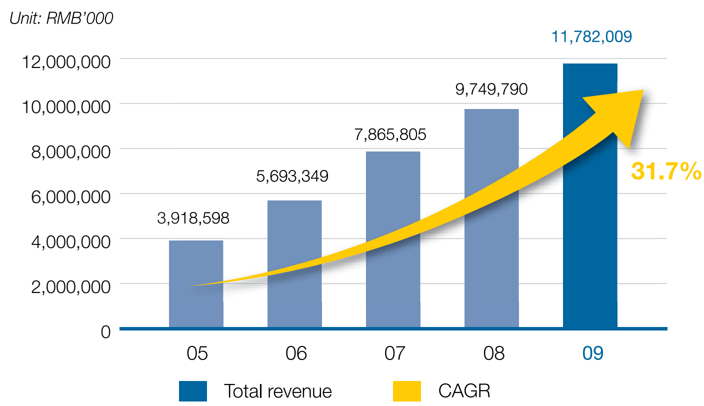
Note 6: Gearing ratio is the ratio between total bank loans and total equity of the Group at the end of the Reporting Period.

Total Revenue

For the Reporting Period, the Group recorded total revenue of approximately RMB11,782,009,000, up by approximately 20.8% compared to RMB9,749,790,000 for 2008. Excluding merchandise sales at cost to managed stores and related companies, total revenue for the year represented an approximately 24.7% growth over 2008. The growth in total revenue was attributable to: 1) year-on-year growth in comparable store sales. The Group reported a growth of 6.9% in comparable store sales for 2009, despite slackened growth in the domestic market for retail sales of merchandise. During the Reporting Period, the Group ensured the supply of high-quality merchandise at competitive prices with the adoption of a range of customer-oriented measures, such as store renovation, category optimisation, innovative marketing activities and more reasonable pricing strategies. While enhancing the loyalty of member-customers, new customers were also attracted to our stores, driving growth in comparable store sales with increased patronage and sales per customer; 2) contributions to total revenue from new stores opened during the year under review and the previous year.

"CAGR for total revenue **31.7%** over the past **5 years**"

Strong growth in total revenue over the past 5 years underlining the Group's expansion and growing momentum



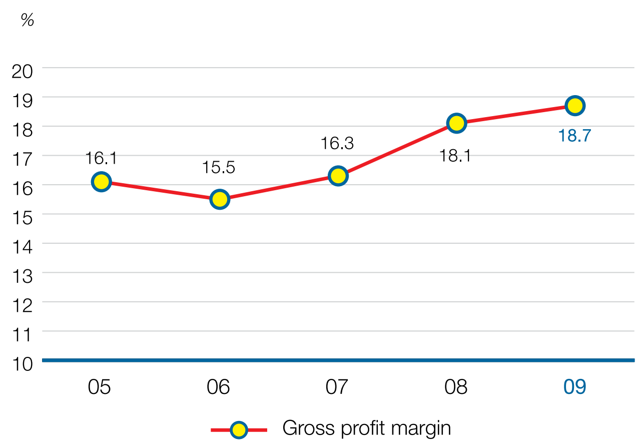
Management Discussion and Analysis

Consolidated Gross Profit and Consolidated Gross Profit Margin

For the Reporting Period, the Group's consolidated gross profit amounted to approximately RMB2,201,218,000, a growth of approximately 24.9% compared to approximately RMB1,762,457,000 for 2008. The Group's consolidated gross profit margin rose by 0.6 percentage point to 18.7%, versus 18.1% reported in 2008. Excluding the sales at cost to managed stores and related companies, the Group's consolidated gross profit margin was 19.4%, largely unchanged from 2008. During the Reporting Period, the Group strengthened its management and control over the gross profit of merchandise sales, assuring stability in our gross profit level mainly by: 1) identifying new supply sources, such as direct purchases from fruit and vegetable bases and direct apparel purchases, to reduce intermediary channels and therefore procurement costs; 2) optimising supplier mix to obtain best purchase prices; 3) exercising more refined merchandise management and formulating more reasonable pricing strategies and marketing plans with the support of advanced IT systems.

"Gross profit margin improvement continues despite aggressive promotions"

Strong gross profit margin for 5 years in a row attributable to enhancements in the Group's operational technologies and refined business management



Distribution and Selling Expenses

Distribution and selling expenses comprised mainly staff costs, rental expenses, utilities, depreciation and amortisation costs and promotional expenses. For the Reporting Period, the Group recorded distribution and selling expenses of approximately RMB1,369,093,000, accounting for approximately 11.6% of the total revenue, which was 1.3 percentage points higher as compared to the previous year. The increase of distribution and selling expenses as a percentage of total revenue mainly reflected: (1) the increase of rental expenses as a percentage of total revenue, as rental payment was amortised over the period on a straight-line basis in accordance with relevant accounting standards, even though no rental was actually payable for the pre-operating period under the rent-free provision of the lease agreement for new stores opened during the Reporting Period, resulting in a mismatch between rental expense charged to current profit and loss and turnover for the same period; (2) the increase of staff expenses as a percentage of total revenue, driven by the increase in total remuneration expenses and the corresponding increase in staff welfare and social security payments after salaries for basic-level employees and performance-based payments for outstanding management personnel were increased during the Reporting Period subject to reasonable control of staff size and enhanced productivity, as part of the Group's ongoing efforts to optimise its remuneration policy for the purpose of improving performance.

Administrative Expenses

Administrative expenses comprised mainly staff costs for management personnel, depreciation and amortisation costs and office expenses at the headquarters. For the Reporting Period, administrative expenses of the Group were approximately RMB252,078,000, accounting for approximately 2.1% of the total revenue, which was 0.7 percentage point lower compared to the previous year, reflecting cost efficiency generated by centralised management practised by the Group.

Finance Costs

For the Reporting Period, finance costs of the Group amounted to approximately RMB32,473,000, compared to approximately RMB20,406,000 for 2008. The rise in finance costs was mainly due to the increase in bank loan facility for working capital, borrowed for financial leverage purposes.

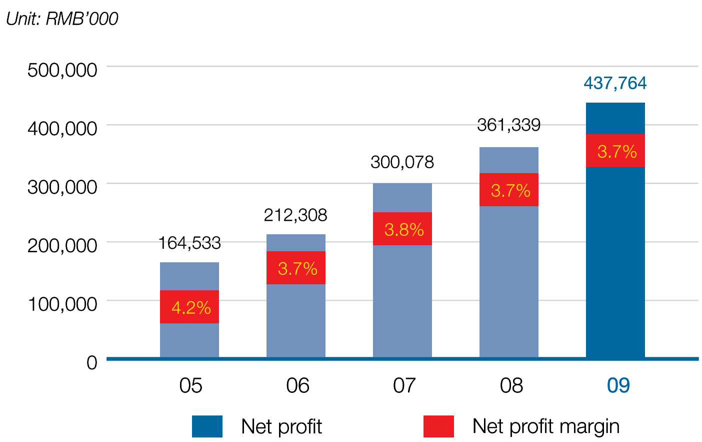
Net Profit

For the Reporting Period, net profit of the Group was approximately RMB437,764,000, representing a 21.2% growth over net profit of RMB361,339,000 for the previous year before a net gain on disposal of an associate through a share swap in tandem with the growth in gross profit.

For the Reporting Period, the Group's net profit margin was approximately 3.7%, which was at par with 2008. Excluding merchandise sales at cost to managed stores and related companies, the Group's net profit margin would have risen to approximately 3.9%, an improvement by 0.2 percentage point.

"Net profit grows steadily and net margin sustained"

Strong net profit margin sustained in the past 5 years reflecting stable profitability attributable to ongoing efforts to strengthen business management and refine cost control.



Management Discussion and Analysis

Basic Earnings Per Share

During the Reporting Period, the Group's earnings per share of approximately RMB0.36, calculated on the basis of the weighted average number of 1,229,110,400 shares (2008: 1,220,348,000 shares) in issue, represented growth of approximately 20.0%, compared to basic earnings per share of approximately RMB0.30 for 2008.

Liquidity and Financial Resources

During the Reporting Period, net cash flow generated from operating activities amounted to approximately RMB1,105,246,000. Cash and bank balances at the year-end amounted to approximately RMB1,171,575,000. Solid cash flow reflected the Group's expansion in scale and steady business growth and provided strong support for retail network expansion, modernised logistics and supply chain system construction.

As at 31 December 2009, the Group's total equity was approximately RMB2,380,780,000 with a gearing ratio of 19.2% (31 December 2008: 23.6%). Gearing ratio is the ratio between total bank loans and total equity of the Group at the end of the reporting period.

As at 31 December 2009, the Group recorded current assets of approximately RMB2,876,319,000, which mainly comprised cash and bank balances of approximately RMB1,171,575,000, inventories of approximately RMB838,803,000 and trade and other receivables of approximately RMB586,486,000.

As at 31 December 2009, the Group had non-current assets of approximately RMB3,535,371,000, which mainly included property, plant and equipment of approximately RMB2,237,538,000, interests in associates of approximately RMB139,553,000, interests in a jointly controlled entity of approximately RMB98,209,000, and goodwill of approximately RMB844,964,000.

As at 31 December 2009, the Group recorded current liabilities of approximately RMB4,014,513,000, mainly comprising trade and other payables of approximately RMB3,355,280,000 and tax liabilities of approximately RMB134,738,000.

During the Reporting Period, the Group's average trade payable turnover was 77 days (2008: 75 days) and inventory turnover was 30 days (2008: 27 days).

Capital Structure

As at 31 December 2009, the Group's borrowings, cash and cash equivalents were denominated in RMB. Audited bank loans of the Group as at 31 December 2009 were RMB456,086,000, which are repayable within one year and carrying interests at fixed rates ranging from 4% to 6.37% per annum.

BUSINESS REVIEW

In 2009, the Group continued to focus on upgrading its core competitiveness and integrated strengths, with special emphasis on store-image improvement, corporate profile enhancement, business format optimisation and category optimisation. Our operational technologies have been improved and our efficiency as a corporation fully upgraded with optimised WINBOX application and strengthened logistics support. As a result, outstanding progress has been achieved in various operational and management tasks to lay solid foundations for our development.

Further penetration of the Beijing, Tianjin and Zhejiang markets in persistent implementation of the regional priority strategy

The global financial crisis that broke out in full scale in 2008 and overshadowed the world economy throughout 2009 has sent industries and businesses into prolonged doldrums, including retailer operators around the world. Nevertheless, the Group continued to focus its efforts on development with persistent implementation of the development strategy of regional priority. We were moving fast towards the goal of regional leadership, as we continued to expand our retail network by opening new stores and acquiring M&A to consolidate and expand our regional dominance in Beijing while snatching up the markets shares in Tianjin and Zhejiang.

As at 31 December 2009, the Group had a retail network of 469 stores comprising 113 superstores and 356 mini-marts, which were either directly owned or operated and managed through franchise agreements or management agreements by the Group, its associates and a jointly controlled entity. The Group's retail network occupied an aggregate saleable area of 535,140 square metres, excluding stores under associates and franchises and 4 superstores acquired from Tianjin Lotus. During the Reporting Period, 17 directly-owned Superstores (comprising Hypermarkets and Supermarkets) were opened while 3 were closed down. For mini-marts, 51 directly-owned new stores (comprising Everyday Shops and Convenience Stores) were opened while 5 were closed down. The cooperation with 5 managed stores was terminated.

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

	As at 31 December 2009	
	Number of Stores	Geographical Distribution
Superstores		
Directly-owned	110	Beijing, Zhejiang, Tianjin
Mini-marts		
Directly-owned	240	Beijing, Zhejiang
Franchised	78	Zhejiang
Total	428	

Management Discussion and Analysis

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

	As at 31 December 2009	
	Number of Stores	Geographical Distribution
Superstores	3	Tianjin
Mini-marts	38	Tianjin
Total	41	

Active investigations in business format optimisation as part of the effort to better define the pattern of business development

Everyday Shops introduced with strong efforts. During the Reporting Period, the Group introduced the new business format of Everyday Shops following focused efforts in business format optimisation that involved full consolidation and streamlining of its existing business formats. The "Wumart Everyday Shops" is defined as a community store with a business area between 200 square metres and 2,500 square metres, highlighted by features aiming to serve the community. Its primary business circle is within the radius of 1 to 2 kilometres, depending on store sizes, with a typical inhabitation of 2,000 households or above within the circle. The Everyday Shops aims to meet the daily dietary needs of community residents mainly with the supply of fresh food, together with certain other fast-moving consumables. Everyday Shops converted from existing minimarts during the Reporting Period reported significant growth in single-store daily sales and daily number of patrons, while newly opened Everyday Shops also delivered stronger-than-expected results.

Bold experiment to reshuffle superstores with enhanced offerings of department-store merchandise. In a move to fill our superstores with more upscale brands in response to the trend of brand-oriented consumption, the Group experimented with certain superstores during the Reporting Period by reshuffling superstores with enhanced offerings of department-store merchandise and reorganising the merchandise zones, along new themes such as Babies and Toddlers, Happy Kitchen, Textile for Family, Personal Care and Intimate Care, etc. Each of these themed zones was complemented by relevant displays of merchandise, enabling patrons to get everything they need in one store. The renovated shop area attracted more high-end consumers and resulted in significant increase in patronage and sales per customer. The repositioning attempt has achieved initial success as double-digit percentage growth in monthly sales was reported versus 2008, with revenue and gross profit both exceeding budgets.

Committed efforts in upgrading operational technologies, logistics technologies and IT

China's circulation industry has come to a stage where players compete mainly on their technical knowhow, as the ability of any enterprise in the circulation business to outplay the rest shall be dependent on the right operational technologies, logistics technologies and IT being at its disposal. In this connection, the Group has introduced the best practices of the global retail industry through the successful and extensive application of WINBOX@SAP, on the basis of which initiatives in category optimisation, procurement optimisation, marketing optimisation, store optimisation and supply-chain optimisation were being implemented to strive for maximum benefits and rewards from our reforms in business, systems and management. These efforts will go a long way towards forging our core competitive strengths in operational technologies, logistics technologies and IT.

Category Optimisation

Swift substitution of non-performing merchandise and replacement of defective merchandise based on customer demands; ongoing product mix improvement assuring uniqueness and superiority. During the Reporting Period, the Group implemented more detailed management of merchandise categories by defining different mixes for store groups of various business formats based on characteristics of their respective business circles, drawing on resources made available by the WINBOX@SAP system. Merchandise screening by way of reverse ranking in sales was being conducted on a regular basis at all store groups, whereby non-performing merchandise were swiftly substituted and the system for introducing new merchandise and replenishing individual categories was improved to ensure sufficient display of popular items and timely stacking of new items. Refined and dynamic category optimisation helped to align store offerings with the needs of target consumer groups, ensuring timely adjustments in response to changes in consumers' demands.

Category management optimised and merchandise upgraded through brand building and supplier grading and assessment. During the Reporting Period, the Group focus on the analysis of the percentage mix between manufacturer-branded merchandise and distributor-branded merchandise in terms of both quantity and sales. The existing category mix was adjusted by reference to market trends, with selected items being removed and replaced by new ones as appropriate. Meanwhile, monthly analysis of suppliers' share of sales and contributions from individual items was conducted to compare a supplier's market position against its ranking according to the Group's internal statistics, with a view to establishing principal suppliers and strategic suppliers. During the Reporting Period, the Group completed 26 category management projects in cooperation with certain well-known international as well as domestic brand names and made ongoing improvements to 51 sub-categories involving variety, pricing, display and marketing of over 7,000 merchandise items. The Group reported growing purchase values per customer as more consumers with stronger spending powers had been attracted to our stores by the availability of higher-end merchandise, thanks to constant improvements in brand offerings and supplier-grades coupled with ongoing progress made in category management.

Management Discussion and Analysis

Price competitiveness of merchandise enhanced as continuous efforts were being made to assure more responsive price adjustments for sensitive items. Timely adjustments were made to prices of hyper-sensitive, sensitive and seasonal merchandise as well as fresh fruits and vegetables in line with market trends during the Reporting Period, and negotiations on purchase price control were also being conducted and the market competitiveness of the Group's merchandise prices was enhanced as a result.

Procurement Optimisation

Our scale as a regional operation provides leverage for the implementation of centralised and joint procurement through capitalising our scale as a regional operation. With the advantage of large-scale procurement in tandem with its regional development strategy, the Group further advanced its efforts in joint procurement and centralised procurement during the Reporting Period, aiming to achieve centralised procurement for major regions, to be followed by centralised procurement on a nationwide basis for principal brands. Following the implementation of joint procurement and centralised procurement by our Beijing and Tianjin stores in respect of leading suppliers, our operations in Zhejiang also adopted the model as Hangzhou Commerce and Zhejiang Gongxiao, both subsidiaries of the Group, centralised their procurements and sourced merchandise on shared contract terms. Under this arrangement, Zhejiang Gongxiao renegotiated purchase prices for about 1,700 merchandise items and booked additional gains of approximately RMB2.1 million as a result. Meanwhile, Beijing, Tianjin and Zhejiang started to source merchandise of certain international brands on shared contract terms. With the support of an improved logistics system and the advantage of its large-scale procurement on a regional basis, the Group is well-positioned to enter into partnerships with more manufacturers and thus enhance its market competitiveness with the benefit of lower purchase costs, improved profit margin and stronger support for promotional activities.

Implementation of "farm-supermarket matching" and "direct purchases from production bases" has resulted in higher merchandise quality, lower selling prices and broader profit margin. During the Reporting Period, the Group commenced trial operations of "farm-supermarket matching" at certain superstores and Everyday Shops in Beijing with the support of relevant government authorities. Merchandise items under the project were mainly sourced from Shandong, complemented by specialty fruits and vegetables from Hebei, Sichuan, Fujian, Xinjiang and Hainan. By "farm-supermarket matching" and "direct purchases from production bases", these fresh fruits and vegetables were delivered at the stores through the Wumart distribution centres within 24 hours after harvesting, resulting in fresher quality at substantially lower purchase costs. Patronage increased significantly as consumers were attracted by prices more competitive than those available in the agricultural trade markets, while the Group also secured higher gross profit for its fruit and vegetable items.

Optimise supplier mix and maintain harmonious and win-win retailer-supplier relationship. The Group conducted a comprehensive exercise in supplier mix optimisation during the Reporting Period, soliciting new products and distributors with proven quality and terminating understrength and outmoded suppliers subject to designated limits for the total number of suppliers engaged. During the Reporting Period, the Group launched joint efforts with leading domestic and international branded suppliers in category management and inventory management, whereby supplier representatives were invited to monitor the Group's operations jointly with the customers, while seminars were also held on a regular basis for us to listen to the views and recommendations of suppliers on the one hand and explain our measures for improvement on the other. Harmonious and mutually beneficial retailer-supplier relationships have been maintained as a result.

Marketing Optimisation

Substantial sales growth and savings in marketing expenses through innovative marketing models and strategies coupled with refined marketing management with the support of our information system. With the support of the WINBOX@SAP and Retalix POS systems, the Group developed and launched 48 multiple-combination promotion models during the Reporting Period, such as discounted purchase for designated invoice amounts, category discounts, half-price for second item and box prices. The promotion campaigns proved to be immensely popular with consumers. In tandem with the differentiated store management model of the WINBOX@SAP system, marketing programmes for store groups under different business formats were also carried out on a differentiated basis, with a view to being more customer-specific and better meeting the needs of target groups. More consumers were attracted to us as a result of innovative marketing and more refined marketing management. Sales per customer and gross profit were increased, while savings in marketing expenses were made.

Rousing market sensation in Beijing: promotional activities celebrating the 15th anniversary of the first Wumart store and 10th anniversary of MerryMart. The Reporting Period coincided with the 15th anniversary of the opening of the first Wumart store and the 10th anniversary of the establishment of MerryMart, a subsidiary of the Group. To celebrate the occasion, the Group partnered with its suppliers to launch large-scale marketing and promotional activities that nearly covered all merchandise categories. Novel marketing and promotion tactics such as double points, lucky draws and gifts for members were employed. With the help of media publicity, these promotional activities were met with strong response and much talked about in the Beijing. During the celebrations period, consumers were able to benefit from our competitive prices and experience the quality of our products and services. All in all, the positive store and corporate image of Wumart have been significantly enhanced.

Customer loyalty enhanced with effective membership management. During the Reporting Period, the Group enhanced its management and analysis of membership information and launched exclusive marketing activities for members such as members' day and improved the point and reward system for members. Specific marketing strategies were implemented in respect of selected premium customers, whereby marketing information was dispatched through SMS to provide intimate services and genuine rewards to members, aiming to enhance members' loyalty and encourage more consumers to enroll for membership.

Management Discussion and Analysis

Group purchase customers identified as new niche for growth. During the Reporting Period, the Group identified group purchase customers as a new niche for growth as it lent itself to some pro-active marketing initiatives, taking full advantage of our large-scale regional operation, dense network of store outlets, product quality, competitive prices and intimate and efficient services. The Company's publicity and positive corporate image was enhanced through cooperation with major customers. Following the deployment of 1,000 employees from Wumart minimarts to serve in the 2008 Beijing Olympics, the Group was assigned again during the Reporting Period to supply meals to parade troops and local and international journalists during the 60th National Anniversary celebrations. The Group was selected by the organising committee of national anniversary celebrations because of its strong distribution capability, the fine quality and competitive prices of its merchandise and prompt services, and it has been highly commended by the public for its strengths in merchandise supply, swift response, team support and quality services.

Store optimisation

Enhance shopping environment, store image and corporate profile through store renovation. During the Reporting Period, renovation and upgrading works were carried out at certain stores, as the Group aimed to achieve for superstores richness and grandeur in display as well as more depth in space, and for minimarts flair and attention to details. At certain superstores, bold attempts were made to renovate the stores towards a department-store format. New feature zones were created in the shop area, highlighted by correlated displays and makeshift scenes of household living. Merchandise items displayed were attractive in appearance and rich in variety. The renovated stores typically featured spacious shop areas with clear partitions and soft lightings, greeting patrons on a high note of brightness, passion, enthusiasm and trendiness as they enter into a cosy shopping environment. Again, the store image and corporate profile of the Group have been enhanced as a result.

Enjoyable and convenient shopping in a warm and cosy setting facilitated by improved sales arrangements and novel displays. During the Reporting Period, the Group endeavoured to improve sales arrangements at the stores by enhancing displays of makeshift household scenes as well as correlated displays, such as green scenery at the fruit and vegetable zone or makeshift kitchens at the amenities zone, while merchandise items were placed in novel containers such as ceramics pots, rattan baskets, trays and cases made with raw wood, to differentiate merchandise of varying grades. Other creative display tools included a versatile display stack designed and fabricated on an in-house basis and the placing of additional aisle magnet points using "audio display" to increase penetration of shoppers' flow. This life-like setting of display and sales has created a warmer and cosier environment and provided patrons with more convenience in shopping.

Better service quality and strengthened store competitiveness through articulated efforts in the standardisation of store operations. During the Reporting Period, the Group adjusted the list of fundamental inspection items by giving a more detailed breakdown, adding items such as safe shopping, group purchase customer maintenance, quality management and equipment maintenance. The optimisation of display standards for amenities and cleaning products (such as vertical display of sub-categories), implementation of display standards for promotional items and shopping convenience, represented some of the key areas of focus. With general improvements in our merchandise strength and service quality, the competitiveness of our stores has been enhanced.

Supply-chain Optimisation

Innovations in the business, operation, organisation and incentive models driving transformation of the Wumart supply chain from being a cost-centre to a profit-centre.

During the Reporting Period, the Group explored possibilities in business model innovation in terms of four strategic focuses: namely the principal supplier strategy, direct purchase strategy, consignment strategy and institution distribution strategy. Our distribution services were expanded and revenue from distribution fees was significantly increased as a result. Innovations in the operating model were underpinned by three basic principles: that the operations should be "highly informatised, sufficiently mechanized and reasonably automated". The operating efficiency of the DCs was significantly enhanced as a result, with a lower operating cost ratio, reasonably managed inventory and shortened inventory turnover period. In terms of innovations in staff deployment, the scheme for a "flattened" structure was implemented, whereby an employee may be required to "perform subordinate-level duties without compromising his/her grades and ranks and to undertake multiple tasks in one specialised position". While revenue from distribution fees was significantly increased, staff costs were significantly reduced as a result of the initiative in staff deployment. Moreover, the Group has trained up a team of high-calibre staff who are proficient in both theoretical knowledge and hands-on operation, competent in both management and operational positions and well-versed at least two types of logistics skills. On the basis of improved human resource efficiency and stronger skills, we were looking at new possibilities in staff incentives, such as awarding supervisory roles to backbone staff, as a means to motivate staff officers for even greater commitment and dedication.

WINBOX@SAP

> **"WINBOX is a very significant testimony to Wumart's core competitiveness and integrated strengths and the foundation on which our operating technologies will be upgraded and our efficiency enhanced."**

During the Reporting Period, the Group's unique core retail technology framework Version W2M1.0, namely, WINBOX+VRM (Vendor Relationship Management, the supplier order settlement platform) + MRM (Manager Relationship Management, the internal management statement platform), was developed as part of the WINBOX project. VRM facilitated information sharing, online bill reconciliation and online settlement between the Group and its suppliers, as well as EDI (Electronic Data Interchange) with certain suppliers who were technologically equipped for it. With the provision of succinct, convenient and efficient data reports, MRM has laid solid foundation for the extensive application of information system.

During the Reporting Period, the Group completed the optimisation of the BW system module building as part of its efforts in information system optimisation, resulting in improved work efficiency through considerably shortened lead time for business users information processing and therefore an expedited decision-making process. Improvements were also being made to the POS system, such as more localised promotion logic and more flexible applications for business departments. The extensive application of EFT (Electronic Funds Transfer) among our stores in Beijing has significantly enhanced cashier efficiency and reduced communication costs. With the launch of the asset management module, which implements dynamic management and pre-emptive risk control in respect of the Group's assets on a system-run basis, our asset application ratio has been improved, which is beneficial to asset preservation and cost savings.

During the Reporting Period, we also succeeded in mapping out a potential new path for reshaping our organisational structure from the "olive-like" profile to an "dumbbell-like" profile, that has resolved the bottlenecks caused by "rising management costs associated with expansion" and "low management standards despite expansion" and supporting rapid and stable expansion with enhanced cost efficiency, thanks to the world-class technological and management breakthroughs facilitated by WINBOX, with store groups as management units, merchandise category (MC) as the performance centre, inventory management (IM) as the hub for business and financial data integration and strong platforms (such as VRM) supporting simplification of frontline sales.

With the support of our information platform, technological innovations were successfully applied to all segments of the supermarket operation during the Reporting Period, while business process re-engineering and the entire supply chain were being creatively integrated for significantly improved efficiency in terms of response to customers' requirements, order management, distribution management, inventory management and supplier coordination, which has been widely acclaimed in the industry. On the back of innovations in the core ERP and POS technologies of WINBOX in nine areas: namely technology, application, information system integration for the retail chain industry, intensive business and financial management integration for the retail chain industry, smart data auditing, refined management integration, business model, operating model and management structure. The WINBOX project won three major awards from domestic and international institutions during the Reporting Period: the "Significant Corporate Informatisation Achievement Award" representing the highest honour in corporate informatisation in China, the "Best IT Project Implementation in Informatisation Award 2009" at the 3rd Sino-U.S. CIO Summit and the "National Business Technology Progress Award — Special Grade" at the National Business Science and Technology Conference jointly hosted by the National Development and Reform Commission, the PRC Ministry of Science and Technology, the Ministry of Industry and Informatisation and China General Chamber of Commerce.

Human Resources Development

> At Wumart, we are prepared to offer the right place for all high-calibre people.

Optimising performance appraisal and enhancing system of staff appointment and promotion. During the Reporting Period, the Group completed performance appraisal of its core officers for the first six months of 2009, as the concept of "promotion, reward and career opportunities based on merit (as measured by levels of versatility, competence and commitment)" was further reinforced as a consensus for all staff. Meanwhile, the Group continued with efforts to optimise its performance appraisal system, setting out specific position requirements represented by stringent and precise appraisal indicators so that periodic appraisal exercises were smoothly integrated with day-to-day observation of staff performance. Employees were rewarded on the basis of merit through fair, just and open assessment, as the Group's comprehensive staff appointment and promotion system was further reinforced and optimised for the screening and selection of suitable candidates that would support the Group's rapid development.

Increasing supply of "Wumart-made" officers through continuous efforts to build specialised teams of professionals. Specialised teams of professional staff were being built through the implementation of talent cultivation programmes. During the Reporting Period, internal train-up and selection was strengthened by linking training with promotion and appraisal. The Group continued to implement the "Centurion Program" during the Reporting Period, building specialized and professionalized teams with more "Wumart-made" officers. A total of 58 employees participated in our training sessions, while 8 employees qualified as candidates for appointment to the post of store manager, out of which 4 had officially assumed duties as store managers. In addition, 389 employees took part in IT system upgrade training, 199 in management officers promotion training and 869 in other specialised training programmes.

Training system optimised to nurture talents in preparation for the Group's rapid development. An E-learning project team was established during the Reporting Period to develop an Internet-based distant-learning platform, whereby training sessions would be broadcast through telecommunications networks and no longer limited to any specific time and location. Meanwhile, with the completion of training data management via the system, the Group was able to monitor the progress of training, assess results and understand what was needed, so that training programmes would be formulated in a more scientific and reasonable manner. The Group continued to implement a series of staff training programs with a view to linking training with promotion and appraisal. During the Reporting Period, 44 training sessions were organised by Wumart Development College with a total of 1,515 employees attending. The technical, professional and management standards of our staff have been raised as a result to match the Group's rapid development, while talents have been identified to support the rapid development of the Group in future.

Broadened recruitment channels through cooperation with leading universities, colleges, intermediary institutes and employment agencies. While sourcing officers through internal training, the Group was also engaged in extensive cooperation with famous universities, colleges, intermediary institutes and employment agencies during the Reporting Period. Recruitment exercises were launched at colleges and schools to solicit high-calibre post-graduate and undergraduate students and train them for prospective appointments to positions at various levels. These recruits were expected to provide strong reinforcements and give the Wumart team a more optimised composition of staff officers. The Group also recruited officers from external sources and procured their fast integration into the Wumart team with an open mind, assuring that its future development will be supported by a wealth of human resources comprising talents with varying seniority and diverse background.

The application of advanced technologies has improved operational models and optimised organisational structures, resulting in enhanced organisational efficiency as well as control over staff costs. Following the full application of the WINBOX-HR system in 2008, the Group further accomplished 56 optimisation projects during the Reporting Period and successfully launched the system for the Tianjing branch on 8 May and the East China headquarters on 10 November. With a centralised data platform after the launch, HR officers at various levels were able to gain instant information on personnel changes and share HR data and information on a real-time basis, paving the way for fast and accurate HR decision-making. The application of the WINBOX-HR system in our appraisal framework has also effectively enhanced the efficiency of appraisal management and the accuracy of appraisal data.

During the Reporting Period, the operational models of the Group were improved through enhanced management over work-hours and work-shifts with the help of the optimised WINBOX@SAP system. Organisational efficiency was improved and staff costs effectively controlled with the implementation of an optimised and "flattened" organisational structure, whereby an employee may be required to "perform subordinate-level duties without compromising his/her grades and ranks and to undertake multiple tasks in one specialised position".

PROSPECTS

> **2010: a year of further enhancement for Wumart's core operation, and a milestone year for its continued success in the new century.**

In 2010, China is set to enter the upswing of a new cycle of growth, which for all of us at Wumart represents a period of golden opportunities. These opportunities were brought about not only by government policies aimed at driving domestic consumption and supporting farm-supermarket matching, but also as a result of Wumart's own strengths in the areas of communications, logistics, operation through the commitment and hard work from each and every one of us at Wumart.

In 2010, we will further strengthen our end-to-end supply chain and enhance the operation process at each link, to create a comprehensive and integrated supply chain industry and improve the efficiency of Wumart's supply chain, paving the way for the establishment of an advanced circulation industry.

In 2010, we will continue to upgrade our technologies in the areas of workflow, categorisation, sales and marketing, procurement, purchasing orders, merchandize display, wear-and-tear control, and loss prevention. Technical improvements in these areas will help standardize our workflow throughout the organisation and as enhance a host of specialist technologies, through which the performance of business heads and colleagues can be improved and our corporate image on the shop floors enhanced, further consolidating Wumart's leadership position as the most popular store for shoppers.

In 2010, we will also step up our efforts in performance appraisal to nurture and promote the best performers among our staff while reaching out to recruit talents, as we stand together as one to help shape the future of this great success story that is Wumart in the new century.

Profile of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Dr. Wu Jian-zhong, aged 52, Chairman of the Company and Chairman of Beijing Wangshang Shijie E-business Co., Ltd (北京網商世界電子商務有限公司) ("Wangshang Shijie E-business"). Dr. Wu obtained his Ph.D. degree in system engineering at the Institute of Automation, Chinese Academy of Sciences. He pursued postdoctoral research at the University of Michigan in the United States from 1993 to 1994. Dr. Wu joined Wumei Holdings in 1994. When the Company was established in August 2000, he was appointed as a Director. In November 2002, he was appointed a Vice Chairman of the Company. Since July 2003, Dr. Wu has served as a Vice President of the Company. Since November 2006, he has acted as the Chairman of the Company.

Dr. Meng Jin-xian, aged 53, Executive Director and Vice President of the Company. Dr. Meng earned his doctorate at the Beijing University of Science and Technology. He joined Wumei Holdings as a Vice President in 1997 till 2000, mainly responsible for business development and operations. He has served as a Vice President of the Company from August 2000, responsible for operation management, and procurement and logistics management. Since November 2002, he has acted as a Director of the Company, and is currently responsible for standard keeping, new business development and operations.

Madam Xu Ying, aged 45, Executive Director, Vice President and Chief Financial Officer of the Company. She holds an MBA degree from the Meinders School of Business of Oklahoma City University. Before joining the Company, she worked with Tianjin International Trust and Investment Corporation as an investment manager from 1987 to 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 1996 to 2000. In 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 in 2004 and was appointed as a Director in June 2007.

Mr. Zhu You-nong, aged 57, Executive Director and President of the Company. From 1988 to 1992, Mr. Zhu served as a deputy general manager of Beijing Ya Du Manmade Environment Technology Company. From 1993 to 2000, he served as the chairman of Beijing Duo Ling Duo Investment Company Limited. From 2000 onwards, Mr. Zhu serves as a director of Beijing MerryMart Chainstores Development Co., Ltd. (北京美廉美連鎖商業有限公司). Since October 2007, Mr. Zhu has served as the President of the Company. Mr. Zhu was appointed as a Director of the Company in November 2009.

Profile of Directors, Supervisors and Senior Management

Non-executive Directors

Mr. Wang Jian-ping, aged 46, Non-executive Director and Vice Chairman of the Company, and executive director of Wumei Holdings. Mr. Wang received his master's degree in law from the China University of Political Science and Law. He acted as a Vice President of the Company from August 2000 to May 2002. He was elected as a non-executive Director in November 2002. In November 2006, he was elected as a Vice Chairman of the Company.

Mr. John Huan Zhao, aged 46, Non-executive Director of the Company. Mr. Zhao has a B.S. degree from the physics department of Nanjing University. He pursued further studies in the U.S. in 1987, and received M.S. Degrees in Physics and Electrical Engineering from the Northern Illinois University and an MBA. degree from the Kellogg Graduate School of Management at the Northwestern University. Mr. Zhao is currently the Chief Executive Officer of Hony Capital and Senior Vice President of Legend Holdings Limited, in charge of the private equity investment and management business of Legend. Prior to joining Hony Capital, Mr. Zhao held various senior management positions in a number of companies. Mr. Zhao has directorships in the following listed companies: as non-executive director of China Glass Holdings Limited (HK.3300) since January 2005, executive director of China Pharmaceutical Group Limited (HK.1093) since December 2008, independent director of Gemdale Corporation (SH.600383) since April 2008 and director of Simcere Pharmaceutical Group (NYSE.SCR) since March 2006. Mr. Zhao was appointed as a Non-executive Director of the Company in November 2009.

Independent Non-executive Directors

Mr. Han Ying, aged 75, Independent Non-executive Director. Mr. Han holds a bachelor's degree in mining from the Beijing Institute of Mines. During 1991 to 1995, he acted as vice minister of the Ministry of Coal Mining of the PRC and vice general manager of China Tongpei Coal Mine Headquarters Company. During 1996 to 2000, he worked as a vice chairman and the general manager of Shenhua Group Company. He was appointed to 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. In July 2003, he was appointed as an Independent Non-executive Director of the Company.

Mr. Li Lu-an, aged 66, Independent Non-executive Director. Mr. Li served as the chairman with several companies such as CITS Group Corporation, a vice president with China Travel Association, and adviser for economic development of China's Central-Western Region and Strategy Development Commission of the World Travel Organisation. In September 2004, he was appointed as an Independent Non-executive Director.

Mr. Lu Jiang, aged 53, Independent Non-executive Director, chairman and general manager of Beijing Yongtuo Certified Public Accountants Co., Ltd, chairman of Beijing Yongtuo Engineering Co., Ltd, and committee member of Beijing Certified Public Accountants Association. Mr. Lu has years of experience in accounting, auditing, assets valuation and management. He serves as a researcher of the Academic Committee under the China Academy of Management Science, chief supervisor of the Beijing Afforestation Foundation, executive director of the Beijing Non-Governmental Enterprises Association (北京民營企業協會) and Beijing Council for International Investment Promotion (北京國際投資促進會). In September 2004, he was appointed as an Independent Non-executive Director.

SUPERVISORS

Supervisor Nominated by Employees

Madam Yan Li-xia, aged 44, graduated from the Beijing University of Technology. Before joining the Company, she worked with human resources department of Beijing Kraft Food Company Limited as a supervisor. She served as a customer service supervisor at the Company's stores from 1994 to July 2000 and as the manager of Staff Administration Department under supermarket department of the Company from August 2000 to August 2004. In September 2004, she became an assistant to director with Staff Administration Department under convenience store department of the Company. In February 2006, Ms. Yan was appointed as a deputy director of Staff Administration Department under convenience store department of the Company and was promoted to the position of director of the department in August 2007. In November 2005, she was appointed as a Supervisor of the Company.

Independent Supervisors

Mr. Fan Kui-jie, aged 46, Chairman of the Supervisory Committee. Mr. Fan obtained his master's degree in engineering from the Business Management School of Xi'an Jiaotong University. He worked as managerial staff with Yanzhou Mining Business Group from 1982 to 1988, and from 1991 to 1999. Since 1999, Mr. Fan has been the chief supervisor of China International Futures Brokerage Co., Ltd. He was appointed as an Independent Supervisor of the Company in November 2002.

Madam Xu Ning-chun, aged 46, Independent Supervisor. Ms. Xu received her bachelor's degree in economics from the College of Commerce, Beijing, and is a PRC certified public accountant and a PRC registered assets valuer. She has been general manager of Beijing Dingge Capital Assessment Co., Ltd. since 1998. She has served as a finance evaluation expert of the Administration Committee of Zhongguancun Science Park under the Beijing Municipal Science & Technology Commission since 2003. She was appointed as an Independent Supervisor of the Company in July 2003.

SENIOR MANAGEMENT

Dr. Yu Jian-bo, aged 44, Vice President of the Company overseeing the information centre (WINBOX), the supply chain (WINDC), group procurements and the central kitchen. 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 (當代中國研究所) as a senior researcher. From 1998 to May 2005, Dr. Yu served as a director and the executive president of Jin-Ri Investment (今日投資), and a vice president (China region) of OBI. Dr. Yu joined the Company in May 2005.

Profile of Directors, Supervisors and Senior Management

Mr. Xu Shao-chuan, aged 38, Vice President of the Company. 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 general manager of the Finance Department of Wumei Holdings from 1999 to 2000. In August 2000, he took up the position as the general manager of the Finance Department of the Company. Mr. Xu was appointed as a Vice President in March 2007.

Report of the Board of Directors

The Board of Directors (the “Board”) is pleased to present the annual report of the Group for the year ended 31 December 2009 to the shareholders.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the operation and management of retail chains of superstores and minimarts in Beijing, Tianjin and Zhejiang in line with its strategy of regional development, in pursuit of the objective of “developing China’s retail industry and improving quality of life for the public” (發展民族零售產業，提升大眾生活質量). The principal activities of the Group are set out in Note 38 to the consolidated financial statements.

Annual results and financial information of the Group for the Reporting Period, which are prepared in accordance with the Hong Kong Financial Reporting Standards, are set out in the consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

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

During the Reporting Period, none of the Directors, the supervisors, their associates, or any shareholders which, to the best knowledge of the Board own more than 5% of the Company’s share capital, had any interests in the Company’s major customers and suppliers.

SHARE CAPITAL

Name of shareholders	Class of shares	Number of shares (shares)	Approximate percentage of total share capital (%)
Wumei Holdings, Inc. ("Wumei Holdings")	Domestic shares	497,932,928	39.79
	H shares	1,375,000	0.11
Beijing Hekang Youlian Technology Co., Ltd. (北京和康友聯技術有限公司) ("Hekang Youlian")	Domestic shares	24,982,300	2.00
Beijing Junhe Investment Co., Ltd. (北京君合投資有限公司) ("Junhe Investment")	Domestic shares	23,269,228	1.86
Wangshang Shijie E-business	Domestic shares	160,457,744	12.82
Legend Holdings	Domestic shares	7,306,752	0.58
Hony Capital	Domestic shares	23,619,364	1.89
Beijing Shuangchen Express Co., Ltd. (北京雙臣快運有限公司) ("Shuangchen Express")	Domestic shares	7,137,800	0.57
General public	H shares	505,193,000	40.48
Total share capital		1,251,274,116	100.00

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

ISSUE OF EQUITY

During the Reporting Period, the Company entered into the H Share Subscription Agreement with TPG Asia V, L.P. ("TPG") and Fit Sports Limitied ("FS") in respect of the issuance of an aggregate of 100,000,000 H shares (comprising 84,552,000 shares to be issued to TPG and 15,448,000 shares to be issued to FS) pursuant to the general mandated granted to the Board of Directors at the annual general meeting at an issue price of HK$11.00 per share, with a view to procuring sufficient funds to support the Group's rapid and sustainable development, retail network expansion, and store renovation and upgrade. As at 31 December 2009, the said issue was not completed. In the meantime, the Company also entered into the "Domestic Share Subscription Agreement" with Legend Holdings Limited ("Legend Holdings") and Hony Capital RMB I, L.P. ("Hony Capital") for the issuance of a total of 50,000,000 domestic shares to Hony Capital and Legend Holdings at an issue price of RMB9.26 per share together with an arrangement fee of RMB0.44 per share.

During the Reporting Period, the first completion was completed with the issuance of 30,926,116 domestic shares of RMB0.25 each in aggregate, comprising 23,619,364 domestic shares issued to Hony Capital and and 7,306,752 domestic shares to Legend Holdings. Upon the first completion, the registered capital of the Company was increased from RMB305,087,000 to RMB312,818,529, while the total number of shares was increased from 1,220,348,000 shares to 1,251,274,116 shares.

FIXED ASSETS

Details of the movements in the fixed assets of the Group during the Reporting Period are set out in Note 15 to the consolidated financial statements.

DISTRIBUTABLE RESERVE

The distributable reserve of the Company as at 31 December 2009 amounted to approximately RMB1,019,993,000 (2008: RMB809,945,000).

DIVIDEND APPROPRIATION

The Board recommended the payment of a final dividend of RMB0.18 (before tax) per share to shareholders whose names appear on the register of members on the date of the 2009 annual general meeting ("AGM"), subject to approval by way of an ordinary resolution at the AGM.

Subject to the passing of the resolution on dividend payment at the AGM, the final dividend payable to all non-resident enterprise shareholders registered in the name of non-natural person (including HKSCC Nominees Limited, other corporate nominees or trustees, or all other entities and organisations) whose names appear on the register of H shareholders as at the date of the AGM, will be subject to a 10% withholding tax. Final dividends payable to natural person shareholders whose names appear on the register of H shareholders will not be subject to the said 10% withholding tax. Dividends payable to holders of domestic shares of the Company will be in Renminbi, and to holders of H shares in Hong Kong dollars.

Separate announcement in respect of the AGM and the closure dates of the register of member will be made by the Company in due course.

SUBSIDIARIES

Details of the subsidiaries of the Company during the Reporting Period are set out in Note 38 to the consolidated financial statements.

FUTURE INVESTMENT PLANS

As at 31 December 2009, the Group did not have any significant investment plans.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

PLEDGE OF ASSETS

As at 31 December 2009, the Group's bank loans of RMB17,700,000 were secured by the pledge of land and buildings with a carrying amount of approximately RMB27,446,000.

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 from fluctuations in exchange rates.

INVENTORIES

During the Reporting Period, the Group's inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

As at 31 December 2009, audited inventories balance was approximately RMB838,803,000 (2008: RMB733,210,000) and costs included in the Reporting Period was approximately RMB9,580,791,000 (2008: RMB7,987,333,000).

CONTINGENT LIABILITY

As at 31 December 2009, the Group had no significant contingent liability.

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

As at 31 December 2009, the interests or short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

Name	Number of domestic shares (shares)	Approximate percentage of total issued domestic share capital (%)	Approximate percentage of total capital (%)	Type of interests
Dr. Wu Jian-zhong (吳堅忠博士) *(note 1)*	160,457,744	21.55	12.82	Interests in controlled corporation
Dr. Meng Jin-xian (蒙進暹博士) *(note 2)*	48,251,528	6.48	3.86	Interests in controlled corporation

Notes:

1. Dr. Wu Jian-zhong holds 70% of the share capital of Wangshang Shijie E-business, one of the promoters of the Company, which has a direct interest in 160,457,744 domestic shares of the Company. Dr. Wu Jian-zhong is deemed, by virtue of Part XV of the SFO, to be interested in the shares held by Wangshang Shijie E-business in the Company.

2. Dr. Meng Jin-xian holds 40% of the share capital of Junhe Investment, one of the promoters of the Company, which has a direct interest in 23,269,228 domestic shares of the Company. Junhe Investment also holds 50% of the share capital of Hekang Youlian, which has a direct interest in 24,982,300 domestic shares of the Company. Dr. Meng Jin-xian is deemed, by virtue of Part XV of the SFO, to be interested in the Company in the shares held by Junhe Investment and Hekang Youlian.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2009, none of the Directors, Supervisors or chief executives of the Company or their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

As at 31 December 2009, none of the Company, any of its subsidiaries, holding companies or fellow subsidiaries was a party to any arrangement to enable the Directors or Supervisors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, the interests or short positions of persons other than Directors, Supervisors and chief executives of the Company in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Long positions in domestic shares of the Company

Name	Number of domestic shares (shares)	Approximate percentage of total issued domestic share capital (%)	Approximate percentage of total capital (%)
Dr. Zhang Wen-zhong (張文中博士) (Note 1)	497,932,928	66.86	39.79
Beijing Jingxi Guigu Technology Company Limited (北京京西硅谷科技有限公司) ("Jingxi Guigu") (Note 1)	497,932,928	66.86	39.79
Beijing CAST Technology Investment Company (北京卡斯特科技投資有限公司) ("CAST Technology Investment") (Note 1)	497,932,928	66.86	39.79
Wumei Holdings (Note 2)	497,932,928	66.86	39.79
Xinhua Department Store (Note 3)	497,932,928	66.86	39.79
Wangshang Shijie E-business	160,457,744	21.55	12.82

Report of the Board of Directors

Notes:

1. Jingxi Guigu is owned as to 85% by Dr. Zhang Wen-zhong, and therefore Dr. Zhang Wen-zhong is entitled to control the exercise of one third or more of the voting power at general meetings of Jingxi Guigu. CAST Technology Investment is owned as to 80% by Jingxi Guigu, and therefore Jingxi Guigu is entitled to control the exercise of one-third or more of the voting power at general meetings of CAST Technology Investment. Wumei Holdings is owned as to 70% by CAST Technology Investment, and therefore CAST Technology Investment is entitled to control the exercise of one-third or more of the voting power at general meetings of Wumei Holdings. Each of Dr. Zhang Wen-zhong, Jingxi Guigu and CAST Technology Investment is therefore deemed, by virtue of Part XV of the SFO, to be interested in the shares of the Company held by Wumei Holdings.

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

3. According to the share transfer agreement entered into between Wumei Holdings and Xinhua Department Store, approximately 66.86% of the domestic shares of the Company would be held by Xinhua Department Store directly. As the share transfer agreement is not yet completed, the percentage of domestic shares of the Company held by Xinhua Department Store is yet to be determined. On 16 January 2009, Xinhua Department Store announced that, due to uncertainties as a result of market changes, its board of directors was unable to issue the notice of a general meeting within six months of the first announcement of the board resolutions. Accordingly, pursuant to the "Regulations in Relation to Regulating Issues Arising from Material Assets Reorganisation of Listed Companies" (《關於規範上市公司重大資產重組若干問題的規定》) issued by the China Securities Regulatory Commission, Xinhua Department Store would re-convene a board meeting to consider asset acquisition share issue (the said share transfer agreement).

Long positions in H shares of the Company

Name	Number of H shares held (shares)	Approximate percentage of total issued H share capital (%)	Approximate percentage of total share capital (%)
JPMorgan Chase & Co. (Note 1)	111,645,000	22.04	8.92
Bonderman David (Note 2)	84,552,000	16.69 (Note 14)	6.76 (Note 15)
Coulter James G. (Note 3)	84,552,000	16.69 (Note 14)	6.76 (Note 15)
TPG Asia Advisors V, Inc (Note 4)	84,552,000	16.69 (Note 14)	6.76 (Note 15)
TPG Asia Genpar V, L.P. (Note 5)	84,552,000	16.69 (Note 14)	6.76 (Note 15)
TPG Asia V, L.P. (Note 6)	84,552,000	16.69 (Note 14)	6.76 (Note 15)
Arisaig Greater China Fund Limited (Note 7)	69,152,000	13.65	5.53
Arisaig Partners (Mauritius) Limited (Note 8)	69,152,000	13.65	5.53
Cooper Lindsay William Ernest (Note 9)	69,152,000	13.65	5.53
T. Rowe Price Associates, Inc. and its affiliates (Note 10)	55,770,000	11.01	4.46
Pureheart Asset Management Co. Limited (Note 11)	55,361,500	10.93	4.42
The Capital Group Companies, Inc. (Note 12)	41,185,384	8.13	3.29
Invesco Hong Kong Limited (in its capacity as manager/advisor of various accounts) (Note 13)	36,091,000	7.12	2.88

Notes:

1. Including 46,107,000 H shares held by JPMorgan Chase & Co. in its capacity as an investment manager and 65,538,000H shares as a trustee company/approved lending agent.

2. These 84,552,000 H shares are held by Bonderman David through his interests in controlled corporation.

3. These 84,552,000 H shares are held by Coulter James G. through his interests in controlled corporation.

4. These 84,552,000 H shares are held by TPG Asia Advisors V, Inc through his interests in controlled corporation.

5. These 84,552,000 H shares are held by TPG Asia Genpar V, L.P. through his interests in controlled corporation.

6. These 84,552,000 H shares are held by TPG Asia V, L.P. in its capacity as a beneficial owner. Pursuant to the "H Share Subscription Agreement," the Company shall conditionally issue 84,552,000 H shares to TPG. The issue has yet to be completed.

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

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

9. These 69,152,000 H shares are held by Cooper Lindsay William Ernest through his interests in controlled corporation.

10. These 55,770,000 H shares are held by T. Rowe Price Associates, Inc. and its affiliates in its capacity as an investment manager.

11. These 55,361,500 H shares are held by Pureheart Asset Management Co. Limited in its capacity as an investment manager.

12. These 41,185,384 H shares are held by The Capital Group Companies, Inc. in its capacity as an investment manager.

13. These 36,091,000 H shares are held by Invesco Hong Kong Limited in its capacity as an investment manager.

14. The shareholding percentage of 16.69% is based on 506,568,000 H shares of the Company outstanding as at 31 December 2009. Assuming completion of the issue of 100,000,000 H shares by the Company pursuant to the H Share Subscription Agreement signed in 2009, such shareholding percentage would be 13.94%.

15. The shareholding percentage of 6.76% is based on the Company's total issued share capital of 1,251,274,116 shares as at 31 December 2009. Assuming completion of the issue of 100,000,000 H shares by the Company pursuant to the H Share Subscription Agreement signed in 2009, such shareholding percentage would be to 6.26%.

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

SUFFICIENT PUBLIC FLOAT

Based on the information publicly available to the Company as at 23 March 2010, the latest practicable date prior to this annual report, not less than 25% of the issued share capital of the Company (being the minimum public float applicable to the shares of the Company) was held by the general public at all times.

DETAILS OF DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

All Directors and supervisors of the Company have entered into service contracts or letters of appointments with the Company for a term commencing from 26 June 2008 or 13 November 2009 and ending on the date of the conclusion of the 2010 annual general meeting of the Company.

Save as disclosed above, none of the Directors and supervisors of the Company has entered into a service contract with the Group which was not determinable by the Group within one year without payment of compensation (other than statutory compensation). Directors' remunerations are determined on a fair basis to provide incentives, with reference to prevailing market level and, in the case of Executive Directors, their management roles undertaken within the Company.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

As at 31 December 2009, save for the service contracts/letters of appointment above and those set out in Note 11 to the consolidated financial statements, there was no contract of significance in relation to the Group's business to which the Company, its holding companies or its subsidiaries was a party and in which a Director or Supervisor of the Company had material interests, whether directly or indirectly, subsisted at any time during the Reporting Period.

INDEPENDENCE OF INDEPENDENT DIRECTORS

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

EMPLOYEES, REMUNERATION POLICIES AND LONG-TERM INCENTIVE PLANS

As of 31 December 2009, the Group had 20,075 full-time employees.

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

On the basis of maintaining fairness, both internally and externally, and providing incentives, related remunerations are determined in accordance with the operating results of the Company, characteristics of employee costs within the retail industry, nature of responsibilities assumed by particular employees, and average remuneration for those responsibilities prevailing in the labour market. A differentiated reward system is in place: for senior management and staff with special expertise, a competitive strategy is adopted, with their total remuneration pegged against prevailing salary level in the labour market, management responsibilities, individual performances and the Company's profitability; for intermediary management and other employees, income improvements are facilitated through the provision of stable career opportunities, training programmes, promotion opportunities and broader prospects in career development and enhancement in efficiency, in addition to competitive remuneration packages.

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

PENSION SCHEMES

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

AUDIT COMMITTEE

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

The main duties of the audit committee are to review the financial performance of the Group, the nature and scope of internal audit, and the effectiveness of internal control. During the Reporting Period, four meetings were held by the audit committee, during which it reviewed the accounting principles and methods adopted by the Group, approved the annual results for 2008 and the quarterly and interim accounts for 2009, discussed the Company's financial statements prepared in accordance with the generally accepted accounting principles of Hong Kong, and made recommendations for the appointment of external auditor to the Board.

Report of the Board of Directors

The audited financial report and results for the year ended 31 December 2009 of the Group has been reviewed by the audit committee.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS

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

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

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

CONTINUOUS CONNECTED TRANSACTIONS

On 24 October 2007, the Company entered into the Entrusted Operation and Management Agreements ("Entrusted Operation and Management Agreements") with Wumei Holdings and Tianjin Affiliates[note], pursuant to which the Company will supply and deliver merchandise and provide management services to Tianjin Affiliates for a period from 1 January 2008 to 31 December 2010 subject to respective annual caps of RMB979 million, RMB1,214 million and RMB1,507 million for the supply of merchandise; RMB29.37 million, RMB36.42 million and RMB45.21 million for delivery fees; and RMB2.18 million, RMB2.70 million and RMB3.34 million for management fees.

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

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

(1) have received the approval of the Board;

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

(3) have not exceeded the relevant cap amounts for the respective transactions.

The independent non-executive Directors considered that the above continuing connected transactions and connected transactions were conducted in the ordinary and usual course of business of the Company during the Reporting Period and on normal commercial terms, were fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

COMPETING INTERESTS

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

The Group mainly expands its supermarket chain business in Beijing, Zhejiang and Tianjin. The Company entered into the non-competition agreement and the trademark licensing agreement with Wumei Holdings on 29 October 2003, and the Entrusted Operation and Management Agreements with Wumei Holdings and Tianjin Affiliates on 24 October 2007, with a view to avoiding business competition with Wumei Holdings. Wumei Holdings has avoided business competition with the Group as far as practicable in strict compliance with the non-competition agreement and the Entrusted Operation and Management Agreements.

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

MATERIAL ADVERSE CHANGE

The Board confirms that there was no material adverse change in the Group's financial or operational position as at 31 December 2009.

AUDITOR

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

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

Beijing, the PRC
23 March 2010

Report of the Supervisory Committee

Dear shareholders,

All members of the Supervisory Committee of Wumart Stores, Inc. (the "Company") have acted in good faith and worked in a pro-active, pragmatic and prudent manner to properly perform their duties of supervising the Company's affairs for the protection of interests of shareholders and the Group in accordance with provisions of the Company Law of the People's Republic of China, Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), the Articles of Association of the Company and other relevant laws and regulations.

During 2009 (the "Reporting Period"), the Supervisory Committee held two meetings to consider the 2008 financial statements and profit allocation plan of the Company and the 2009 internal control report of the Company. The Supervisory Committee is of the view that the information contained in the financial reports is true and reliable, and that the auditor's opinion is objective and impartial.

The Supervisors attended annual and extraordinary general meetings held during the Reporting Period and, from time to time, attended Board meetings to gain timely understanding of the Company's development plans, operating conditions, mergers and acquisitions, internal control and Board operations. Enquiries with senior management members were conducted and active proposals were being made.

With a special focus on the Group's internal control, members of the Supervisory Committee attended the annually held internal control review meeting of the Board, in order to gain understanding of the Company's financial control, operational control and risks control. The Supervisory Committee is of the view that the Group has established a sound internal control system and a comprehensive work flow process for internal control which has effectively contained the major operating risks of the enterprise; and as a result the governance standard of the Company has been further improved.

The Supervisory Committee has also monitored the performance of duties by Directors and senior management. We are of the view that members of the Board and other senior managers have diligently and faithfully performed their duties in day-to-day operations and management in accordance with relevant laws, regulations and the GEM Listing Rules, exercising their powers and conducting various operations in strict accordance with the resolutions of general meetings and the Articles with the aim of protecting the shareholders' and the Company's interests. There has been no significant abuse of powers undermining the interests of the Company or infringing the interests of shareholders and employees.

During the Reporting Period, the Supervisory Committee has also conducted examination over the Company's acquisition and merger and introduction of investors and is of the view that the terms and prices of all transactions have been fair and reasonable and in line with the Group's long-term development strategies.

The Supervisory Committee has carried out supervision in respect of the Group's connected transactions, and confirms that such connected transactions have been in compliance with the GEM Listing Rules: the contracts, agreements and other relevant documents pertaining to the connected transactions have been in compliance with the GEM Listing Rules and relevant laws, regulations, rules and legal procedures and dealt with in strict accordance with the principles of "fairness, equity and openness" and no compromising of the Company's and shareholders' interests have been identified. The respective annual caps of the continuing connected transactions have not exceeded the levels approved by the general meeting.

The Supervisory Committee is satisfied with the results accomplished in 2009, and expresses its gratitude to the Board and the management for their dedication. Thanks are also due the shareholders for their concern and support over the years and the trust they have put in the Supervisory Committee.

Looking ahead in 2010, the Supervisory Committee shall continue to perform its duties and conduct various tasks with vigour, earnestness and diligence, in order to protect the shareholders' and the Company's interests, maximize shareholders' profit and contribute to the sustained development of the Company. In short, we are fully confident in the development prospect of the Company.

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

Beijing, the PRC
23 March 2010

Corporate Governance Report

The pursuit of proper corporate governance has been the stated objective of the Company and, to this end, various measures have been implemented to maintain and improve its standards in corporate governance, as the Directors appreciate that sound corporate governance is of paramount importance to the sustainable and stable development of the Company, offering significant protection for the interests of shareholders, partners and staff and the key to winning investors' confidence. The Board confirms that the Company had been in compliance with all the code provisions set out in "Code on Corporate Governance Practices" contained in Appendix 15 of the GEM Listing Rules, and had adopted the recommended best practices in various aspects of corporate governance throughout the period from 1 January 2009 to 31 December 2009 (the "Reporting Period").

THE BOARD

Composition of the Board

As at 31 December 2009, the Board comprised nine Directors, including four Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. Independent Non-executive Directors account for one third of the total number of Directors on the Board.

Members of the Board are as follows:

Executive Directors	
Dr. Wu Jian-zhong	Chairman
Mr. Zhu You-nong *Note 1*	Executive Director and President
Dr. Meng Jin-xian	Executive Director and Vice President
Madam Xu Ying	Executive Director, Vice President and Chief Financial Officer
Non-executive Directors	
Mr. Wang Jian-ping	Vice Chairman
Mr. John Huan Zhao *Note 2*	Non-executive Director
Independent Non-executive Directors	
Mr. Han Ying	Independent Non-executive Director
Mr. Li Lu-an	Independent Non-executive Director
Mr. Lu Jiang	Independent Non-executive Director

Notes:

1. Mr. Zhu You-nong was appointed as an Executive Director at the Extraordinary General Meeting held on 13 November 2009.

2. Mr. John Huan Zhao was appointed as a Non-executive Director at the Extraordinary General Meeting held on 13 November 2009.

The term of office of the current session of the Board shall expire upon the conclusion of the 2010 annual general meeting of the Company. Biographies of the Directors are set out on pages 23 to 24 of this annual report.

The Executive Directors have extensive management experience and expertise in the retail industry, and are capable of making informed judgements and decisions on matters deliberated at board meetings while the non-executive Directors have extensive knowledge and experience in investment and law and are capable of making relevant judgements, and Independent Non-executive Director Mr. Lu Jiang has appropriate qualifications in accounting and finance. The composition of the Board is in full compliance with the requirements of relevant domestic and foreign laws and regulations.

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

Board meetings held in 2009 and Directors' attendance:

	Number of meetings held	Number of meetings required to attend	Number of meetings attended	Percentage of attendance
Executive Directors				
Wu Jian-zhong	22	22	22	100%
Zhu You-nong	22	8 *Note 2*	8	100%
Meng Jin-xian	22	21 *Note 1*	21	100%
Xu Ying	22	21 *Note 1*	21	100%
Non-executive Directors				
Wang Jian-ping	22	22	22	100%
John Huan Zhao	22	9 *Note 2*	9	100%
Independent Non-executive Directors				
Han Ying	22	22	22	100%
Li Lu-an	22	22	22	100%
Lu Jiang	22	22	22	100%

Notes:

1. The Company held 22 Board meetings during the Reporting Period, including one meeting between the Chairman and the Non-executive Directors (including Independent Non-executive Directors).

2. The Company held 8 Board meetings during the period between Mr. Zhu You-nong's appointment and 31 December 2009. The Company held 8 Board meetings and 1 meeting of Non-executive Directors during the period between Mr. John Huan Zhao's appointment and 31 December 2009.

Roles and Responsibilities of the Board

The Board is accountable to the general meeting and undertakes the responsibility to lead and monitor the Company, overseeing and supervising the Company's affairs as a body to procure positive business results.

Corporate Governance Report

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

Proceedings of Board meetings

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

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

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

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

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

DIRECTORS

Nomination of Directors

In accordance with relevant provisions of the Articles of the Company, candidates for Directors may be nominated by duly qualified shareholders, or identified and nominated and recommended to shareholders by the Board as it deems suitable, where necessary, to fill causal vacancies of the Board.

During the Reporting Period, the Board submitted the appointment of Mr. Zhu You-nong and Mr. John Huan Zhao as Directors of the Company to the extraordinary general meeting for consideration and approval, after conducting due qualifications vetting in respect of Mr. Zhu You-nong and Mr. John Huan Zhao, who were nominated by shareholders. At the extraordinary general meeting held on 13 November 2009, Mr. Zhu You-nong was appointed as an Executive Director and Mr. John Huan Zhao was appointed as a Non-executive Director.

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

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

Responsibilities of Directors

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

Securities Dealings by Directors

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

Provision and Application of Information

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

Independence of the Independent Directors

None of the Independent Non-executive Directors are under the employ of the Company or any of its subsidiaries, nor are they interested in any shares of the Group. They are not related to each other or to any of the senior management, whether financially, in business or in family ties.

Each Independent Non-executive Director has confirmed his independence to the Stock Exchange upon his appointment. The Board makes enquiries in writing to each Independent Non-executive Director on a regular basis to confirm his independence.

BOARD COMMITTEES

Audit Committee

The Audit Committee comprises the following members:

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

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

During the Reporting Period, four meetings were held by the Audit Committee to review and/or approve the following main business:

- Accounting principles and methods adopted by the Group;
- Financial report of 2008 and quarterly and interim reports of 2009 of the Group; and
- Recommendations to the Board in relation to the appointment of the external auditor.

Attendance at meetings of the Audit Committee in 2009:

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

Remuneration Committee

The Remuneration Committee comprises the following members:

Dr. Wu Jian-zhong	Executive Director and Chairman of the Remuneration Committee
Mr. Hang Ying	Independent Non-executive Director
Mr. Li Lu-an	Independent Non-executive Director

The primary duties of the Remuneration Committee are to assist the Board in the management of the overall remuneration structure of the Company, in particular, in reviewing the remuneration packages of Directors and senior management.

During the Reporting Period, the Remuneration Committee held one meeting to receive the conclusive performance appraisal report for the Group's core management team for the first half of 2009 and to consider and pass the 2010 remuneration adjustment package and incentive package for the senior management of the Group.

Attendance at meetings of the Remuneration Committee in 2009:

	Number of meetings held	Number of meetings required to attend	Number of meetings attended	Percentage of attendance
Wu Jian-zhong	1	1	1	100%
Han Ying	1	1	1	100%
Li Lu-an	1	1	1	100%

Remuneration Policy

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

On the basis of maintaining fairness, both internally and externally, and providing incentives, related remunerations are determined in accordance with the operating results of the Company, characteristics of employee costs within the retail industry, nature of responsibilities assumed by particular employees, and average remuneration for those responsibilities prevailing in the labour market. A differentiated reward system is in place: for senior management and staff with special expertise, a competitive strategy is adopted, with their total remuneration pegged against prevailing salary level in the labour market, management responsibilities, individual performances and the Company's profitability; for intermediary management and other employees, income improvements are facilitated through the provision of stable career opportunities, training programmes, promotion opportunities and broader prospects in career development and enhancement in efficiency, in addition to remuneration packages that commensurate with average market levels prevailing from time to time.

Remuneration of the Directors is determined according to the directors' remuneration standard reviewed or authorised by the general meeting. Remuneration of each Director for the Reporting Period is set out on page 78 of this annual report.

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

AUTHORITY OF THE BOARD AND THE MANAGEMENT

Delegation of Authority of the Board

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

Reasonable division of responsibilities between the Board and the management enables the Board to devote more time and effort to the long-term development strategies of the Company. The Board shall reasonably select and appoint senior management, and establish a rational performance assessment mechanism for examining and evaluating the performance of the management, which will enable the Company to operate and develop in a sustainable manner.

Chairman and President

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

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

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

ACCOUNTABILITY AND AUDIT

Statement on Directors' Responsibility for Financial Statements

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

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

In preparing the accounts for the year ended 31 December 2009, the Directors confirmed that:

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

Internal Control

The Company's management is primarily responsible for planning and implementation of internal control procedures, while the Board and the Audit Committee are responsible for monitoring measures adopted by the management and the effectiveness of such internal control procedures. This ensures the effective, stable and proper operation of the internal control system.

The control processes of the Company are summarized as follows:

- the establishment of an organisational structure with clearly defined responsibilities and appropriately assigned duties;
- the design of an effective accounting and information system to ensure a complete, accurate and timely disclosure of information;
- the publication of price sensitive information in a timely manner and prohibition of any inappropriate use of confidential or price sensitive information;
- the establishment of a dedicated organisation for internal control — the legal and audit department and the internal control centre of the accounting and financial department — for performing independent internal review. The internal audit department complements the external auditor in function and plays a crucial role in monitoring the internal governance of the Company;
- the adoption of a reporting system to encourage internal reporting on gross misconduct; and

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

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

Remuneration of the Auditors

At the 2008 annual general meeting held on 30 June 2009, the re-appointment of Deloitte Touche Tohmatsu Hua Yong CPA and Deloitte Touche Tohmatsu as the PRC and International Auditors, respectively, of the Company for 2009 and the authorisation of the Board to fix the remuneration of the auditors, were considered and approved.

The accompanying 2009 financial report of the Company, prepared in accordance with Hong Kong Accounting Standards, is audited by Deloitte Touche Tohmatsu. Deloitte Touche Tohmatsu Hua Yong CPA will furnish the 2009 Audit Report of the Company based on the accounting statements prepared in accordance with PRC accounting standards.

During the Reporting Period, RMB4,700,000 was payable to the independent auditors by the Group as audit fees for 2009. Non-audit service fees of RMB120,000 were paid to independent auditors by the Company for their performance of commercial due diligence on behalf of the Company.

SHAREHOLDERS' RIGHTS

Communications with shareholders

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

To increase shareholders' and investors' understanding of the Company's business and latest business initiatives, the Company maintains effective communications with shareholders on a best-effort basis and establishes a sound communication mechanism comprising the publication of quarterly, interim and annual reports, issuance of circulars and letters to shareholders, publication of detailed information that need to be brought to the attention of shareholders on the websites of the GEM (http://www.hkgem.com) and the Company (http://www.wumart.com), meetings with investors and media, attendance of the Chairman of the Board and the chairman of the Audit Committee and the Remuneration Committee at general meetings to answer questions raised by shareholders, and timely publication of polling results of general meetings.

AGM and EGM

During the Reporting Period, the Company's 2008 annual general meeting and the first extraordinary general meeting of 2009 ("2009 EGM") were convened.

At the 2009 EGM held on 13 November 2009 at the Conference Room, Yuquan Building, 3 Shijingshan Road, Shijianshan District, Beijing, the special resolution on the amendment to the Articles of Association to change the maximum number of board members and the ordinary resolutions on the appointment of Mr. Zhu You-nong as an Executive Director of the Third Session of the Board, the conditional appointments of Mr. John Huan Zhao and Madam Mary Ma as Non-executive Directors of the Third Session of the Board and the remuneration of Directors, respectively, were considered.

All of the aforesaid resolutions, considered on an individual basis and voted by way of poll, have been duly approved. The polling results of the 2009 EGM have been posted on the websites of the GEM and the Company.

Corporate Governance Report

Shareholding Structure

As at 31 December 2009, the shareholding structure of the Company was as follows:

Name of shareholders	Class of shares	Number of shares (shares)	Percentage of total share capital (%)
Wumei Holdings, Inc. (物美控股集團有限公司)	Domestic shares	497,932,928	39.79
	H share	1,375,000	0.11
Beijing Hekang Youlian Technology Co., Ltd. (北京和康友聯技術有限公司)	Domestic shares	24,982,300	2.00
Beijing Junhe Investment Co., Ltd. (北京君合投資有限公司)	Domestic shares	23,269,228	1.86
Beijing Wangshang Shijie E-business Co., Ltd. (北京網商世界電子商務有限公司)	Domestic shares	160,457,744	12.82
Beijing Shuangchen Express Co., Ltd. (北京雙臣快運有限公司)	Domestic shares	7,137,800	0.57
Legend Holdings Limited	Domestic shares	7,306,752	0.58
Hony Capital RMB I, L.P. (弘毅投資產業一期基金 (天津) (有限合夥))	Domestic shares	23,619,364	1.89
Public shareholders	H shares	505,193,000	40.37
Total		1,251,274,116	100

Public Float

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

Market Capitalisation of Public Float

As at 31 December 2009, the market capitalisation of the Company's publicly held shares was approximately HK$6,203,770,000, based on the closing price of the Company's H shares of HK$12.28 on the same date.

Independent Auditor's Report

TO THE MEMBERS OF WUMART STORES, INC.
(a joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Wumart Stores, Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 53 to 107, which comprise the consolidated statement of financial position as at 31 December 2009, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, 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 as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 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

23 March 2010

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2009

	NOTES	2009 RMB'000	2008 RMB'000
Revenue from sales of goods	5	10,511,410	8,759,263
Cost of sales		(9,580,791)	(7,987,333)
Gross profit		930,619	771,930
Other revenues	5	1,270,599	990,527
Investment and other income	7	94,306	253,061
Distribution and selling expenses		(1,369,093)	(1,003,014)
Administrative expenses		(252,078)	(272,873)
Share of profit of associates	19	5,072	27,731
Share of profit of a jointly controlled entity	20	610	25
Finance costs	8	(32,473)	(20,406)
Profit before tax		647,562	746,981
Income tax expense	9	(156,202)	(190,013)
Profit and total comprehensive income for the year	10	491,360	556,968
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		437,764	490,343
Minority interests		53,596	66,625
		491,360	556,968
Earnings per share			
— basic (RMB yuan per share)	14	0.36	0.40

Consolidated Statement of Financial Position

AT 31 DECEMBER 2009

	NOTES	2009 RMB'000	2008 RMB'000
Non-current Assets			
Property, plant and equipment	15	2,237,538	2,093,622
Prepaid lease payments	16	76,543	73,652
Goodwill	17	844,964	843,708
Intangible assets	18	94,909	100,430
Interests in associates	19	139,553	140,852
Interests in a jointly controlled entity	20	98,209	47,599
Deferred tax assets	29	43,655	19,165
		3,535,371	3,319,028
Current Assets			
Inventories	21	838,803	733,210
Loan receivables	22	120,000	90,000
Trade and other receivables	23	586,486	560,479
Amounts due from related parties	24	95,522	276,058
Prepaid lease payments	16	63,933	38,910
Bank balances and cash	25	1,171,575	1,348,349
		2,876,319	3,047,006
Current Liabilities			
Trade and other payables	26	3,355,280	2,929,710
Amounts due to related parties	24	67,901	27,108
Tax liabilities		134,738	110,134
Bank loans	27	456,086	622,910
Obligations under finance leases	30	508	5,110
		4,014,513	3,694,972
Net Current Liabilities		(1,138,194)	(647,966)
Total assets less Current Liabilities		2,397,177	2,671,062

Consolidated Statement of Financial Position

AT 31 DECEMBER 2009

	NOTES	2009 RMB'000	2008 RMB'000
Capital and Reserves			
Share capital	28	312,819	305,087
Share premium and reserves		1,949,344	2,137,127
Equity attributable to owners of the Company		2,262,163	2,442,214
Minority interests		118,617	194,616
Total equity		2,380,780	2,636,830
Non-current liabilities			
Deferred tax liabilities	29	16,397	12,704
Obligations under finance leases	30	—	462
Other payables	26	—	21,066
		16,397	34,232
		2,397,177	2,671,062

The consolidated financial statements on pages 53 to 107 were approved and authorised for issue by the Board of Directors on 23 March 2010 and are signed on its behalf by:

DIRECTOR

DIRECTOR

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2009

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory common reserve fund (Note ii) RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2008	305,087	1,132,062	—	139,488	533,568	2,110,205	120,354	2,230,559
Profit and total comprehensive income for the year	—	—	—	—	490,343	490,343	66,625	556,968
Dividend paid by the Company	—	—	—	—	(158,645)	(158,645)	—	(158,645)
Dividend paid to minority shareholders	—	—	—	—	—	—	(34,413)	(34,413)
Acquisition of additional interests in subsidiaries	—	—	311	—	—	311	(10,111)	(9,800)
Increase in minority interests as a result of acquisition of a subsidiary	—	—	—	—	—	—	52,161	52,161
Profit appropriations (note ii)	—	—	—	55,321	(55,321)	—	—	—
At 31 December 2008	305,087	1,132,062	311	194,809	809,945	2,442,214	194,616	2,636,830
Profit and total comprehensive income for the year	—	—	—	—	437,764	437,764	53,596	491,360
Shares issued (note 28)	7,732	291,069	—	—	—	298,801	—	298,801
Dividend paid by the Company (note 13)	—	—	—	—	(183,052)	(183,052)	—	(183,052)
Dividend paid to minority shareholders	—	—	—	—	—	—	(74,420)	(74,420)
Increase in minority interests as a result of acquisition of a subsidiary (note 33)	—	—	—	—	—	—	9,819	9,819
Acquisition of additional interests in a subsidiary (note i)	—	—	(733,564)	—	—	(733,564)	(64,994)	(798,558)
Profit appropriations (note ii)	—	—	—	44,664	(44,664)	—	—	—
At 31 December 2009	312,819	1,423,131	(733,253)	239,473	1,019,993	2,262,163	118,617	2,380,780

Note:

i) In 2009, the Group acquired additional 25% equity interest in Beijing Merrymart Chain Stores Development Company Limited, a subsidiary of the Company for cash consideration of RMB798,558,000. The difference between the carrying amount of the additional net assets acquired and the fair value of the consideration paid was recognised directly in equity and attributed to owners of the Company.

ii) Pursuant to the relevant People's Republic of China ("PRC") regulations and the Articles of Association of the companies within the Group, each of them is required to transfer 10% of its profit, as determined under the PRC accounting regulations, to the statutory common reserve fund until the fund aggregates to 50% of its registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

The statutory common reserve fund shall only be used to make good previous year's losses or to increase its capital. Upon approval by a resolution of shareholders' general meeting, each of them may convert its statutory common reserve fund into share capital/registered capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided the balance of the reserve fund after such issue is not less than 25% of the registered capital.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 RMB'000	2008 RMB'000
OPERATING ACTIVITIES		
Profit before tax	647,562	746,981
Adjustments for:		
Finance costs	32,473	20,406
Share of profit of associates	(5,072)	(27,731)
Share of profit of a jointly controlled entity	(610)	(25)
Depreciation for property, plant and equipment	181,548	169,469
Release of prepaid lease payments	38,910	30,035
Amortisation for intangible assets	5,521	3,154
Gain on disposal of an associate	—	(182,233)
Loss on disposal of property, plant and equipment	4,683	11,287
Interest income	(4,870)	(10,492)
Operating cash flows before movements in working capital	900,145	760,851
Increase in inventories	(89,378)	(146,590)
Increase in trade and other receivables	(22,317)	(54,856)
Decrease (increase) in amounts due from related parties	107,181	(5,401)
Increase in prepaid lease payments	(66,824)	(71,173)
Increase in trade and other payables	389,725	419,044
Increase (decrease) in amounts due to related parties	40,793	(20,943)
Cash generated from operations	1,259,325	880,932
Interest received	4,870	10,492
Income tax paid	(158,949)	(158,294)
NET CASH FROM OPERATING ACTIVITIES	1,105,246	733,130
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(287,198)	(321,187)
Proceeds from disposal of property, plant and equipment	2,342	6,313
Acquisition of subsidiaries in current year (note 33)	(1,135)	(9,518)
Payment for acquisition of a subsidiary in previous year	(21,066)	—
Increase in investment in a jointly controlled entity	(50,000)	—
Payment for acquisition of additional interests in a subsidiary	(798,558)	(9,800)
Decrease in amount due from related parties	73,355	—
Repayment of loan receivables	90,000	100,000
Addition of loan receivables	(120,000)	—
Dividend received from associates	6,370	4,900
NET CASH USED IN INVESTING ACTIVITIES	(1,105,890)	(229,292)

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 RMB'000	2008 RMB'000
FINANCING ACTIVITIES		
New bank loans raised	438,386	542,910
Repayments of bank loans	(622,910)	(295,460)
Interest paid	(32,473)	(20,406)
Proceeds from issue of shares	300,000	—
Expenses on issue of shares	(1,199)	—
Repayment of obligation under finance leases	(462)	(4,654)
Dividend paid (note 13)	(183,052)	(158,645)
Dividend paid to minority shareholders of subsidiaries	(74,420)	(34,413)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(176,130)	29,332
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(176,774)	533,170
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,348,349	815,179
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash	1,171,575	1,348,349

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2009

1. GENERAL

The Company is registered in the PRC as a joint stock company with limited liability and its H shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "SEHK"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

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

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

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

In the current year, the Group has applied all new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (HKICPA)) that are relevant to its operations and effective for annual periods beginning on or after 1 January 2009.

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current and prior accounting periods.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2009

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

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised in 2007) Presentation of Financial Statements

HKAS 1(Revised in 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKAS 23 (Revised 2007) Borrowing costs

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of HKAS23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all such borrowing costs as part of the cost of the qualifying asset. This change in accounting policy does not have any significant effect on the consolidated financial statements of the Group and hence has not resulted in restatement of amounts reported in respect of prior accounting periods.

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

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendments)	Classification of Rights Issues[4]
HKAS 39 (Amendments)	Eligible Hedged Items[1]
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments (relating to the classification and measurement of financial assets)[7]
HK(IFRIC) — Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 July 2010
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 January 2013

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010.

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

The directors of the Company anticipate that the application of the other new and revised standards, amendments and interpretations will have no material impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the SEHK and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of a business or an associate for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of a business or an associate after 1 January 2002, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired (See the accounting policy below).

Goodwill arising on acquisitions on or after 1 January 2005

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

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or group of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on acquisitions in a financial year, the cash-generating unit to which the goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

All associates prepare their financial information using accounting policies in conformity with the accounting policies adopted by the Group. The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition after reassessment is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly controlled entities

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

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and title has passed.

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

Rental income from leasing of shop premises is recognised on a straight-line basis over the relevant lease term.

Service income is recognised when services are provided.

Interest income from a financial asset (other than a financial asset at fair value through profit or loss) 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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Inventories

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

Intangible assets

Intangible assets acquired in a business combination

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

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

Land use right

Land use right represents the excess of the fair value over the carrying amount of the prepaid lease payments of leasehold interest in land in the PRC at the acquisition date of business combination. Such land use right is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for land use right is provided on a straight-line basis over the remaining lease term.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2009

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

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is indication that they may be impaired.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance costs and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the relevant term of lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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 related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. 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.

Taxation

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

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

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at FVTPL represent financial assets held for trading.

A financial asset is classified as held for trading if:

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

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

Impairment of loans and receivables

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of loans and receivables (Continued)

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

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

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's accounting policy for financial liabilities are set out as below.

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 on 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.

Interest expense is recognised on an effective interest basis.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities

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

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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

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.

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2009, the carrying amount of goodwill is RMB844,964,000 (2008: RMB843,708,000) and no impairment loss has been provided. Details of the recoverable amount calculation are disclosed in note 17.

Deferred tax assets

As at 31 December 2009, a deferred tax assets of RMB43,655,000 (2008: RMB19,165,000) in relation to temporary differences and unused tax losses have been recognised in the consolidated statement of financial position. The recognition of the deferred tax assets mainly depends on whether sufficient taxable temporary differences or future assessable profits will be available in the future. In cases where the actual future assessable profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss in the period such a reversal takes place.

Useful lives of property, plant and equipment

The Group determines the estimated useful lives of its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions.

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

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

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2009, the carrying amount of loan receivables, trade receivables, deposits and other receivables is RMB387,840,000, net of allowance for doubtful debts of RMB18,328,000 (31 December 2008: carrying amount of RMB374,570,000, net of allowance for doubtful debts of RMB18,328,000).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2009

5. REVENUE AND OTHER REVENUES

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

	2009 RMB'000	2008 RMB'000
Revenue		
Sales of goods	10,511,410	8,759,263
Other revenues		
Rental income from leasing of shop premises	329,833	280,616
Income from suppliers, including store display income and promotion income	940,766	709,911
	1,270,599	990,527
Total revenue	11,782,009	9,749,790

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 segmental analysis is presented.

7. INVESTMENT AND OTHER INCOME

	2009 RMB'000	2008 RMB'000
Government subsidies (note)	19,116	7,043
Sales of scrapped materials	18,118	15,462
Compensation received from lessors for cancellation of lease contract	11,500	—
Delivery service income	10,123	13,782
Compensation received from suppliers for delaying goods delivery	9,169	5,080
Interest income	4,870	10,492
Gain on disposal of an associate	—	182,233
Fair value changes of held-for-trading investments	4,351	8,589
Others	17,059	10,380
	94,306	253,061

Note: The Group was awarded government subsidies totally RMB19,116,000 (2008: RMB7,043,000) during the year, for the recognition of the Group's contribution to local community and fulfilling other conditions which the local government considered necessary.

8. FINANCE COSTS

	2009 RMB'000	2008 RMB'000
Interests on:		
— Bank loans wholly repayable within five years	32,149	19,672
— Finance leases	324	734
	32,473	20,406

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2009

9. INCOME TAX EXPENSE

	2009 RMB'000	2008 RMB'000
The charge (credit) comprises:		
PRC income tax	181,682	192,413
Deferred tax (note 29)		
Current year	(25,480)	(2,400)
	156,202	190,013

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% from 1 January 2008 onwards.

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

	2009 RMB'000	2008 RMB'000
Profit before tax	647,562	746,981
Taxation at the PRC income tax rate of 25%	161,891	186,745
Tax effect of utilisation of deductible temporary difference not previously recognised	(3,655)	—
Tax effect of utilisation of tax losses not previously recognised	(2,257)	(2,180)
Tax effect of share of profit of associates and a jointly controlled entity	(1,420)	(6,939)
Tax effect of unrecognised tax losses	1,116	2,047
Tax effect of expenses that are not deductible in determining taxable profit	765	2,907
Tax effect of additional tax deductible expense in determining taxable profit	(238)	(238)
Tax effect related to disposal of an associate	—	7,671
Tax charge for the year	156,202	190,013

10. PROFIT FOR THE YEAR

	2009 RMB'000	2008 RMB'000
Profit for the year has been arrived at after charging:		
Depreciation for property, plant and equipment	181,548	169,469
Release of prepaid lease payments	38,910	30,035
Amortisation for intangible assets	5,521	3,154
Total depreciation and amortisation	225,979	202,658
Operating lease rentals in respect of rented premises	407,843	295,516
Auditor's remuneration	4,700	5,500
Staff costs:		
Directors' emoluments	3,021	1,896
Other staff costs		
— Salaries and other benefits	461,448	341,262
— Contributions to retirement benefits schemes	41,886	30,366
	506,355	373,524
Share of tax of associates and a jointly controlled entity (included in share of profit of associates and a jointly controlled entity)	3,508	10,681
Loss on disposal of property, plant and equipment	4,683	11,287

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11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2008: six) directors were as follows:

	Wu Jian-zhong RMB'000	Meng Jin-xian RMB'000	Xu Ying RMB'000	Zhu You-nong RMB'000	Han Ying RMB'000	Li Lu-an RMB'000	Lu Jiang RMB'000	Total RMB'000
2009								
Fees	–	–	–	–	60	60	60	180
Other emoluments								
Salaries and other benefits	626	684	553	833	–	–	–	2,696
Contributions to retirement benefits schemes	38	38	37	32	–	–	–	145
Total emoluments	664	722	590	865	60	60	60	3,021
2008								
Fees	–	–	–	–	60	60	60	180
Other emoluments								
Salaries and other benefits	524	624	458	–	–	–	–	1,606
Contributions to retirement benefits schemes	35	38	37	–	–	–	–	110
Total emoluments	559	662	495	–	60	60	60	1,896

The amounts disclosed above included directors' fees of RMB180,000 (2008: RMB180,000) payable to independent non-executive directors. No other emoluments were paid to the independent non-executive directors during the year.

No emoluments were paid by the Group to the directors as a discretionary bonus or an inducement to join or upon joining the Group or as a compensation for loss of office for the year.

Mr. Zhu You-nong was appointed as an Executive Director at the Extraordinary General Meeting held on 13 November 2009.

No directors waived any emoluments during the year.

12. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals included three (2008: three) directors of the Company for the year (details of whose emoluments are set out in note 11 above), the emoluments of the remaining two (2008: two) highest paid individuals for the year were as follows:

	2009 RMB'000	2008 RMB'000
Salaries and other benefits	1,588	1,480
Retirement benefits scheme contributions	38	72
	1,626	1,552

Their emoluments were within the following bands:

	2009 No. of employees	2008 No. of employees
HK$nil to HK$1,000,000	2	1
HK$1,000,001 to HK$1,500,000	—	1

No emoluments were paid by the Group to any of the five highest paid individuals as a discretionary bonus or an inducement to join or upon joining the Group or as a compensation for loss of office for the year.

13. DIVIDENDS

	2009 RMB'000	2008 RMB'000
Dividends recognised as distribution during the year:		
2008 Final — RMB0.15		
(2008: 2007 final dividend RMB0.13) per share	183,052	158,645

The final dividend of RMB0.18 in respect of the year ended 31 December 2009 (2008: final dividend of RMB0.15 in respect of the year ended 31 December 2008) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

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14. EARNINGS PER SHARE

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

	2009 RMB'000	2008 RMB'000
Profit for the year attributable to owners of the Company	437,764	490,343

	2009 '000	2008 '000
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	1,229,110	1,220,348

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

15. 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 2008	1,130,743	452,368	344,164	88,603	14,087	2,333	2,032,298
Additions	48,722	166,799	68,892	22,026	11,003	—	317,442
Purchase from a related party	—	—	2,244	100	1,401	—	3,745
Acquired on acquisition of subsidiaries	146,063	37,284	11,766	39,559	2,272	—	236,944
Transfer	—	2,333	—	—	—	(2,333)	—
Disposals	—	(15,419)	(15,789)	(3,973)	(2,421)	—	(37,602)
At 31 December 2008	1,325,528	643,365	411,277	146,315	26,342	—	2,552,827
Additions	3,916	179,350	80,463	23,259	8,861	—	295,849
Acquired on acquisition of a subsidiary	33,503	1,876	259	258	744	—	36,640
Disposals	—	—	(7,257)	(8,110)	(6,667)	—	(22,034)
At 31 December 2009	1,362,947	824,591	484,742	161,722	29,280	—	2,863,282
DEPRECIATION							
At 1 January 2008	57,849	108,708	110,638	30,090	2,453	—	309,738
Provided for the year	40,599	60,338	49,223	16,945	2,364	—	169,469
Eliminated on disposals	—	(6,244)	(8,857)	(3,221)	(1,680)	—	(20,002)
At 31 December 2008	98,448	162,802	151,004	43,814	3,137	—	459,205
Provided for the year	41,251	65,820	51,661	20,158	2,658	—	181,548
Eliminated on disposals	—	—	(4,777)	(7,486)	(2,746)	—	(15,009)
At 31 December 2009	139,699	228,622	197,888	56,486	3,049	—	625,744
CARRYING AMOUNTS							
At 31 December 2009	1,223,248	595,969	286,854	105,236	26,231	—	2,237,538
At 31 December 2008	1,227,080	480,563	260,273	102,501	23,205	—	2,093,622

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FOR THE YEAR ENDED 31 DECEMBER 2009

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Leasehold land and buildings	2.4%–3.8%
Leasehold improvements	10%–20%
Furniture, fixtures and equipment	6.44%–19%
Electronic equipment	19%
Motor vehicles	9.5%

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

At 31 December 2009, the net book value of electronic equipment includes an amount of RMB7,656,000 (2008: RMB10,395,000) in respect of assets held under finance lease.

At 31 December 2009, included in the leasehold land and buildings is a building acquired upon the acquisition of a subsidiary in 2008 with net book value of approximately RMB8,298,000 (2008: RMB8,500,000) whereby the Group is still in the progress of obtaining the Housing Ownership Certificate.

16. PREPAID LEASE PAYMENTS

	2009 RMB'000	2008 RMB'000
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in the PRC	31,179	32,098
Prepaid lease rentals	109,297	80,464
	140,476	112,562
Analysed for reporting purposes as:		
Current assets	63,933	38,910
Non-current assets	76,543	73,652
	140,476	112,562

17. GOODWILL

	2009 RMB'000	2008 RMB'000
COST		
At 1 January	843,708	404,711
Arising on acquisition of subsidiaries	1,256	438,997
At 31 December	844,964	843,708
CARRYING AMOUNTS		
At 31 December	844,964	843,708

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

	2009 RMB'000	2008 RMB'000
Hangzhou Tiantian Wumart Commerce Co., Ltd. — Superstores	350,386	350,386
Beijing Merrymart Chain stores Development Co., Ltd. — Superstores	260,148	260,148
Beijing Huixin Hypermarket — Superstores	143,560	143,560
Zhejiang Gongxiao Supermarket Co., Ltd. — Superstores and Minimarts	88,611	88,611
Huzhou Laodafang Supermarket Co., Ltd. — Superstores and Minimarts	1,256	—
Beijing Wumart Bolante Convenience Stores Co., Ltd. — Minimarts	698	698
Beijing Wumart Convenience Stores Co., Ltd. — Minimarts	255	255
Beijing Mencheng Wumart Shangcheng Co., Ltd. — Superstores	50	50
	844,964	843,708

During the year ended 31 December 2009, directors of the Group determine that there are no impairments of any of its CGUs containing goodwill. The recoverable amounts of the CGUs are determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate and growth rate. The Group prepared cash flow forecasts derived from the one year financial budgets and extrapolates cash flows for the following nine years based on an estimated growth rate of 5% to 10% and a discount rate of 7.87% (2008: 7.47%). The growth rate used does not exceed the average long-term growth rate for the relevant markets. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the past performance of each CGUs and management's expectations for the market development. Directors believe that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of each CGU.

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18. INTANGIBLE ASSETS

	Land use right RMB'000	Operating lease contracts RMB'000	Total RMB'000
COST			
At 1 January 2008	30,834	—	30,834
Acquired on acquisition of subsidiaries	59,893	15,476	75,369
At 31 December 2008 and 31 December 2009	90,727	15,476	106,203
AMORTISATION			
At 1 January 2008	2,619	—	2,619
Provided for the year	1,316	1,838	3,154
At 31 December 2008	3,935	1,838	5,773
Provided for the year	2,636	2,885	5,521
At 31 December 2009	6,571	4,723	11,294
CARRYING AMOUNTS			
At 31 December 2009	84,156	10,753	94,909
At 31 December 2008	86,792	13,638	100,430

All above intangible assets were acquired on acquisition of subsidiaries.

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

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

19. INTERESTS IN ASSOCIATES

	2009 RMB'000	2008 RMB'000
Cost of investments in associates unlisted	103,389	103,389
Share of post-acquisition profits, net of dividends received	36,164	37,463
	139,553	140,852

As at 31 December 2009 and 2008, the Group had interests in the following associates:

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Class of share held	Proportion of nominal value of issued capital/ registered capital held by the Group		Principal activities
					2009	2008	
Beijing Chao Shifa Company Limited	Incorporated	PRC	Beijing, PRC	Ordinary	25.03%	25.03%	Operation of superstores
Beijing Chongwenmen Vegetable Market Supermarket Company Limited	Incorporated	PRC	Beijing, PRC	Ordinary	49%	49%	Operation of superstores and mini-marts
Beijing Meiyijia Marketing Limited	Incorporated	PRC	Beijing, PRC	Ordinary	25%	25%	Operation of design, production agency and distribution of advertisements in the PRC
Anji mini-mart Limited	Incorporated	PRC	Zhejiang, PRC	Ordinary	20%	20%	Operation of mini-mart

Included in the cost of investment in associates at 31 December 2009 was goodwill of approximately RMB57,525,000 (2008: RMB57,525,000). The carrying amount of the goodwill represents goodwill arising from acquisition of Beijing Chao Shifa Company Limited ("Chao Shifa").

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2009

19. INTERESTS IN ASSOCIATES (Continued)

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

	2009 RMB'000	2008 RMB'000
Total assets	1,074,087	1,004,716
Total liabilities	(820,180)	(750,115)
Net assets	253,907	254,601
Group's share of net assets of associates	82,028	83,327
Revenue	2,373,246	3,207,693
Profit for the year	11,619	93,952
Group's share of profit of associates for the year	5,072	27,731

20. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	2009 RMB'000	2008 RMB'000
Cost of unlisted investment in a jointly controlled entity	100,000	50,000
Share of post-acquisition losses	(1,791)	(2,401)
	98,209	47,599

As at 31 December 2009, the Group had interests in the following significant jointly controlled entity:

Name of entity	Form of business structure	Place of incorporation/ operation	Registered capital	Proportion of registered capital held by the Group		Proportion of voting power held		Principal activity
			RMB'000 (note)	2009	2008	2009	2008	
Beijing Aoshikai Wumart Company Ltd.	Incorporated	PRC	200,000	50%	50%	50%	50%	Operation of superstores

20. INTERESTS IN A JOINTLY CONTROLLED ENTITY (Continued)

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

	2009 RMB'000	2008 RMB'000
Current assets	23,891	39,119
Non-current assets	100,734	81,258
Current liabilities	(26,416)	(72,778)
Net assets of a jointly controlled entity attributable to the Group's interest therein	98,209	47,599
Income recognised in profit or loss	118,790	92,156
Expenses recognised in profit or loss	118,180	92,131
Group's share of profit of a jointly controlled entity for the year	610	25

Note: In 2009, the registered capital of Beijing Aoshikai Wumart Company Ltd. was increased to RMB200,000,000 from RMB100,000,000. Accordingly, the Group injected RMB50,000,000 by cash in proportion to Beijing Aoshikai Wumart Company Ltd. as additional paid-in capital in September 2009.

21. INVENTORIES

	2009 RMB'000	2008 RMB'000
At cost:		
Merchandise for resale	832,791	728,618
Consumables	6,012	4,592
	838,803	733,210

22. LOAN RECEIVABLES

	2009 RMB'000	2008 RMB'000
Fixed-rate loan receivables	120,000	90,000

The loan receivables at 31 December 2009 are unsecured, due within one year and carry fixed interest rate of 4% per annum. (2008: 5.31%–7.47% per annum). The loan receivables were subsequently settled in full in January 2010.

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23. TRADE AND OTHER RECEIVABLES

	2009 RMB'000	2008 RMB'000
Trade receivables	54,269	83,692
Prepayments to suppliers	80,266	48,169
Deductible input value added tax	238,380	227,740
Deposits and other receivables	213,571	200,878
	586,486	560,479

Trade receivables represent receivables from supply of merchandise to franchised stores, stores managed by the Group and retail sales customers. The average credit period is 30 to 60 days for receivables from supply of merchandise to franchised stores and stores managed by the Group. Before accepting any new franchised store and store managed by the Group, the Group will assess the potential credit quality and define credit limits by store. Credit limits attributed to franchised stores and stores managed by the Group are reviewed twice a year. All of the trade receivables are neither past due nor impaired at the end of reporting period. The Group's retail sales to customers are mainly conducted on cash basis, including payments by cash and credit cards.

The following is an aged analysis of trade receivables at the end of reporting period:

	2009 RMB'000	2008 RMB'000
0–30 days	22,179	50,675
31–60 days	32,090	33,017
	54,269	83,692

24. AMOUNTS DUE FROM/TO RELATED PARTIES

	2009 RMB'000	2008 RMB'000
Amounts due from associates (note a)	28,628	53,927
Amounts due from a jointly controlled entity (note a)	31,297	18,628
Amounts due from subsidiaries of a Company's shareholder which has significant influence over the Company ("Company's Controlling Shareholder") (note a)	35,597	203,503
	95,522	276,058
Amount due to associates (note b)	17,637	16,109
Amount due to subsidiaries of the Company's Controlling Shareholder (note b)	50,264	10,257
Amounts due to key management	—	742
	67,901	27,108

Note:

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

	2009 RMB'000	2008 RMB'000
0–30 days	48,338	105,434
31–60 days	24,859	75,994
61–90 days	22,325	21,275
	95,522	202,703

Included in those trade in nature balances is an amount of approximately RMB22,325,000 (2008: RMB21,275,000) which is past due at the end of reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over this balance.

(b) The amounts due to associates and subsidiaries of the Company's Controlling Shareholder are trade in nature, unsecured and non-interest bearing. The average aging is 60 days.

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25. BANK BALANCES AND CASH

Bank balances and cash comprise short-term bank deposits with an original maturity of three months or less and cash held by the Group. The bank deposits carry interests at market rates which range from 0.36% to 1.17% (2008: 0.36% to 1.53%) per annum.

26. TRADE AND OTHER PAYABLES

	2009 RMB'000	2008 RMB'000
Trade payables	2,101,898	1,926,225
Advances from customers	640,843	492,887
Other payables, deposits and accruals	612,539	531,664
	3,355,280	2,950,776
Less: amount due for settlement within 12 months	(3,355,280)	(2,929,710)
Amount due for settlement after 12 months	–	21,066

Included in other payables is instalment payments of RMB43,831,000 for acquisition of a subsidiary in 2008, of which RMB21,066,000 is repayable after 12 months (see note 33(b)).

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

	2009 RMB'000	2008 RMB'000
0–30 days	1,457,198	1,253,452
31–60 days	279,592	402,390
61–90 days	239,305	146,031
Over 90 days	125,803	124,352
	2,101,898	1,926,225

The average credit period on purchase of merchandises is 60 days (2008: 60 days).

27. BANK LOANS

	2009 RMB'000	2008 RMB'000
Secured	17,700	372,910
Unsecured	438,386	250,000
	456,086	622,910

The loans are repayable within one year and carry interests at fixed rates ranging from 4% to 6.37% (2008: 5.31% to 7.84%) per annum.

27. BANK LOANS (Continued)

As at 31 December 2009, included in the secured bank loans are the loans of RMB17,700,000 (2008: RMB282,910,000) which are secured by the pledge of Group's leasehold land and buildings with a carrying amount of RMB27,446,000 (2008: RMB394,215,000). Included in the unsecured bank loan is a loan of RMB200,000,000 (2008: RMB200,000,000) which is guaranteed by the Company's Controlling Shareholder.

28. SHARE CAPITAL

	Number of Domestic Shares	Number of H Shares	Number of Total Shares	Value
	'000	'000	'000	RMB'000
Authorised, issued and fully paid:				
Ordinary shares of RMB0.25 each				
At 1 January 2008 and 31 December 2008 (note a)	713,780	506,568	1,220,348	305,087
New issue of domestic shares (note b)	30,926	—	30,926	7,732
At 31 December 2009	744,706	506,568	1,251,274	312,819

Note:

(a) Domestic Shares and H Shares are all ordinary shares in the share capital of the Company. However, H Shares may only be subscribed for by, and traded in currencies other than RMB between, legal or natural persons of Hong Kong, the Macau Special Administrative Region, Taiwan or any country other than the PRC. Domestic Shares must be subscribed for and traded only by PRC citizen in RMB. All dividends in respect of H Shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of Domestic Shares are to be paid by the Company in RMB. The Domestic Shares and the H Shares rank pari passu with each other in all other respects and in particular, rank equally for all dividends or distributions declared, paid or made.

(b) On 12 August 2009, the Company, Legend Holdings Limited ("Legend") and its related party Hony Capital RMBI, L.P. ("Hony Capital") entered into a Domestic Shares Subscription Agreement pursuant to which the Company has conditionally agreed to allot and issue to Legend and Hony Capital, and Legend and Hony Capital have conditionally agreed to subscribe for 50,000,000 Domestic Subscription Shares ("Domestic Shares Subscription") aggregately in two tranches at RMB9.26 together with an arrangement fee of RMB0.44 per Domestic Subscription Share.

Under the Domestic Shares Subscription Agreement, Legend and Hony Capital shall have the right to require the Company to call for a shareholders' meeting not later than three months of the third anniversary of the First Domestic Shares Closing Date to decide whether or not to repurchase the Domestic Subscription Shares if (i) the Company does not succeed in completing an A-Share listing within three years of the First Domestic Shares Closing Date, or (ii) a change of control of Wumei Holdings Inc. ("Wumei Holdings") or a reduction in the number of shares Wumei Holdings holds in the Company to below 411,104,400. The Company's obligation to repurchase such Domestic Subscription Shares is subject to the approval of shareholders meetings. Detailed information was set out in the Company's announcement on 12 August 2009.

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28. SHARE CAPITAL (Continued)

Note: (Continued)

(b) (Continued)

Since the obligation of the company to repurchase the Domestic Subscription Shares is subject to the approval of the shareholders meeting, the Domestic Subscription Shares issued were classified as equity.

The first tranche of Domestic Shares Subscription was completed on 17 September 2009. 23,619,364 and 7,306,752 Domestic Subscription Shares were issued to Hony Capital and Legend, respectively, by the Company for a net proceeds of RMB298,801,000 after deduction of share issue expenses of RMB1,199,000. Upon completion of the said issuance, the registered capital of the Company was increased to RMB312,819,000 and the number of issued shares of the Company was also increased from 1,220,348,000 shares to 1,251,274,116 shares.

At 31 December 2009, the second tranche of Domestic Share Subscription was not yet completed because it is conditional upon the completion of H Shares Subscription (note c) which was not completed.

(c) On 12 August 2009, a H Shares Subscription Agreement was entered into by and between the Company, TPG Asia V L.P. ("TPG") and Fit Sports Limited ("FS"). Pursuant to the H Shares Subscription Agreement and Supplementary Agreements, the Company has conditionally agreed to allot and issue to TPG and FS, and TPG and FS have conditionally agreed to subscribe for an aggregate of 100,000,000 H Subscription Shares at HK$11.00 per H Subscription Share ("H Shares Subscription"). The aggregate proceeds for the H Shares Subscription will be HK$1,100,000,000. Detailed information was set out in the Company's announcement on 12 August 2009.

At 31 December 2009, the Subscription of H Shares is not yet completed because the obtaining of the approval from the China Securities Regulatory Commission, one of the conditions precedent of completion, is still in the process.

29. DEFERRED TAXATION

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

	Impairment for deposit paid for acquisition of an associate 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	Total RMB'000
At 1 January 2008	4,582	16,277	2,605	–	–	(11,697)	11,767
Acquired on acquisition of subsidiaries	–	6,493	–	1,202	(2,201)	(13,200)	(7,706)
Credited to income statement for the year	–	2,564	(566)	(299)	(207)	908	2,400
At 31 December 2008	4,582	25,334	2,039	903	(2,408)	(23,989)	6,461
Acquired on acquisition of subsidiaries	–	–	–	–	–	(4,683)	(4,683)
Credited to income statement for the year	–	12,513	11,998	(450)	(133)	1,552	25,480
At 31 December 2009	4,582	37,847	14,037	453	(2,541)	(27,120)	27,258

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:

	2009 RMB'000	2008 RMB'000
Deferred tax assets	43,655	19,165
Deferred tax liabilities	(16,397)	(12,704)
	27,258	6,461

During the year, a deferred tax asset has been recognised in respect of RMB14,620,000 (2008: nil) of deductible temporary difference which was not previously recognised. As at 31 December 2008, no deferred tax asset has been recognised for deductible temporary difference amounted to RMB14,620,000.

At 31 December 2009, the Group had unused tax losses of RMB68,413,000 (2008: RMB24,985,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB56,148,000 (2008: RMB8,156,000) of such losses. No deferred tax asset has been recognised in respect of such losses of RMB12,265,000 (2008: RMB16,829,000) due to unpredictability of future profit stream, which will expire from the year of 2010 to 2014.

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30. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its electronic equipments under finance leases. The average lease term is 3 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates at 8.62% per annum.

	Minimum lease payments		Present value of minimum lease payments	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Amounts payable under finance leases				
Within one year	508	5,388	508	5,110
In more than one year but not more than two years	–	508	–	462
	508	5,896	508	5,572
Less: future finance charges	–	(324)	–	N/A
Present value of lease obligations	508	5,572		
Less: Amount due for settlement with 12 months (shown under current liabilities)			(508)	(5,110)
Amount due for settlement after 12 months			–	462

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

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes bank loans and obligations under finance leases and equity attributable to owners of the Company, comprising issued share capital, 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 bank loans.

32. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2009 RMB'000	2008 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)		
Loan receivables	120,000	90,000
Trade receivables	54,269	83,692
Deposits and other receivables	213,571	200,878
Amounts due from related parties	95,522	276,058
Bank balances and cash	1,171,575	1,348,349
	1,654,937	1,998,977
Financial liabilities		
Amortised costs		
Trade payables	2,101,898	1,926,225
Accruals and other payables	485,733	526,360
Amounts due to related parties	17,637	24,329
Bank loans	456,086	622,910
Obligation under finance leases	508	5,572
	3,061,862	3,105,396

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32. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include bank loans, cash and bank balances, trade and other receivables, trade and other payables and amounts due from/to related parties. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

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

Interest rate risk

The Group's fair value interest rate risk relates primarily to loan receivables, bank loans and obligations under finance lease (see notes 22, 27 and 30 respectively for details) and the Group's cash flow interest rate risk relates primarily to floating-rate bank balances (see note 25 for details).

The Group aims at keeping majority of its borrowings at fixed-rate of interest and also aims at keeping its fixed-rate borrowings on a short-term basis so as to minimise the interest rate risk. In order to achieve this result, the borrowings made by the Group are all due within one year period. The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk section of this note.

Interest rate sensitivity

No sensitivity analysis on cash flow interest rate risk is presented as management consider the sensitivity on interest rates is insignificant.

Foreign currency risk

Foreign currency risk refers to the risk of movement in foreign currency exchange rate which will affect the Group's financial results and cash flows. The management considers the Group does not expose to significant foreign currency risk as majority of its operations and businesses are transacted in functional currency of Renminbi and denominated in Renminbi.

32. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk

As at 31 December 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

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 third party with good credit quality, the Group does not have any other significant concentration of credit risk.

Liquidity risk

At 31 December 2009, the Group had net current liabilities amounting to approximately RMB1,138,194,000 (2008: RMB647,966,000), respectively with short-term bank loans of approximately RMB456,086,000 (2008: RMB622,910,000) which the directors of the Company believe could be renewed on an annual basis. The Group is exposed to liquidity risk of being unable to raise sufficient funds to meet its financial obligations when they fall due.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on cash generated from operating activities and bank borrowings as a significant source of liquidity. For the year ended 31 December 2009, the Group have cash generated from operating activities of approximately RMB1,105,246,000 (2008: RMB733,130,000). Other than the cash generated from operating activities, the Group's management is responsible to maintain continuing of funding from bank loans and the management also monitors the utilisation of bank loans and ensures compliance with loan covenants. The directors believe that the Group will have sufficient funds available to meet its financial obligations in the foreseeable future based on management working capital forecast.

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FOR THE YEAR ENDED 31 DECEMBER 2009

32. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

The following tables detail the Group's contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Less than 1 month RMB'000	1–3 months RMB'000	3 months to 1 year RMB'000	1–5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at year end RMB'000
At 31 December 2009							
Non-derivative financial liabilities							
Trade and other payables	–	785,435	1,545,647	256,549	–	2,587,631	2,587,631
Amount due to related parties	–	17,637	–	–	–	17,637	17,637
Bank loans							
– fixed rate	4.92	–	4,527	465,347	–	469,874	456,086
Obligation under finance leases	8.62	–	513	–	–	513	508
		803,072	1,550,687	721,896	–	3,075,655	3,061,862
At 31 December 2008							
Non-derivative financial liabilities							
Trade and other payables	–	721,406	1,530,738	179,375	22,766	2,454,285	2,452,585
Amount due to related parties	–	24,329	–	–	–	24,329	24,329
Bank loans							
– fixed rate	6.46	3,460	86,364	561,473	–	651,297	622,910
Obligation under finance leases	8.62	–	1,347	4,041	508	5,896	5,572
		749,195	1,618,449	744,889	23,274	3,135,807	3,105,396

(c) Fair value

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

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

33. ACQUISITION OF SUBSIDIARIES

Acquisition in 2009

At 31 December 2009, Zhejiang Gongxiao Supermarket Company Limited ("Zhejiang Gongxiao") acquired 51% of equity interest of Huzhou Laodafang Supermarket Company Limited ("Huzhou Laodafang") for a consideration of RMB11,475,000. As a result of completion of the acquisition, the Company indirectly holds an effective interest of 27.59% in Huzhou Laodafang. This acquisition has been accounted for using the purchase method. The amount of goodwill arising due to the acquisition was RMB1,256,000.

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

	Acquiree's carrying amount before combination RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Net assets acquired:			
Property, plant and equipment	17,910	18,730	36,640
Inventories	16,215	—	16,215
Trade and other receivables	3,689	—	3,689
Bank balances and cash	10,340	—	10,340
Bank loan due within one year	(17,700)	—	(17,700)
Trade and other payables	(22,592)	—	(22,592)
Tax liability	(1,871)	—	(1,871)
Deferred tax liability	—	(4,683)	(4,683)
	5,991	14,047	20,038
Minority interests			9,819
Goodwill			1,256
Total consideration satisfied by			
Cash consideration paid			11,475
			11,475
Net cash outflow arising on acquisition			
Cash consideration paid			(11,475)
Bank balances and cash acquired			10,340
			(1,135)

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

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33. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition in 2009 (Continued)

Huzhou Laodafang did not make any contribution to the Group's profit of the year ended 31 December 2009.

If the acquisition had been completed on 1 January 2009, total group revenue for the year would have been RMB10,540 million, and profit for the year would have been RMB492 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

Acquisition in 2008

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

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

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

33. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition in 2008 (Continued)

(a) (Continued)

Note: As the consideration for the acquisition, the fair value of the 29.27% of equity interests in Xinhua, valued by an independent firm of professional valuers at the date of the acquisition, amounted to RMB 423,219,000.

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

Hangzhou Commerce contributed RMB26 million to the Group's profit for the period between the date of acquisition and 31 December 2008.

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

(b) At 30 September 2008, Hangzhou Commerce acquired 85% of the equity interests of Shaoxing Commerce and Supermarket Investment Company Limited ("Shaoxing Investment") for a consideration of RMB 150,070,000. Immediately following completion of the acquisition, Hangzhou Commerce indirectly holds an effective interest of 54.09% in Zhejiang Gongxiao Supermarket Company Limited ("Zhejiang Gongxiao") through the 63.64% equity interest in Zhejiang Gongxiao held by Shaoxing Investment. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB88,611,000.

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

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33. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition in 2008 (Continued)

(b) (Continued)

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

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

33. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition in 2008 (Continued)

(b) (Continued)

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

Shaoxing Investment and its subsidiaries contributed RMB1,000,000 to the Group's profit for the period between the date of acquisition and 31 December 2008.

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

34. 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:

	2009 RMB'000	2008 RMB'000
Within one year	419,179	328,842
In the second to fifth year inclusive	1,630,926	1,417,377
Over five years	4,977,403	3,957,153
	7,027,508	5,703,372

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

The Group as lessor

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:

	2009 RMB'000	2008 RMB'000
Within one year	265,815	190,187

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35. CAPITAL COMMITMENTS

	2009 RMB'000	2008 RMB'000
Capital expenditure		
in respect of property, plant and equipment authorised but not contracted for	134,165	61,581
in respect of interest in a jointly controlled entity contracted for but not provided in the consolidated financial statements	—	50,000
in respect of acquisition of a subsidiary (note)	58,299	—

Note: Wumart Enterprise Corporation Limited, a subsidiary of the Company entered into Share Transfer Agreement with C.P. Holding (BVI) Investment Company Limited ("CPH") on 26 December 2009 for the acquisition of 100% of the equity interest of Chia Tai Trading (Tianjin) Company Limited ("Chia Tai Trading") from CPH in 2010. The aggregate consideration for the acquisition is RMB 58,299,000.

36. LITIGATION

On 20 May 2004, the Company received notification from the Beijing Municipal High-Level People's Court that a shareholder of Chao Shifa ("Chao Shifa Shareholder") has instituted civil proceeding ("Claim") against, inter alia, the Company that (i) the trust agreement (the "Trust Agreement") entered into between the Company and Beijing Chao Shifa State-owned Asset Management Limited ("CSSAM"), pursuant to which CSSAM appointed the Company as trustee to hold 34.77% of the issued share capital of Chao Shifa on trust for CSSAM for a period of one year commencing from 22 April 2004; and (ii) the acquisition agreement (the "Acquisition Agreement") between the Company and Beijing Chao Shifa Company Limited Staff Shareholding Union in relation to the Company's acquisition of 25.03% interest in Chao Shifa, were invalid. Details of the claim are set out in the Company's announcement dated 21 May 2004.

Chao Shifa Shareholder alleges that the Trust Agreement and the transactions contemplated thereunder are in breach of, PRC legal requirements relating to the transfer of control in joint stock limited companies, the asset reorganisation agreement between Chao Shifa Shareholder and the articles of association of Chao Shifa. Chao Shifa Shareholder has applied to the court for, inter alia, (a) a declaration that the Trust Agreement and the Acquisition Agreement are invalid; (b) an injunction to restrain the Company from performing the Trust Agreement; (c) an order to restore the shareholding structure of and the right to operate Chao Shifa to that of immediately prior to the execution of the Trust Agreement and the Acquisition Agreement; and (d) an order requiring the defendants, including the Company, to bear all costs relating to the Claim.

36. LITIGATION (Continued)

On 20 December 2007, Beijing Municipal High-Level People's Court announced the judgment of first trial in respect of the Claim that the Trust Agreement and the Acquisition Agreement are valid and that Chao Shifa Shareholder should bear all costs relating to the Claim. Chao Shifa Shareholder disputed the judgment and appealed to The Supreme People's Court of the P.R.C, and The Supreme People's Court of the P.R.C returned this appeal to a retrial. On 1 December 2009, Beijing Municipal High-Level People's Court sustained the original judgement. Chao Shifa Shareholder disputed the judgment again and had appealed to The Supreme People's Court of the P.R.C.

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

37. RELATED PARTY TRANSACTIONS

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

	2009 RMB'000	2008 RMB'000
Sales of goods to associates	144,872	169,326
Sales of goods to a jointly controlled entity	173,902	127,120
Sales of goods to subsidiaries of the Company's Controlling Shareholder	110,497	274,663
Purchase of goods from associates	97,970	74,428
Service fee income received from subsidiaries of the Company's Controlling Shareholder in respect of merchandise delivery services	3,315	8,199
Service fee income received from associates and a jointly controlled entity in respect of merchandise delivery services	4,782	4,194
Management fee income received from subsidiaries of the Company's Controlling Shareholder	631	1,016
Management fee income received from an associate and a jointly controlled entity	342	137
Rental expense paid to a subsidiary of the Company's Controlling Shareholder	3,659	3,605
Purchase of property, plant and equipment from subsidiaries of Company's Controlling Shareholder	–	3,745

As at 31 December 2009, the Company's controlling shareholder provided a guarantee free of charge for an unsecured bank loan of RMB200,000,000 (2008: RMB200,000,000) borrowed by the Group.

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37. RELATED PARTY TRANSACTIONS (Continued)

(b) Compensation of key management personnel

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

	2009 RMB'000	2008 RMB'000
Short-term benefits	6,191	6,016
Post-employment benefits	352	363
	6,543	6,379

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

38. PARTICULARS OF THE COMPANY'S SUBSIDIARIES

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

Name of subsidiary	Place/Country of incorporation or registration/ operations	Class of share held	Paid up issued/ registered ordinary share capital	Proportion ownership interest and Proportion of voting power held by the Company Directly		Indirectly		Principal activities
				2009 %	2008 %	2009 %	2008 %	
Beijing Wumart Bolante Convenience. Stores Company Limited	Beijing PRC	Ordinary	10,000,000	80	80	–	–	Operation of mini-marts
Beijing Wumart Stores Company Limited.	Beijing PRC	Ordinary	10,000,000	80	80	16	16	Operation of superstores
Beijing Mencheng Wumart Shangcheng Company Limited	Beijing PRC	Ordinary	1,000,000	70	70	–	–	Operation of superstore
Beijing Wumart Tongfu Commerce Company Limited	Beijing PRC	Ordinary	1,000,000	55	55	–	–	Operation of superstore
Beijing Wumart Tianxiang Convenience Stores Company Limited	Beijing PRC	Ordinary	1,000,000	60	60	–	–	Operation of mini-marts
Beijing Tongtang Wumart Convenience Stores Company Limited	Beijing PRC	Ordinary	1,000,000	100	100	–	–	Operation of mini-marts
Beijing Wumart Jingxi Convenience Stores Company Limited	Beijing PRC	Ordinary	1,000,000	75	75	–	–	Operation of mini-marts
Beijing Wumart Gulou Commerce and Trading Company Limited	Beijing PRC	Ordinary	10,000,000	65	65	–	–	Operation of superstores
Beijing Wumart Convenience Stores Company Limited	Beijing PRC	Ordinary	50,000,000	80	80	–	–	Operation of mini-marts
Beijing Jiahe Wumart Commerce Company Limited	Beijing PRC	Ordinary	10,000,000	80	80	14.4	14.4	Operation of superstores
Tianjin Wumart WeiLai Commercial Development Company Limited	Tianjing PRC	Ordinary	100,000,000	99.80	80	0.19	19.2	Operation of superstores
Beijing Wumart Hypermarket Commercial	Beijing PRC	Ordinary	10,000,000	95	95	4.8	4.8	Operation of superstores
Beijing Wumart Jingbei Dashijie Commercial and Trading Company Limited	Beijing PRC	Ordinary	20,000,000	95	95	4.8	4.8	Operation of superstores
Beijing Wumart Distribution Technology Company Limited	Beijing PRC	Ordinary	8,000,000	80	80	20	20	Operation of superstores
Beijing Wumart Home Appliance Company Limited	Beijing PRC	Ordinary	20,000,000	100	100	–	–	Operation of home appliance wholesales
Beijing Merrymart Chain stores Development Company Limited	Beijing PRC	Ordinary	52,480,000	100	75	–	–	Operation of superstores
Hangzhou Tiantian Wumart Commerce Company Limited	Zhejiang PRC	Ordinary	50,000,000	100	100	–	–	Operation of superstores
Zhejiang Gongxiao Supermarket Company Limited	Zhejiang PRC	Ordinary	21,000,000	–	–	54.09	54.09	Operation of mini-marts
Huzhou Laodafang Supermarket Company Limited (note 33)	Zhejiang PRC	Ordinary	5,000,000	–	–	27.59	–	Operation of mini-marts
Wumart Jialian (Hangzhou) Commerce Company Limited	Zhejiang PRC	Ordinary	68,269,000	100	–	–	–	Operation of superstores
Wumart Jiacheng (Hangzhou) Commerce Company Limited	Zhejiang PRC	Ordinary	68,272,000	100	–	–	–	Operation of superstores

Financial Summary

	For the year ended 31 December				
	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000
RESULTS					
Revenue from sales of goods	10,511,410	8,759,263	7,118,755	5,159,666	3,539,319
Cost of sales	(9,580,791)	(7,987,333)	(6,580,967)	(4,812,302)	(3,289,216)
Gross profit	930,619	771,930	537,788	347,364	250,103
Other revenues	1,270,599	990,527	747,050	533,683	379,279
Investment and other income	94,306	253,061	121,901	107,113	67,281
Distribution and selling expenses	(1,369,093)	(1,003,014)	(754,420)	(473,118)	(325,770)
Administrative expenses	(252,078)	(272,873)	(219,065)	(185,836)	(144,039)
Share of profit of associates	5,072	27,731	43,332	7,148	11,883
Share of profit (loss) of a jointly controlled entity	610	25	(2,426)	—	—
Finance costs	(32,473)	(20,406)	(16,589)	(5,654)	(5,895)
Profit before tax	647,562	746,981	457,571	330,700	232,842
Income tax expense	(156,202)	(190,013)	(131,992)	(104,748)	(63,179)
Profit for the year	491,360	556,968	325,579	225,952	169,663
Attributable to:					
Owners of the Company	437,764	490,343	300,078	212,308	164,533
Minority interests	53,596	66,625	25,501	13,644	5,130
	491,360	556,968	325,579	225,952	169,663

	As at 31 December				
	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000
ASSETS AND LIABILITIES					
Total assets	6,411,690	6,366,034	4,697,768	4,491,057	2,748,638
Total liabilities	(4,030,910)	(3,729,204)	(2,467,209)	(2,502,146)	(1,445,866)
Minority interests	(118,617)	(194,616)	(120,354)	(93,360)	(22,757)
Equity attributable to Owners of the Company	2,262,163	2,442,214	2,110,205	1,895,551	1,280,015