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WU MART

Wumart Stores,Inc.
北京物美商業集團股份有限公司

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

Stock Code : 8277

ANNUAL REPORT 2010

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This report, for which the Directors of Wumart Stores, Inc. collectively and individually accept full responsibility, includes particulars given in compliance with 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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any contents of this report misleading.

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Company Information

BOARD OF DIRECTORS

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

Non-executive Directors
Mr. Wang Jian-ping *(Vice Chairman)*
Madam Mary Ma
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
Mr. Zhang Zheng-yang

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
Bank of Hangzhou

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17/Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

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

HEAD OFFICE
10/F, Yuquan Building,
Shijingshan Road
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 RMB14,246,881,000, representing a growth of 20.9% over 2009;
- Consolidated gross profit amounted to approximately RMB2,800,588,000, representing a growth of 27.2% over 2009;
- Net profit amounted to approximately RMB529,837,000, representing a growth of 21.0% over 2009;
- Net profit margin was approximately 3.7%, unchanged from 2009;
- Retail network expanded to 492 outlets;
- Comparable store sales grew by 8.8% over 2009;
- The Board recommended the payment of a final dividend for the year of RMB0.20 (before tax) per share.

Chairman's Statement

Dear shareholders,

2010 was a year of challenges and hopes. Adhering to its guiding principle of "Strengthen retail innovations and upgrade operating technology", Wumart Stores, Inc. (the "Company" or "Wumart") and its subsidiaries (collectively the "Group" or "Wumart Group") put in ongoing efforts in fostering technological innovations, upgrading operating technology and stepping up its development efforts, and once again managed to achieve remarkable results in both total revenue and net profit in 2010. On behalf of the Board, I would like to present to the shareholders the report on the audited results of the Group for the year ended 31 December 2010 (the "Reporting Period").

MARKET REVIEW

In 2010, thanks to the successive implementation of various policies by the government to boost and encourage consumption and major events including the Shanghai World Exposition and the Guangzhou Asian Games, gross domestic product amounted to RMB39,798.3 billion, representing a growth of 10.3% over 2009 (calculated on the basis of comparable prices). Total retail sales of consumer goods grew by 18.4% over 2009, the actual growth was 14.8% after netting off the price factor. Robust demand from households and stronger consumption power have paved the way for rapid development of the PRC retail industry, while at the same time intensified competitions among international and domestic retail enterprises.

COMPANY DEVELOPMENT

Attainment of business targets with outstanding results performance. During the Reporting Period, the Group strengthened budget management, enhanced operating efficiency and improved cost control. Total revenue amounted to RMB14,246,881,000, representing a growth of 20.9% over 2009. Consolidated gross profit amounted to RMB2,800,588,000, representing a growth of 27.2% over 2009. Net profit amounted to RMB529,837,000, representing a growth of 21.0% over 2009. As at 31 December 2010, equity attributable to owners of the Group per share was RMB2.25. Return on total assets was 7.6% and EBITDA was RMB1,052,216,000. Profitability of the Company was further strengthened and corporate value was continually enhanced.

Ongoing expansion of retail network and deeper penetration in major market. As at 31 December 2010, the Group had 492 outlets. Our share in the major market was further expanded. At the beginning of the year, the Group set the target to further penetrate into the major market. After a year's effort, the Group hit a record-high in the number of contracted stores in Beijing in 2010, secured 51 stores in the Beijing market which laid a solid foundation for the Group's sustainable development in 2011.

Improvement on the "Farm-Supermarket Links" supply chain. The Group has established a novel fruit and vegetable agricultural products circulation model from farmers→distribution centre→supermarkets→customers and formed Wumart's unique "Farm-Supermarket Links", which delivered positive results. In 2010, the Group established linkage relationships with more than a hundred specialised cooperatives, processors spreading across over 20 provinces and cities nationwide and forged stable and sustainable cooperation relationships with farmers' specialised cooperatives in cooperation bases through the implementation of contract farming with them. Through the innovative operating model of "24-hour fruit and vegetable supply chain", as well as leveraging upon the strong distribution capability of our logistics centre and the discounted bulk sales capability of our network of hundreds of store outlets, our stores have gradually become a major channel for "trustworthy supply of vegetables and fruits" for Beijing consumers.

Creation of a supply chain enterprise and industrialisation of the circulation industry. In 2010, the Group developed towards industrialisation of the circulation industry, aiming to create a "supply chain enterprise". Work processes ranging from suppliers management, procurement optimisation, logistics operation to store sales were implemented in line with its guiding concept of "the best supply chain as a whole". The Group's merchandise distribution efficiency was significantly enhanced and logistics operating costs were reduced by the "highly IT-based, sufficiently mechanised and reasonably automated" logistics operating model. As the application of information technology and operation of supply chain delivered remarkable results, the Group's "Customer-oriented and highly efficient supply chain management for large-scale chain retail enterprise (大型連鎖零售企業顧客導向的高效供應鏈管理) "project was awarded the "First-Class Award in the Sixteenth National Awards for Innovative and Modern Corporate Management" and the "Chain store business supply chain system integration on the basis of information technology (基於信息化的連鎖商業供應鏈系統集成)" project was awarded the "First Class Science and Technology Advancement Award organised by the China Federation of Logistics & Purchasing".

Chairman's Statement

Explore differentiated Everyday Shops format. Facing the fierce competitions arising from international and domestic retailers, the Group adopted differentiated operations for its Everyday Shops to cater to the needs of higher-end consumers with different merchandise mix and trendy store renovations. These new initiatives enhanced the brand image of Wumart, lured higher-end consumers, and led the consumption trend of consumers. Continual studies in business formats exemplifies the Group's concept of adhering to ongoing innovation. According to the changing needs of consumers, the Group will develop and further optimise the Everyday Shops business format through active adjustments. Sustainable development of the Group amidst fierce competitions will therefore be achieved through differentiated operations.

PROSPECTS

In the government's "Twelfth Five-year" Plan, the policy to stimulate domestic consumption has been placed at top priority, implying that the government has regarded boosting domestic consumption as the new engine for driving growth. Whilst providing domestic retail enterprises with a more spacious room for development, the policy also intensified the already fierce competitions in the PRC retail industry. Against the backdrop of foreign-invested retail enterprises expanding rapidly and domestic enterprises pursuing changes and innovations and rental and labour costs surging rapidly, the Group will speed up development, seek improvement of efficiencies and management so as to maintain its leading position in the PRC retail industry.

In 2011, in addition to persistent implementation of the regional expansion strategy to capture a leading position in the regional markets and strengthen our edges in terms of scale, distribution and channels, the Group, on the basis of consolidating existing market share, will go beyond the existing traditional model and explore new business models and operation formats actively.

To provide attractive merchandise and services that enhance consumer satisfaction, the Group will actively adopt new methods and technologies in our operation management, strengthen its procurement and merchandising capability by dedicating efforts to facilitate industrialisation and standardisation of the circulation industry, further expand the logistics and distribution system and improve supply chain management.

In 2011, the Group will ensure sufficient human resources for its continuous and rapid development through accelerating the training and nurturing of existing management team, strengthening the construction of staff promotion system and recruiting more talents.

I would like to extend my heartfelt gratitude to all members of the Board, the management team of the Group and all the staff for their hard work and dedication throughout the past year. Your relentless support, trust and contributions are indispensable to Wumart's prosperous future!

Dr. Wu Jian-zhong
Chairman

Beijing, the PRC
22 March 2011

Management Discussion and Analysis

FINANCIAL REVIEW

Five-Year Financial Summary

RMB'000	2010	2009	2008	2007	2006
Annual results:					
Total revenue Note 1	14,246,881	11,782,009	9,749,790	7,865,805	5,693,349
Consolidated gross profit Note 2	2,800,588	2,201,218	1,762,457	1,284,838	881,047
Consolidated gross profit margin Note 3	19.7%	18.7%	18.1%	16.3%	15.5%
Net profit	529,837	437,764	361,339	300,078	212,308
Net profit margin	3.7%	3.7%	3.7%	3.6%	3.7%
Earnings per share (RMB) Note 4	0.42	0.36	0.30	0.25	0.18
Dividend per share (RMB)	0.20	0.18	0.15	0.13	0.07
As at 31 December 2010:					
Total assets	7,448,710	6,411,690	6,366,034	4,697,768	4,491,057
Total liabilities	4,453,180	4,030,910	3,729,204	2,467,209	2,502,146
Minority interests	138,319	118,617	194,616	120,354	93,360
Equity attributable to owners of the Company	2,857,211	2,262,163	2,442,214	2,110,205	1,895,551
Major financial indicators:					
Return on net assets	20.7%	18.6%	15.9%	15.0%	13.4%
Gearing ratio Note 5	6.7%	19.2%	23.6%	12.3%	8.8%
Trade payable turnover	73 days	77 days	75 days	89 days	86 days
Inventory turnover	33 days	30 days	27 days	23 days	19 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: The Company's shares have a par value of RMB0.25 each. Basic earnings per share is calculated on the basis of the weighted average number of shares.

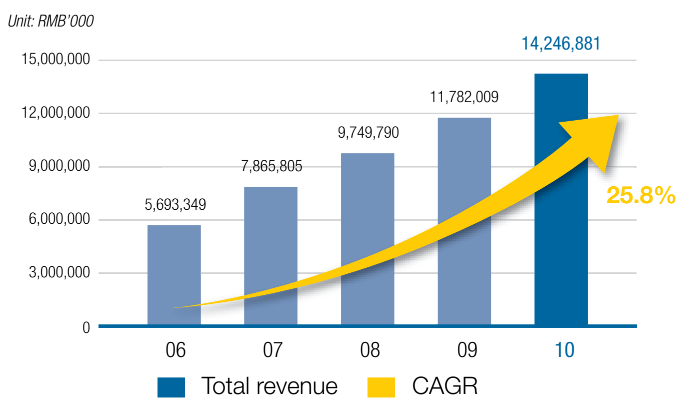
Note 5: Gearing ratio is the ratio between total bank loans and total equity of the Group at the end of the Reporting Period.

Total Revenue

For the Reporting Period, the Group recorded total revenue of approximately RMB14,246,881,000, up by approximately 20.9% compared to RMB11,782,009,000 for 2009. The growth in total revenue was attributable to:

1) Year-on-year growth in comparable store sales. For the Reporting Period, customer traffic and average transaction amount per head were boosted by the Group's efforts to enhance the brand profile of Wumart among consumers through improvements in store image, merchandise mix optimisation and produce supply through Farm-Supermarket Links. Amidst the increasingly fierce competitions in the retail market, the Group managed to achieve a growth of 8.8% in comparable store sales.

Total revenue increased to RMB14.2 billion in 2010



2) Sales contributions from new stores.

3) Sales contributions from both Huzhou Laodafang Supermarket Company Limited and Chia Tai Trading (Tianjin) Company Limited, which were acquired by the Group, during the Reporting Period.

Consolidated Gross Profit and Consolidated Gross Profit Margin

For the Reporting Period, the Group's consolidated gross profit amounted to RMB2,800,588,000, a growth of approximately 27.2% compared to RMB2,201,218,000 for 2009. During the Reporting Period, the Group's consolidated gross profit margin rose by 1 percentage point to 19.7%, versus 18.7% reported in 2009. The growth in consolidated gross profit margin was mainly attributable to the management and control over the gross profit of merchandise sales, which primarily includes:

1) Reduction of intermediaries for lower procurement costs. For the Reporting Period, expansion of procurement scale, operation of the Company's North China Distribution Centre and expansion of the business of Farm-Supermarket Links and direct sourcing from supply bases had actively contributed to the lowering of procurement costs.

Management Discussion and Analysis

2) Optimisation of merchandise mix. For the Reporting Period, the Group further adjusted its merchandise mix in a customer-oriented manner. The ratio of sales of merchandise with higher margin increased.

3) Effective marketing. For the Reporting Period, supported by its advanced IT system, the Group actively explored new means of marketing with a view to bring a brand-new shopping experience to consumers as well as ensure stable gross profit.

Distribution and Selling Expenses and Administrative Expenses

For the Reporting Period, the Group recorded an aggregate distribution and selling expenses and administrative expenses of approximately RMB2,153,600,000, accounting for 15.1% of the total revenue, which was 1.3 percentage points higher as compared to the previous year. Higher operating cost was mainly:

1) Increase in staff costs as a percentage of total revenue. As a result of the growth in staff remunerations and social insurance of the Group due to increase in labour cost in the PRC in the second half of last year, staff costs as a percentage of total revenue of the Group increased by 0.4 percentage point during the Reporting Period.

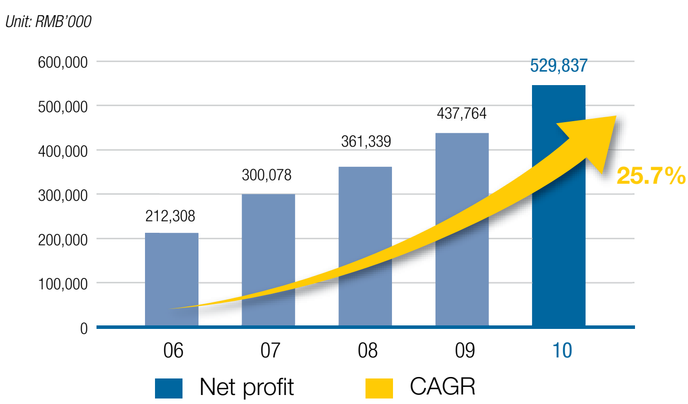
2) Increase in rental expenses as a percentage of total revenue. Rental expenses as a percentage of total revenue of the Group increased by 0.4 percentage point as a result of the significant increase in rental expenses of new stores as affected by the rise in market rent and the requirement on straight-line accounting treatments during the Reporting Period.

3) Increase in distribution expenses as a percentage of total revenue. Distribution expenses as a percentage of total revenue increased by 0.2 percentage point as a result of the formal operation of the Group's North China Distribution Centre with an area of 70,000 square metres during the Reporting Period, the expenses of which were higher than normal at the initial stage of operation.

Net profit of

RMB530 million

in 2010



Finance Costs

For the Reporting Period, finance costs of the Group amounted to approximately RMB14,527,000, a decrease of 55.3% compared to RMB32,473,000 for 2009. The decrease in finance costs was mainly due to the increased cash and cash flow at the end of the Reporting Period and the decreased loan amount through centralisation of payment collection at stores, closing of bank accounts, and increase in capital efficiency during the Reporting Period.

Net Profit

For the Reporting Period, net profit of the Group was approximately RMB529,837,000, a growth of 21.0% compared to RMB437,764,000 for 2009. Net profit margin was approximately 3.7%, unchanged from 2009.

Liquidity and Financial Resources

Benefited from the Group's expansion in scale and steady business growth, during the Reporting Period, net cash flow generated from operating activities amounted to RMB681,600,000. Cash and bank balances at the year-end amounted to RMB1,133,607,000. Solid cash flow provided strong support for the Group's core business including retail network expansion, modernised logistics centre and supply chain system construction and Farm-Supermarket Links.

As at 31 December 2010, the Group's total equity was approximately RMB2,995,530,000 with a gearing ratio of 6.7% (31 December 2009: 19.2%). 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 2010, the Group recorded current assets of approximately RMB3,465,854,000, which mainly comprised cash and bank balances of approximately RMB1,133,607,000, inventories of approximately RMB1,211,467,000 and trade and other receivables of approximately RMB832,793,000.

As at 31 December 2010, the Group had non-current assets of approximately RMB3,982,856,000, which mainly included property, plant and equipment of approximately RMB2,459,556,000, goodwill of approximately RMB844,964,000, interests in associates of approximately RMB144,268,000 and interests in a jointly controlled entity of approximately RMB99,950,000.

As at 31 December 2010, the Group recorded net current liabilities of approximately RMB968,138,000 and current liabilities of approximately RMB4,433,992,000, mainly comprising trade and other payables of approximately RMB3,993,801,000 and tax liabilities of approximately RMB165,371,000.

During the Reporting Period, the Group's average trade payable turnover was 73 days (2009: 77 days) and inventory turnover was 33 days (2009: 30 days).

Capital Structure

The Group's borrowings, cash and cash equivalents were mainly denominated in RMB. Bank loans of the Group as at 31 December 2010 were approximately RMB201,500,000 for terms of one year and carrying interests at fixed rates ranging from 5.56% to 6.13% per annum.

Management Discussion and Analysis

BUSINESS REVIEW

Continual expansion of retail network

The Group further penetrated in the Beijing, Tianjin and Zhejiang markets in persistent implementation of the expansion strategy of regional priority. As at 31 December 2010, we had a retail network of 492 stores (2009: 469 stores) comprising 118 superstores and 374 mini-marts (comprising Everyday Shops, high-end supermarkets and convenience stores), which were either directly operated or operated and managed through franchise agreements and management agreements by the Group, its associates (other than Beijing Chao Shifa Company Limited) and a jointly controlled entity. The Group's retail network occupied an aggregate saleable area of 595,742 square metres, excluding stores under associates and franchises, representing an increase of 11.32% over 2009. During the Reporting Period, 12 directly-owned superstores were opened while 3 were closed down. For mini-marts, 30 directly-owned new stores were opened while 18 were closed down. For franchised stores, 12 new stores were opened while 9 were closed down. The cooperation with 1 managed store was terminated.

Stores operated and managed by the Group as at 31 December 2010 were as follows:

	Number of Superstores	Number of Mini-marts	Total	Geographical Distribution
Directly-owned	116	255	371	Beijing, Tianjin, Hebei, Zhejiang
Franchised	—	81	81	Zhejiang
Managed	2	38	40	Tianjin
Total	**118**	**374**	**492**	

Refinement of category management in a customer-oriented manner

During the Reporting Period, the Group implemented customer-oriented category management by identifying and capturing market development trends in a timely manner in joint research efforts with certain suppliers on merchandise category and shopping needs of consumers.

Meanwhile, the Group also supervised the merchandise mix and merchandise allocation of store groups with different business formats as well as category management by adopting the information system, resulting in more regulated and scientific merchandise allocation, merchandise category and additions or replacements management of merchandise items for stores. The efficiency of category management was therefore enhanced by the systematised, standardised, normalised and refined category management.

During the Reporting Period, the Group readjusted and improved the list of essential merchandise for convenience stores in the Beijing area. A fixed group of essential merchandise matching the needs of convenience stores was formed gradually through weekly examination and monthly assessment. In the meantime, trendy and popular new items, small package imported food and instant food were added to satisfy the needs of convenience stores and fresh food (rice dumpling, fried noodles, salad, sushi etc.) was introduced to match the needs of fast-moving consumers, while large package merchandise was replaced. The series of efforts made in category optimisation served as a significant niche for sales growth for convenience stores.

Management Discussion and Analysis

Achieve win-win situation through harmonious relationship and in-depth cooperation with suppliers

The Group continued to reinforce the harmonious "retailer-supplier" relationships not only to achieve the goal of increasing the gross profit of the Group, but also help achieving higher revenue for suppliers. During the Reporting Period, the Group solicited more producers, facilitated the implementation of the branded suppliers and quality suppliers strategy, strengthened efforts on the introduction and development of branded suppliers and quality suppliers and carried out strategic cooperation with them. With a view to satisfy customers' needs, the Group and suppliers jointly developed the simple buy-and-sell relationship into a comprehensive cooperation relationship comprising category, marketing, supply chain, finance and information cooperation. As a result, the Group's value creation was enhanced to overall value chain creation ranging from research on consumers' needs to after sale service, establishing a "value added" business model. Competitiveness of the Group's merchandise was therefore strengthened by providing consumers with merchandise satisfying their needs.

The Group is committed to initiating and establishing a harmonious retailer-supplier relationship system. It introduced the innovative special supplier monitor system. All special supplier monitors are provided with access cards issued by the Group, so that they may have access to the back office as well as the front store of the Group, exchanging ideas and communicating with store managers and heads of different departments directly and bringing any issues identified to the attention of the Group's senior management instantly. Special supplier monitors comprised suppliers of major categories such as fresh food, packaged food, daily necessities and electrical appliances. Ever since the establishment of the special supplier monitor system, the Group has maintained excellent cooperation with the special monitors. The system has contributed significantly to resolving issues and establishing harmonious relations with suppliers.

The Group established a transparent retailer-supplier management system by allowing suppliers to participate in monitoring sales and inventory of goods. "Timely and accurate payment commitment" and "Prohibiting non-standard charges" policies were in place. Store supervisors of the Group carried out store inspections regularly to deal with issues on retailer-supplier relations in a timely manner, improving and facilitating the establishment of a retailer-supplier relationship system for the Group.

During the Reporting Period, the Group also established a "Regular business review on suppliers system", through which our management teams at various levels conducted business review analysis on suppliers with annual sales of RMB10 million, RMB20 million and RMB50 million, respectively. Cooperation with suppliers was further improved based on conclusions and improvements made on issues and experiences on cooperation in a timely manner to establish harmonious retailer-supplier relationships with mutual trust and benefit and eventually achieve mutual profitability.

Simplified the business model at store level and enhanced the store image

During the Reporting Period, the Group focused on the strengthening of specialised management of headquarters through maintaining the headquarters' control over major duties including merchandise, operations and marketing of shop operations. Store functions were streamlined and operations were simplified by implementing standardised and regulated operational management of stores in order to enhance the operating efficiency of stores.

Aiming to improve performance and image of the stores and upholding the concept of "smallest investment, shortest renovation period and minimised influence on operations", the Group renovated 19 hypermarkets during the Reporting Period. Reshuffling projects comprised primarily adjustment on proportions of area of direct operation and concession and integration of concession brands and items with the overall planning and layout of direct operation, which enriched the categories and offered customers with additional types of merchandise and more convenient services.

During the Reporting Period, the Group actively investigated the brand-oriented store operating model to attract consumers. For instance, in Weiguo Road Hypermarket in Tianjin, its original sales model for home appliance was adjusted to "Wumart Home Appliances Market" to establish an independent mini-shop area featuring professionalism, premium quality and attractiveness. Sales of home appliances, customer traffic and average transaction amount per head of the renovated store increased by 62.25%, 36.56% and 23.12%, respectively. Store renovation won applause as well as boosted sales, realising anticipated renovation outcomes.

Management Discussion and Analysis

Innovative and practical marketing schemes, flexible and diversified marketing strategies

During the Reporting Period, the Group launched a unified group anniversary celebration campaign at the 16th anniversary of the opening of the first Wumart store. During the campaign period, stores of the Group spreading across various areas including Beijing, Tianjin, Hebei and Zhejiang advertised through different media such as televisions, newspapers, buildings and in-store decorations and launched a series of joyous and harmonious marketing campaigns offering considerable rewards to customers. Such unified anniversary celebration promotions significantly enhanced the Group's brand image and lured numerous consumers to shopping.

In response to the potential drop in consumption as a result of the continual rise in commodity prices, stores of MerryMart, a subsidiary of the Group, successfully organised the "Members' Month", "Company Celebration Month" and other activities with the cooperation of various promotions based on the price strategy to promote sales. Tracing closely the market movements, the Group also launched the "Lead to stabilise commodity prices" activity at such times as appropriate in joint hands with suppliers, thereby effectively boosting sales for the period on one hand and enhanced the brand image of MerryMart on the other hand. Before the Chinese New Year, with the theme of "Cheap prices for CNY", the Group launched price reductions and promotions for more than 300 items essential for the living of the public and, leveraging upon its advanced information system, an activity for redemption purchase of foodstuffs and cooking oil with any consumption for an amount of RMB68, which was well recognised and received by customers.

The Group actively captured opportunities with selling points to create strong hot sales sentiment. During the Reporting Period, "Beer & Snacks" displayed with the theme of "World Cup Cheers" were arranged at the Group's convenience stores in the Beijing area during the "World Cup" South Africa, registering sales of RMB710,000 in June, representing a year-on-year growth of 53%. Through a series of timely and brand-new promotion activities, the Group effectively boosted its sales and gained brand recognition.

Highly informatised supply-chain and continually innovative operating model

During the Reporting Period, the Group continually enhanced the distribution efficiency of its supply chain and reduced operating costs with the "highly IT-based, sufficiently mechanised and reasonably automatised" logistics operating model. Covering all parties of the whole supply chain, the WMS (Warehouse Management System), WCS (Warehouse Control System), RF system (Radio Frequency System), DPS (Data Processing System) and TMS (Transport Management System) significantly enhanced operating efficiency and accuracy through creation of synergies. The automatic sorter system and transport machine system were put into operations. Supported by the DPS, highly efficient and accurate retail distribution for mini-marts was achieved.

With continual innovations in business and operation models, each KPI (key performance indicator) of the supply chain of Group continued to deliver excellent results. Amount of distribution and delivery income increased continually while distribution costs decreased continually. During the Reporting Period, business volume of North China Distribution Centre of the Group increased by approximately 66%, as compared to the corresponding period in the previous year, reflecting the preliminary effects achieved by innovations in business model of supply chain.

Continually upgrade and develop functions of WINBOX@SAP

As one of the Group's core technology, the WINBOX project was upgraded continually with enriched functions during the Reporting Period, providing even stronger support for business operations. The Group updated, streamlined and upgraded WINBOX solution V1.0 by adding new business processes and solutions including push replenishment, congeneric merchandise, distribution surcharge and wholesale, and franchised stores schemes. The upgraded WINBOX V1.1 spread was more mature and stable with additional retail characteristics and higher promotion value.

During the Reporting Period, the Group completed the WINBOX implementation project for MerryMart. Modules including category, procurement, marketing, operations, stores, supply chain and finance were successfully launched, which upgraded the information system and business process, strengthened the competitiveness and reduced the investment and operating costs of the IT system as a whole.

During the Reporting Period, the Group completed the R2GUI project (the Graphical User Interface for customer-end of R2POS) with an aim to optimise the interface of the store front-end system. Through the strengthened R2GUI integrated development, the interface of store front-end users was efficiently integrated with the platform core SAP system, thereby significantly reducing system load and enhancing system operation efficiency. At the same time, since the R2GUI system features simple and user-friendly interface which facilitates user training, considerably less operation difficulties were encountered by shop staff and the time and costs of training were reduced.

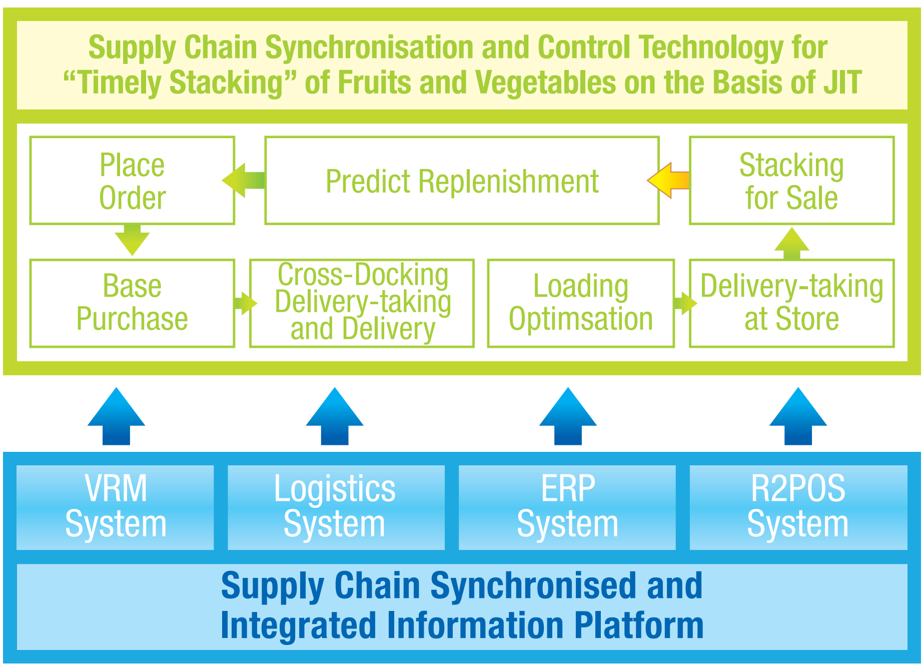
During the Reporting Period, the Group completed the development of the POS payment collection project. Under the POS payment collection project, the function of collecting payment for non-purchase transactions at store cash registers, including the payment collection function for non-supermarket merchandise such as water and electricity fees, spare parts and waste products was designed and developed on the basis of the store POS system. Upon cashiers' payment collection operation, information of payment collection was uploaded to the SAP system to generate the voucher for financial revenue automatically. As such, manual daily cash flow record of stores was entirely replaced and financial process and headcount at retail stores were simplified.

Formation of 24-hour fruit and vegetable supply chain through "Fruit and Vegetable Farm-Supermarket Links"

During the Reporting Period, the Group developed an innovative supply chain control technology for "timely stacking" of fresh fruits and vegetables on the basis of JIT (Just In Time) (see figure below), addressing issues such as complicated process, hard to maintain freshness, considerable wear-and-tear and high circulation cost of the fruit and vegetable supply chain. In particular, the replenishment prediction system and supplier relationship management system were adopted to

Management Discussion and Analysis

establish a pulling-type supply chain, forming a swift order response mechanism to resolve the issue of lead-time gap of stocks. Meanwhile, wear-and-tear of fruits and vegetables was largely reduced by using standard logistics baskets to avoid moving and tumbling during the process from harvest to store display, and an innovative “fresh food operating platform” technology was developed to replace delivery-taking with delivery, achieving the target of zero stock and shortest process time for fruits and vegetables in the distribution centre. The supply chain control technology shortened the traditional supply chain with over seven processes, i.e. “farmers→local brokers→regional wholesalers→Beijing wholesalers→farmer’s market→supermarkets→customers”, to only three processes, i.e. “farmers→distribution centre→store” and created a supply chain model with zero stock, zero wear-and-tear, zero moving, 24-hour and timely stacking for sale (transportation time form the Shandong base to Beijing supermarkets was shortened from 30 hours to 24 hours) of fruits and vegetables. Realisation of “Farm-Supermarket Links” between fruits and vegetables bases and Beijing resulted in effective control over the procurement costs of fruits and vegetables, with average retail price of approximately 20% lower for around 100,000kg of fresh fruits and vegetables delivered from the Shandong base to the Beijing market everyday compared to nearby agricultural trade markets, benefiting consumers and increasing the income of farmers. A supply chain with maximised synergies between agricultural product bases or farmers, distribution centres and terminal sales outlets was realised. During the Reporting Period, sales volume of the Group’s vegetables and fruits maintained a relatively higher growth rate in accumulate. Through the innovative operating model of “24-hour fruit and vegetable supply chain” and the implementation of a fruit and vegetable distribution centre, the Group has gradually become the “major channel for trustworthy supply of vegetables and fruits” for Beijing residents. The Group’s Farm-Supermarket Links project was the first systematic farm-supermarket links in Beijing.



Intensification of training for continual enhancement of productivity

During the Reporting Period, the Group had a total of 22,273 staff. In response to the imminent demand for talent due to rapid corporate development, the Group insisted on the integration of department heads and internal training, continued to implement talent cultivation programmes and trained up department heads and staff with specialised skills at various levels through training sessions. During the Reporting Period, 129 training sessions were organised by the Group. These trainings include WINBOX@ SAP system upgrade training, management officers promotion training, other specialised training programmes and management trainees (fresh graduates) training. A total of 4,229 employees participated in our training sessions, amongst which, 29 employees qualified as candidates for appointment to the post of store manager and 30 qualified as candidates for appointment to the post of section manager under the "Centurion Program", out of which 4 had been promoted as store managers and 4 had been promoted as section managers. These trainings reinforced the working skills of our staff, improved the performance and value of department heads and staff, enhanced team building and cohesion and retained talents for the Group's development.

To meet the training needs arising from the rapid development of the enterprise, the Group commenced the "E-Learning" distant-learning platform in February 2010. After almost half a year's research, discussion and development efforts, functions of the "E-Learning" distant-learning system platform, including course selection, lesson taking, examination, assessment, intellectual examination paper production and preliminary statement statistics, were in stable operation and went online in Beijing in two phases in September and October 2010, respectively. As at 31 December 2010, a total of 7,988 employees attended courses through the platform. The implementation of "E-Learning" will provide a positive boost for the regulation, informatisation and standardisation of the Group's training initiatives, expand the scope of training and offer professional learning opportunities for more staff. Meanwhile, training efficiency of the Group was largely enhanced, training costs were lowered and the progress of specialised training of the Group was accelerated.

During the Reporting Period, the human resources department of the Group and WINBOX project team jointly completed the construction of a human resources alert platform, integrated the resources of three technical platforms, being OA (OFFICE AUTOMATION), SAP-HR (HUMAN RESOURCES MANAGEMENT) and MRM (MANAGER RELATIONSHIP MANAGEMENT), constructed the human resources alert platform and enabled enquiry on human resources information or index on staff and departments by management personnel at various levels. This was to fully tap on information required to be managed for "human" as a kind of "resources", as well as to manage these important "resources" by technical means with a view to realise human resources management emphasising "distinguish the good from the bad, thorough understanding, dynamic alert, active reward and penalty" with the support of information technologies.

Management Discussion and Analysis

PROSPECTS

Against the backdrop of fierce competitions in the retail industry and booming trend of emerging retail models, the Group will focus on its internal and consumer needs and perform target-driven research, development and innovations, actively explore and experiment new business formats and seize every business opportunity to achieve even fruitful results.

In the coming year, the Group will continue to persist in the regional development strategy and implement the regional "saturation" strategy in Beijing, Tianjin, Hebei and Zhejiang in which we have already established our presence. Whilst dedicating on expansion of retail network, the Group will also identify opportunities for mergers and acquisitions actively with a view to extend its foothold to new markets.

In 2011, the Group will adopt procurement and suppliers management as its strategies and strengthen the development of supply sources. Apart from increasing the proportion of direct purchases of fruits and vegetables, direct purchase and order purchase will be implemented at other merchandise categories to reduce circulation channels and minimise procurement costs. Through continual analysis on and optimisation of merchandise system, the Group will launch category and merchandise mix optimisation to improve merchandising capability in a comprehensive manner. Flagship stores will be established for each business format to enhance the Wumart brand image.

Whilst nurturing talents for its management team through strengthening of internal training and recruitment of high calibres, the Group will also enhance productivity and operating efficiency through optimisation of business process of stores, strong IT support from the Group and standardised training.

In the coming year, with faith and confidence, all members of our management team together with all of our staff will make every effort on forging its core competence, practically implement all missions, strive for another remarkable year and create new value for shareholders in 2011!

Profile of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Dr. Wu Jian-zhong, aged 53, Chairman of the Company. Dr. Wu obtained his bachelor's degree in engineering at Fuzhou University in July 1982 and Ph.D. degree in engineering at the Institute of Automation, Chinese Academy of Sciences in December 1989. He pursued postdoctoral research at the University of Michigan in the United States from 1993 to 1994. Dr. Wu joined Wumei Holdings, Inc. ("Wumei Holdings") in October 1994 and served as a Vice President, responsible for automation software and planning. He served as a Director, Vice Chairman and Vice President of the Company since August 2000. Since November 2006, Dr. Wu has acted as the Chairman of the Company. In addition, Dr. Wu is currently the Chairman of Wumei Holdings and 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 holds senior positions in subsidiaries of the Company.

Mr. Zhu You-nong, aged 58, Executive Director and President of the Company. Mr. Zhu was a college graduate of Self-Taught Higher Education for Examination of Beijing (北京市高等教育自學考試) majoring in Chinese in December 1985. He has been awarded the engineer technical titles by China Association for Science and Technology in September 1996. From December 1992 to September 2000, he served as the chairman of Beijing Duo Ling Duo Investment Company Limited. From October 2000 onwards, Mr. Zhu has served as a president of MerryMart. Since October 2007, Mr. Zhu has served as the President of the Company. Since November 2009, Mr. Zhu has served as an Executive Director of the Company.

Dr. Meng Jin-xian, aged 54, Executive Director and Vice President of the Company. Dr. Meng earned his bachelor's degree in engineering at the China University of Mining and Technology in December 1981, master's degree in engineering at China University of Mining and Technology in October 1987 and doctorate at the Beijing University of Science and Technology in July 1994. From April 1994 to June 1997, Dr. Meng served as a general manager of Enterprise Development Co. Ltd. of Beijing International Business Federation Co. (北京國際商聯企業發展有限公司). From June 1997 to August 2000, Dr. Meng served as a Vice President of Wumei Holdings, mainly responsible for business development and operations. He has served as a Vice President of the Company from August 2000, responsible for operation management, and procurement and logistics management. Since November 2002, he has acted as a Director of the Company, and is currently responsible for standard keeping, new business development and operations of the Group. Dr. Meng holds senior positions in subsidiaries of the Company. Since 23 December 2010, Dr. Meng has acted as the chairman of Yinchuan Xinhua Department Store Company Limited.

Madam Xu Ying, aged 46, Executive Director, Vice President and Chief Financial Officer of the Company. She obtained her bachelor's degree in arts at Tianjin University in July 1985 and MBA degree at the Meinders School of Business of Oklahoma City University in May 2002. Madam Xu has extensive knowledge in business logistics and supply chain management. She worked with

Profile of Directors, Supervisors and Senior Management

Tianjin International Trust and Investment Corporation as an investment manager from August 1987 to July 2001, and served as a director and vice president of LG Company, a jointly controlled entity co-established by the Tianjin International Trust and Investment Corporation, from October 1996 to July 2001. In August 2001, she was recruited as an associate professor with Tianjin University of Finance & Economics, conducting teaching and research on business logistics and supply chain management. Madam Xu joined the Company since October 2004 and acted as Chief Financial Officer and Vice President. She has served as an Executive Director of the Company since June 2007. Madam Xu holds senior positions in subsidiaries of the Company.

Non-executive Directors

Mr. Wang Jian-ping, aged 47, Non-executive Director and Vice Chairman of the Company. Mr. Wang received his master's degree in law from the China University of Political Science and Law in July 1988. He is currently an executive director of Wumei Holdings. He acted as an assistant to President of Beijing CAST Technology Investment Company from September 1994 to July 1997. Mr. Wang acted as a Vice President of the Company from August 2000 to May 2002, responsible for matters in relation to law, engineering and development. Since November 2002, he has served as a Director of the Company. Since November 2006, he has served as a Vice Chairman of the Company.

Mr. John Huan Zhao, aged 47, Non-executive Director of the Company. Mr. Zhao obtained his B.S. degree at Nanjing University in July 1984. He received M.S. Degrees in Electrical Engineering and Physics from the Northern Illinois University in 1987 and an MBA. degree from the Kellogg Graduate School of Management at the Northwestern University in June 1996. Mr. Zhao has served as a Director of Beijing Hongyi Investment Counsellor Co., Ltd. and Senior Vice President and Director of Legend Holdings Limited, in charge of the private equity investment and management business of Legend since October 2004. In addition, Mr. Zhao has directorships in the following listed companies: as non-executive director of China Glass Holdings Limited (a company listed in Hong Kong) since November 2004, executive director of China Pharmaceutical Group Limited (a company listed in Hong Kong) since December 2008, independent director of Gemdale Corporation (a company listed in the PRC) since April 2008 and director of Simcere Pharmaceutical Group (a company listed in New York) since August 2006. Mr. Zhao has served as a Non-executive Director of the Company since November 2009.

Madam Mary Ma, aged 58, Non-executive Director of the Company. Madam Ma graduated from the Capital Normal University (formerly as Beijing Normal College) in Beijing in July 1976. She served as an executive director and a chief financial officer of Lenovo Group since 1997 and 2000, respectively. Madam Ma has served as a non-executive vice chairman of the board of directors of Lenovo Group since 1997. From September 2003 to April 2007, Madam Ma served as a director of Sohu.com Inc., a NASDAQ listed company. From December 2007 to May 2010, Madam Ma served as a director of Shenzhen Development Bank Co., Ltd. She has been a partner and managing director of TPG Capital since September 2007, primarily responsible for investments in the Greater China region. In June 2009, she was appointed as a member of the Listing Committee of the Hong Kong Stock Exchange. Madam Ma has served as a Non-executive Director of the Company since June 2010.

Independent Non-executive Directors

Mr. Han Ying, aged 76. Mr. Han obtained his bachelor's degree in mining at the China University of Mining and Technology (formerly as Beijing Institute of Mines) in June 1962. From August 1991 to October 1995, he acted as vice minister of the Ministry of Coal Mining of the PRC and vice general manager of China Tongpei Coal Mine Headquarters Company. From October 1995 to June 2000, he worked as a vice chairman and the general manager of Shenhua Group Corporation Limited. He held a number of positions, such as a member of the 5th Standing Committee of the Chinese People's Political Consultative Conference, a member of the 8th and 9th Chinese People's Political Consultative Conference and a representative of the 10th, 11th and 12th National Congress of the Communist Party of China. Since July 2003, he has served as an Independent Non-executive Director of the Company.

Mr. Li Lu-an, aged 67. Mr. Li graduated from Shandong University in August 1966. From August 1996 to March 2004, he served as the chairman of CITS Group, general manager of the China International Travel Service Head Office and part-time professor of China Tourism Management Institute. Since September 2004, he has served as an Independent Non-executive Director of the Company.

Mr. Lu Jiang, aged 54. Mr. Lu has extensive experience in accounting, auditing and other management aspects. He has served as chairman of the Management Committee of Yongtuo International Group Holding Limited (renamed as: China Yongtuo Consulting & Management Group Limited), chairman, general manager and chief accountant of Beijing Yongtuo Certified Public Accountants Co., Ltd and chairman of Beijing Yongtuo Engineering Co., Ltd since 1999. In addition, Mr. Lu also served as committee member of Beijing Certified Public Accountants Association and chief supervisor of the Beijing Afforestation Foundation. Since September 2004, he has served as an Independent Non-executive Director of the Company.

SUPERVISORS

Supervisor Nominated by Employees

Mr. Zhang Zheng-yang, aged 36. Mr. Zhang obtained his bachelor's degree in mechanical and electronic engineering at Beijing Institute of Technology in July 1998. Mr. Zhang was manager of the information department of Beijing Wumart Hypermarket Commercial Management Company Limited from February 2000 to August 2003, controller of the information centre of MerryMart from May 2006 to February 2008. Mr. Zhang has been the controller of the information centre of the Company since March 2008 and the deputy general manager of MerryMart since July 2010. On 21 September 2010, he was appointed as a Supervisor nominated by employees.

Profile of Directors, Supervisors and Senior Management

Independent Supervisors

Mr. Fan Kui-jie, aged 47. Mr. Fan obtained his master's degree in engineering at the Business Management School of Xi'an Jiaotong University in June 1991. Since December 1997, Mr. Fan has been the chairman of Beijing Yin Xin Guang Hua Real Estate Development Co., Ltd. (北京銀信光華房地產開發有限公司). He has served as an Independent Supervisor of the Company since November 2002.

Madam Xu Ning-chun, aged 47. Madam Xu received her bachelor's degree in economics from the Beijing Technology and Business University (formerly as College of Commerce in Beijing) in July 1986, and is a PRC certified public accountant and a PRC registered assets valuer. She has been a general manager of Beijing Dingge Capital Assessment Co., Ltd. since July 1998. She has served as an Independent Supervisor of the Company since July 2003.

SENIOR MANAGEMENT

Dr. Yu Jian-bo, aged 45, 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 since May 2005.

Mr. Xu Shao-chuan, aged 39, 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 2010, together with the audited financial statements of the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the operation and management of retail chains of superstores and mini-marts in Beijing, Hebei, 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，提升大眾生活品質).

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

MAJOR SUPPLIERS AND CUSTOMERS

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

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

Report of the Board of Directors

SHARE CAPITAL

Name of shareholders	Class of shares	Number of shares (shares)	Approximate percentage of total share capital (%)
Wumei Holdings	Domestic shares	497,932,928	38.86
	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	1.95
Beijing Junhe Investment Co., Ltd. (北京君合投資有限公司) ("Junhe Investment")	Domestic shares	23,269,228	1.82
Wangshang Shijie E-business	Domestic shares	160,457,744	12.52
Legend Holdings Limited ("Legend Holdings")	Domestic shares	7,306,752	0.57
Hony Capital RMB I, L.P. ("Hony Capital")	Domestic shares	23,619,364	1.84
Beijing Shuangchen Express Co., Ltd. (北京雙臣快運有限公司)	Domestic shares	7,137,800	0.56
Wealth Retail Holding ("WR")	H shares	25,000,000	1.95
Fit Sports Limited ("FS")	H shares	5,000,000	0.39
Other public	H shares	505,193,000	39.43
Total share capital		1,281,274,116	100

Details of the movements in the share capital of the Company during the Reporting Period are set out in Note 30 to the consolidated financial statements.

SHARE CAPITAL

In accordance with the Investment Agreement entered into between the Company and TPG Asia V L.P ("TPG"), FS, Legend Holdings and Hony Capital on 12 August 2009, the Company entered into the H Shares Subscription Agreement with TPG and FS and the Domestic Shares Subscription Agreement with Legend Holdings and Hony Capital. On 7 May 2010, the Company and TPG, WR, a wholly-owned subsidiary of TPG, and FS entered into the "Deed of Amendment relating to H Shares of Wumart Stores, Inc." (the "Deed of Amendment"), pursuant to which WR and FS, as the H Subscribers, will subscribe for the H Subscription Shares, and 25,000,000 H Shares and 5,000,000

H Subscription Shares will be issued to WR and FS, respectively, by the Company (please refer to the Company's announcement dated 7 May 2010 for details of the aforesaid).

As such, the Company completed the issue of 25,000,000 H Shares and 5,000,000 H Shares to WR and FS, respectively, at an issue price of HK$11.00 per share pursuant to the approvals of the China Securities Regulatory Commission and the Stock Exchange and the Deed of Amendment on 3 June 2010. Following the completion of the aforesaid issue, the total number of issued shares of the Company was 1,281,274,116 shares and the total registered capital of the Company increased to RMB320,318,529.

FIXED ASSETS

Details of the movements in the fixed assets of the Group during the Reporting Period are set out in Note 16 to the consolidated financial statements.

DISTRIBUTABLE RESERVE

The distributable reserve of the Company as at 31 December 2010 amounted to approximately RMB1,266,998,000 (2009: RMB1,019,993,000).

DIVIDEND APPROPRIATION

The Board recommended the payment of a final dividend of RMB0.20 (before tax) per share to shareholders whose names appear on the register of members of the Company on the date of the 2010 annual general meeting ("AGM"), subject to approval by way of an ordinary resolution at the AGM.

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

SUBSIDIARIES

Details of the subsidiaries of the Company during the Reporting Period are set out in Note 39 to the consolidated financial statements.

FUTURE INVESTMENT PLANS

As at 31 December 2010, 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 2010, the Group's bank loans of RMB1,500,000 were secured by the pledge of land and buildings with a carrying amount of approximately RMB5,549,000.

Report of the Board of Directors

EXCHANGE RATE RISK

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

INVENTORIES

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 2010, inventories balance of the Group was approximately RMB1,211,467,000 (2009: RMB838,803,000) and costs included in the Reporting Period was approximately RMB11,446,293,000 (2009: RMB9,580,791,000).

CONTINGENT LIABILITY

As at 31 December 2010, 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 2010, the interests or short positions of the Directors, supervisors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance of Hong Kong (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

	Number of domestic shares (shares)	**Approximate percentage of total issued domestic share capital** (%)	**Approximate percentage of total share capital** (%)	**Type of interests held**
Dr. Wu Jian-zhong (吳堅忠博士) *(Note 1)*	160,457,744	21.55	12.52	Interests in controlled corporation
Dr. Meng Jin-xian (蒙進暹博士) *(Note 2)*	48,251,528	6.48	3.77	Interests in controlled corporation

Notes:

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

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

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2010, none of the Directors, supervisors and chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

As at 31 December 2010, none of the Company, its subsidiaries, holding companies or fellow subsidiaries was a party to any arrangement to enable the Directors or supervisors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company.

Report of the Board of Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, 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 held (shares)	Approximate percentage of total domestic share capital (%)	Approximate percentage of total share capital (%)
Dr. Zhang Wen-zhong (張文中博士) *(Note 1)*	497,932,928	66.86	38.86
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	38.86
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	38.86
Wumei Holdings *(Note 2)*	497,932,928	66.86	38.86
Yinchuan Xinhua Department Store Company Limited ("Xinhua Department Store") *(Note 3)*	497,932,928	66.86	38.86
Wangshang Shijie E-business	160,457,744	21.55	12.52

Notes:

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

2. As at the date hereof, Xinhua Department Store is owned as to 29.27% by Wumei Holdings. Pursuant to the share transfer agreement (please refer to the Company's announcement on 24 July 2008) entered into between Wumei Holdings and Xinhua Department Store, Wumei Holdings is entitled to control the exercise of one-third or more of

the voting power at general meetings of Xinhua Department Store subsequent to the completion of the share transfer agreement. Accordingly, Wumei Holdings is deemed to be interested in the shares of the Company held by Xinhua Department Store subsequent to the completion of the share transfer agreement.

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

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)*	111,191,273	20.72	8.68
Arisaig Asia Consumer Fund Limited *(Note 2)*	65,978,000	12.30	5.15
Arisaig Partners (Mauritius) Limited *(Note 3)*	65,978,000	12.30	5.15
Cooper Lindsay William Ernest *(Note 4)*	65,978,000	12.30	5.15
T. Rowe Price Associates, Inc. and its affiliates *(Note 5)*	56,931,408	10.61	4.44
Artio Global Management LLC *(Note 6)*	48,655,300	9.07	3.80
Invesco Hong Kong Limited (in its capacity as manager/advisor of various accounts) *(Note 7)*	37,040,000	6.90	2.89
The Capital Group Companies, Inc. *(Note 8)*	32,109,484	5.98	2.51
FMR LLC *(Note 9)*	26,960,000	5.02	2.10

Notes:

1. Including 804,000 H shares held by JPMorgan Chase & Co. in its capacity as a beneficial owner, 53,328,000 H shares as an investment manager and 57,059,273 H shares as a trustee company/approved lending agent.

2. These 65,978,000 H shares are held by Arisaig Asia Consumer Fund Limited in its capacity as a beneficial owner.

3. These 65,978,000 H shares are held by Arisaig Partners (Mauritius) Limited in its capacity as an investment manager.

Report of the Board of Directors

4. These 65,978,000 H shares are held by Cooper Lindsay William Ernest through his interests in controlled corporation.

5. These 56,931,408 H shares are held by T. Rowe Price Associates, Inc. and its affiliates in its capacity as an investment manager.

6. These 48,655,300 H shares are held by Artio Global Management LLC in its capacity as an investment manager.

7. These 37,040,000 H shares are held by Invesco Hong Kong Limited in its capacity as an investment manager.

8. These 32,109,484 H shares are held by The Capital Group Companies, Inc. in its capacity as an investment manager.

9. These 26,960,000 H shares are held by FMR LLC in its capacity as an investment manager.

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

SUFFICIENT PUBLIC FLOAT

Based on the information publicly available to the Company as at 22 March 2011, the latest practicable date prior to the publication of 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 of the Company have entered into service contracts or letters of appointment with the Company, in particular, the term of office for Mr. Wu Jian-zhong, Madam Xu Ying, Dr. Meng Jin-xian, Mr. Wang Jian-ping, Mr. Han Ying, Mr. Li Lu-an and Mr. Lu Jiang was from 26 June 2008 to the date of the conclusion of the 2010 annual general meeting of the Company; the term of office for Mr. Zhu You-nong and Mr. John Huan Zhao was from 13 November 2009 to the date of the conclusion of the 2010 annual general meeting of the Company; and the term of office for Madam Mary Ma was from 3 June 2010 to the date of the conclusion of the 2010 annual general meeting of the Company.

All supervisors of the Company have entered into service contracts or letters of appointment with the Company, in particular, the term of office for Mr. Fan Kui-jie and Madam Xu Ning-chun was from 26 June 2008 to the date of the conclusion of the 2010 annual general meeting of the Company and the term of office for Mr. Zhang Zheng-yang was from 21 September 2010 to 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 of the Company 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 2010, save for the service contracts/letters of appointment above and those set out in Note 12 to the consolidated financial statements, there was no contract of significance in relation to the Group's business or to which the Company, its holding companies or its subsidiaries was a party and in which a Director or supervisor of the Company had material interests (as defined in the Listing Rules), whether directly or indirectly, subsisted at any time during or at the end of the year under review.

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 2010, the Group had 22,273 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 of the Company, a competitive strategy is adopted, with their total remuneration pegged against prevailing salary level in the labour market, management responsibilities, individual performances and the Company's profitability; for intermediary management and other employees, income improvements are facilitated through the provision of training programmes, promotion opportunities and broader prospects in career promotion and development and enhancement in efficiency, in addition to competitive remuneration packages.

PENSION SCHEMES

Pursuant to the provisions of the relevant PRC laws and regulations, the Group is required to participate in a number of defined contribution retirement benefit schemes established by the relevant government authorities of the PRC. During the relevant period, the Group and its employees are required to make contributions, at certain percentages of employees' total salaries, to the retirement benefit scheme in accordance with such scheme.

Report of the Board of Directors

AUDIT COMMITTEE

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

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 2009, the quarterly and interim results report for 2010, and made recommendations for the appointment of 2010 external auditor to the Board.

At the meeting held by the audit committee on 22 March 2011, the audited consolidated financial report and operating results, major accounting policies and internal audit matters of the Group for the year ended 31 December 2010 were reviewed and discussed and the advice provided by auditors on the Company was listened. The committee agreed to the contents of the annual report.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS

The Board of the Company has adopted a set of code of conduct regarding transactions on the Company's securities 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.

CONTINUING 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. The terms of the above continuing connected transactions are negotiated on arm's length basis.

RMB'000	Cap for 2010	Actual amount for 2010
Merchandise amounts to Tianjin Affiliates	1,507,000	151,041
Delivery fees charged to Tianjin Affiliates	45,210	4,531
Management fees charged to Tianjin Affiliates	3,340	128

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 aforesaid 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 Company during the Reporting Period have been reviewed by the Company's auditor, who issued a letter to the Board of the Company and confirmed the said transactions:

(1) have received the approval of the Board;

(2) have been conducted in accordance with the terms of the Entrusted Operation and Management Agreements;

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

(4) have been conducted in accordance with the pricing policies of similar transactions between the Company and independent third parties.

Report of the Board of Directors

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

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).

Given that the Entrusted Operation and Management Agreements will expire on 31 December 2010, the Company and Wumei Holdings entered into the Entrusted Operation and Management Agreement (2011-2013) on 29 November 2010, pursuant to which, the Company and its subsidiaries will continue to provide Wumei Holdings and its subsidiaries with the supply and delivery of merchandise and management services.

On the same date, Beijing Wumart Hypermarket Commercial Management Company Limited, a subsidiary of the Company, entered into the Property Leasing Agreement (2011–2013) with Beijing Wumart Zhidi Real Estate Development Company Limited ("Wumei Zhidi"), a subsidiary of Wumei Holdings, to lease the Xinjiekou Property owned by Wumei Zhidi for the operation of a superstore. The lease term shall be for a period of three years from 1 January 2011 to 31 December 2013. Pursuant to the GEM Listing Rules, the transactions contemplated under each of the Entrusted Operation and Management Agreement (2011–2013) and the Property Leasing Agreement (2011–2013) constituted continuing connected transactions of the Company and were subject to the reporting and announcement requirements, which had been fulfilled by the Company. For details, please refer to the "Continuing Connected Transactions" announcement of the Company date 29 November 2010.

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, Tianjin and Hebei. The Company entered into the non-competition agreement and the trademark licensing agreement with Wumei Holdings on 29 October 2003, the Entrusted Operation and Management Agreements with Wumei Holdings and Tianjin Affiliates on 24 October 2007 and renewed the Entrusted Operation and Management Agreement (2011–2013) with Wumei Holdings before the expiry date, 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 Directors confirms that there was no material adverse change in the Group's financial or operational position as at 31 December 2010.

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

22 March 2011

Report of the Supervisory Committee

Dear shareholders,

During 2010 (the "Reporting Period"), all members of the Supervisory Committee of Wumart Stores, Inc. (the "Company") have acted in good faith, strictly performed their duties and exercised their powers in accordance with laws for the facilitation of the Company's operations and protection of interests of shareholders and benefits of the Group in strict compliance with provisions and requirements 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 the Reporting Period, the Supervisory Committee held two meetings to consider the 2009 financial reports and profit allocation plan and the 2010 internal control report of the financial department and the report of the legal and audit department 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. With regards to the Company's internal control, the Supervisors attended the Company's internal control review meeting of the Board, in order to gain understanding and be informed of the Company's financial control, operational control and risks control work flow process. The Supervisory Committee is of the view that the Company 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. Improvements were also proposed on the external supervision system of independent third parties of the Company.

During the Reporting Period, 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, operating results, mergers and acquisitions, internal control and Board operations and make proposals actively.

The Supervisory Committee has also monitored the performance of duties by members of the Board 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 PRC 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 of Associations of the Company with the aim of protecting the shareholders' and the Company's interests. There has been no significant abuse of powers undermining the interests of the Company and infringing the interests of shareholders and employees.

During the Reporting Period, 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 shareholders' and the Company's interests have been identified. During the Reporting Period, 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 by the Company in 2010, and expresses its gratitude to the Board and the management for their dedication. Thanks are also due the shareholders for the trust they have put in the Supervisory Committee over the years.

Looking ahead in 2011, the Supervisory Committee shall continue to perform its duties strictly and conduct various tasks with vigour, earnestness, innovation and diligence, in order to protect the shareholders' and the Company's interests, maximise shareholders' profit and contribute to the continuous development and expansion 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

22 March 2011

Corporate Governance Report

CORPORATE GOVERNANCE

During the Reporting Period, the Company established a standard and ideal corporate governance structure in strict compliance with the Company Law and the Securities Law and other laws and regulations together with the requirements of domestic and foreign regulatory bodies. The Company is committed to maintaining its corporate governance at a high standard to enhance shareholders' value in the long run. The Board confirms that the Company had been in compliance with 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 2010 to 31 December 2010 (the "Reporting Period").

THE BOARD

Composition of the Board

The Board of the Company comprised ten Directors, including four Executive Directors, three Non-executive Directors and three Independent Non-executive Directors, details of which are as follows:

Executive Directors

Dr. Wu Jian-zhong	Chairman
Mr. Zhu You-nong	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	Non-executive Director
Madam Mary Ma *Note 1*	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

Note 1: Madam Mary Ma was duly appointed as a Non-executive Director on 3 June 2010.

The Board is a standing decision-making body of the Company. All Directors are obliged to act in the best interests of the Company. All members of the Board acknowledged that they shall take joint and several responsibilities to all shareholders for the management, supervision and operations of the Company. The Executive Directors of the Company have extensive operational and 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 of the Company have extensive industry experience in various fields including capital market, investment and legal issues and are capable of making relevant judgements, and Independent Non-executive Director Mr. Lu Jiang has appropriate qualifications in accounting and experience in finance.

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

Board meetings held in 2010 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	20	20	20	100%
Zhu You-nong	20	19 *Note 1*	19	100%
Meng Jin-xian	20	19 *Note 1*	19	100%
Xu Ying	20	19 *Note 1*	19	100%
Non-executive Directors				
Wang Jian-ping	20	20	20	100%
John Huan Zhao	20	20	20	100%
Mary Ma	20	14 *Note 2*	14	100%
Independent Non-executive Directors				
Han Ying	20	20	20	100%
Li Lu-an	20	20	20	100%
Lu Jiang	20	20	20	100%

Corporate Governance Report

Notes:

1. The Company held 20 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 14 Board meetings during the period between Madam Mary Ma's due appointment as a Director of the Company and 31 December 2010.

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 operations as a body to procure positive business results.

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 and financial position.

The Board is responsible for preparing the financial statements for each accounting year to give a true and fair view of the Company's financial position, its results and cash flow for the relevant period. In preparing the financial statements for the year ended 31 December 2010, the Board has selected and adopted the appropriate accounting policies in arriving at a prudent, fair and reasonable judgment and estimation, and has prepared the financial statements on a going concern basis.

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. The Board holds an extraordinary meeting when the Company needs to make a significant decision.

Minutes of meetings or resolutions of the Board and its committees are being prepared to record any queries (if any) raised by the Directors and voting results. The minutes of meetings or resolutions are kept by the office of 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.

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

DIRECTORS

Nomination of Directors

In accordance with relevant provisions of the Articles of Association 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.

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.

Corporate Governance Report

Responsibilities of Directors

Each Director fully understands his/her duties as a Director of the Company and the way of operation, business activities and development of the Company. During their terms of office, all Directors also perform their duties with dedication and diligence to facilitate ongoing improvements of the Company's results 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 all Directors, that all the Directors have complied with the "required standard of dealings" and the Company's code of practice in relation to securities dealings by Directors during the Reporting Period.

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 the Board and its committees to all Directors prior to the meetings so that the Directors can make informed decisions in fulfillment of their duties and responsibilities as the Directors of the Company.

Independence of the Independent Directors

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

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

BOARD COMMITTEES

Audit Committee

The Audit Committee of the Company comprises all of the following Independent Non-executive Directors:

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 2009 and quarterly and interim reports of 2010 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 2010:

	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%

Corporate Governance Report

Remuneration Committee

The Remuneration Committee of the Company 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, which is, primarily, to make recommendations to the Board on the formulation of remuneration plans or packages of Directors, supervisors, the President and senior management, including but not limited to, the criteria, procedures and the major systems of performance assessment, key incentive and punishment plans and systems. The Remuneration Committee is authorised by the Board to fix the specific remuneration, including non-monetary benefits, pension and compensation (including compensation for loss or termination of duties or appointment) for all Executive Directors, supervisors, the President and other members of the senior management, to ensure that none of the Directors or any of their associates fixes his own remuneration, and to carry out any other matter as authorised by the Board.

During the Reporting Period, the Remuneration Committee held one meeting and the attendance at the meeting are as follows:

	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

The remuneration of Directors and supervisors of the Company is proposed by the Board and the Remuneration Committee of the Company in accordance with the operating results of the Company and practices in the retail industry in the PRC and with reference to the remuneration of directors and supervisors of listed companies within the retail industry in the PRC, and submitted to the annual general meeting of the Company for approval after consideration and approval by the Board of the Company.

The remuneration of senior management of the Company is pegged against prevailing salary level in the labour market, management responsibilities, individual performances and the Company's profitability, and is proposed and submitted to the Board of the Company for consideration and approval by the Remuneration Committee.

Remuneration of the Directors is determined according to the Directors' remuneration standard reviewed or authorised by the general meeting. Remuneration of each Director of the Company for the Reporting Period is set out on page 87 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 of the Company are clearly distinguished. The Board exercises such powers as granted by laws and regulations and the Articles of Association of the Company. The management formulates, organises 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.

Corporate Governance Report

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.

ACCOUNTABILITY AND AUDIT

Statement on Directors' Responsibility for Financial Statements

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

The annual, and interim and quarterly reports 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 results performance, financial position and development prospects. The Board is of the opinion that high quality, transparent and timely corporate reports are crucial in fostering mutual trust between the Company and the shareholders.

In preparing the accounts of the Company for the year ended 31 December 2010, 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 of the Company.

The control of the Company is summarised 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 control department complements the external auditor's activities 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.

Corporate Governance Report

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. The Supervisory Committee has examined the procedures for convening Board meetings of the Company and the resolutions proposed thereat, the execution of resolutions approved at the general meetings by the Board, the performance of duties by senior management of the Company in accordance with laws and the establishment of a sound internal management system for the Company.

In 2010, the audit department and the internal control centre of the financial department of the Company continually improved relevant internal control systems, including the budget management system, risk management system, workflow control system and resignation audit system etc. Meanwhile, the internal control centre controlled and prevented material risk management failures, serious management frauds and major workflow errors through the implementation of control at various levels including accounting and auditing system, asset control and internal audit. In executing the internal control system, no material risk management failures and serious non-compliant operations were found by the Company. Accordingly, the Board of the Company is of the opinion that there were no material defects in the design or execution of internal control of the Company in 2010.

Due to the influence of factors such as continuous growth of operations and expansion in scale of the Company, inherent limitations of internal control, ever-changing market and operating environment and unforeseeable risks, it is necessary for the Company to adjust and improve its internal control in a timely manner in respect of organisational structure, workflow of systems and strengthening of efforts. The Company will continue to improve the internal control system based on its accumulating management experience, shareholders' advice, international and domestic internal control growth trends and changes in the internal and external risks in compliance with the regulatory rules and requirements.

Remuneration of the Auditors

At the 2009 annual general meeting held on 11 May 2010, 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 2010 and the authorisation of the Board to fix the remuneration of the auditors, were considered and approved.

The accompanying 2010 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 2010 Audit Report of the Company based on the accounting statements prepared in accordance with PRC accounting standards.

During the Reporting Period, RMB4,750,000 were payable to external auditors by the Group as audit fees for 2010. Non-audit service fees of RMB12,000 were paid to external auditors by the Company for their performance of capital verification on behalf of the Company.

SHAREHOLDERS' RIGHTS

In accordance with the Articles of Association of the Company, the Company has defined the convening and voting procedures for general meetings, including the convening, notification, registration, holding, consideration of proposals, voting, vote counting, announcement of voting results, formation of meeting resolutions, resolutions and the execution and announcement thereof.

As the owners of the Company, the shareholders of the Company are entitled to the rights as stipulated in laws, administrative regulations and the Articles of Association of the Company. The general meeting is the highest authority of the Company, through which shareholders can exercise their rights.

The Board of the Company considers with due care and makes arrangement for the matters to be considered at general meetings at least 45 days prior to such meetings.

The Company makes timely, accurate and complete information disclosures in strict compliance with the listing rules of its place of listing. This is to ensure the openness, fairness, equality and consistency for all shareholders in obtaining information. The Company has established an effective communication channel with shareholders through an information disclosure system and a reception system for investors. Shareholders are entitled to be informed of and to participate in the significant events of the Company as stipulated in laws, administrative regulations and the Articles of Association of the Company.

Corporate Governance Report

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 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.wu-mart.com), meetings with investors and media, attendance of the Chairman, the Directors and the chairman of the Audit Committee and the Remuneration Committee at general meetings to answer questions raised by shareholders, and timely publication of poll results of general meetings.

AGM AND EGM

During the Reporting Period, the Company's 2009 annual general meeting, the first extraordinary general meeting of 2010 ("2010 EGM"), the first domestic share class meeting of 2010 and the first H share class meeting of 2010 ("Class Meetings") were convened.

All of the aforesaid resolutions, considered on an individual basis and voted by way of poll, have been approved. The poll results of the 2009 AGM, 2010 EGM and Class Meetings have been posted on the websites of the GEM and the Company.

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 2010, the market capitalisation of the Company's publicly held shares was approximately HK$10,254,298,000, based on the closing price of the Company's H shares of HK$19.16 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 55 to 122, which comprise the consolidated statement of financial position as at 31 December 2010, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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 2010 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

22 March 2011

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTES	2010 RMB'000	2009 RMB'000
Revenue from sales of goods	5	**12,571,524**	10,511,410
Cost of sales		**(11,446,293)**	(9,580,791)
Gross profit		**1,125,231**	930,619
Other revenues	5	**1,675,357**	1,270,599
Investment and other income	7	**143,568**	94,306
Distribution and selling expenses		**(1,839,130)**	(1,369,093)
Administrative expenses		**(314,470)**	(252,078)
Other expenses	8	**(9,175)**	—
Share of profit of associates	20	**7,061**	5,072
Share of profit of a jointly controlled entity	21	**3,334**	610
Finance costs	9	**(14,527)**	(32,473)
Profit before tax		**777,249**	647,562
Income tax expense	10	**(217,712)**	(156,202)
Profit and total comprehensive income for the year	11	**559,537**	491,360
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**529,837**	437,764
Non-controlling interests		**29,700**	53,596
		559,537	491,360
Earnings per share			
— basic (RMB yuan per share)	15	**0.42**	0.36

Consolidated Statement of Financial Position

AT 31 DECEMBER 2010

	NOTES	2010 RMB'000	2009 RMB'000
Non-current Assets			
Property, plant and equipment	16	**2,459,556**	2,237,538
Deposit for acquisition of property, plant and equipment		**200,000**	—
Prepaid lease payments	17	**65,213**	76,543
Goodwill	18	**844,964**	844,964
Intangible assets	19	**103,711**	94,909
Interests in associates	20	**144,268**	139,553
Interests in a jointly controlled entity	21	**99,950**	98,209
Deferred tax assets	31	**65,194**	43,655
		3,982,856	3,535,371
Current Assets			
Inventories	22	**1,211,467**	838,803
Loan receivables	23	**—**	120,000
Trade and other receivables	24	**832,793**	586,486
Amounts due from related parties	25	**203,463**	95,522
Prepaid lease payments	17	**58,419**	63,933
Held-for-trading investments	26	**10,105**	—
Restricted bank balances	27	**16,000**	—
Bank balances and cash	27	**1,133,607**	1,171,575
		3,465,854	2,876,319
Current Liabilities			
Trade and other payables	28	**3,993,801**	3,355,280
Amounts due to related parties	25	**73,320**	67,901
Tax liabilities		**165,371**	134,738
Bank loans	29	**201,500**	456,086
Obligations under finance leases		**—**	508
		4,433,992	4,014,513
Net Current Liabilities		**(968,138)**	(1,138,194)
Total assets less Current Liabilities		**3,014,718**	2,397,177

Consolidated Statement of Financial Position

AT 31 DECEMBER 2010

	NOTES	2010 RMB'000	2009 RMB'000
Capital and Reserves			
Share capital	30	**320,319**	312,819
Share premium and reserves		**2,536,892**	1,949,344
Equity attributable to owners of the Company		**2,857,211**	2,262,163
Non-controlling interests		**138,319**	118,617
Total equity		**2,995,530**	2,380,780
Non-current liabilities			
Deferred tax liabilities	31	**19,188**	16,397
		19,188	16,397
		3,014,718	2,397,177

The consolidated financial statements on pages 55 to 122 were approved and authorised for issue by the Board of Directors on 22 March 2011 and are signed on its behalf by:

DIRECTOR

DIRECTOR

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2010

	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	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2009	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 30)	7,732	291,069	–	–	–	298,801	–	298,801
Dividend paid by the Company (note 14)	–	–	–	–	(183,052)	(183,052)	–	(183,052)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	(74,420)	(74,420)
Acquisition of a subsidiary (note 34)	–	–	–	–	–	–	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
Profit and total comprehensive income for the year	–	–	–	–	529,837	529,837	29,700	559,537
Shares issued (note 30)	7,500	282,842	–	–	–	290,342	–	290,342
Dividend paid by the Company (note 14)	–	–	–	–	(225,131)	(225,131)	–	(225,131)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	(9,998)	(9,998)
Profit appropriations (note ii)	–	–	–	57,701	(57,701)	–	–	–
At 31 December 2010	320,319	1,705,973	(733,253)	297,174	1,266,998	2,857,211	138,319	2,995,530

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 equity attributable 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 2010

	2010 RMB'000	2009 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**777,249**	647,562
Adjustments for:		
Finance costs	**14,527**	32,473
Share of profit of associates	**(7,061)**	(5,072)
Share of profit of a jointly controlled entity	**(3,334)**	(610)
Depreciation for property, plant and equipment	**256,928**	181,548
Release of prepaid lease payments	**63,933**	38,910
Amortisation for intangible assets	**3,512**	5,521
Loss on disposal/write-off of property, plant and equipment	**2,262**	4,683
Interest income	**(11,663)**	(4,870)
Operating cash flows before movements in working capital	**1,096,353**	900,145
Increase in inventories	**(369,486)**	(89,378)
Increase in trade and other receivables	**(240,095)**	(22,317)
Decrease (increase) in amounts due from related parties	**(107,941)**	107,181
Increase in prepaid lease payments	**(47,089)**	(66,824)
Increase in held-for-trading investments	**(10,105)**	—
Increase in trade and other payables	**551,786**	389,725
Increase in amounts due to related parties	**5,419**	40,793
Cash generated from operations	**878,842**	1,259,325
Interest received	**11,663**	4,870
Income tax paid	**(208,905)**	(158,949)
NET CASH FROM OPERATING ACTIVITIES	**681,600**	1,105,246

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 RMB'000	2009 RMB'000
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(384,057)**	(287,198)
Increase in restricted bank balances	**(16,000)**	—
Deposit paid for acquisition of property, plant and equipment	**(200,000)**	—
Proceeds from disposal of property, plant and equipment	**7,541**	2,342
Proceeds from liquidation of an associate	**200**	—
Acquisition of a subsidiary (note 34)	**(36,583)**	(1,135)
Payment for acquisition of a subsidiary in previous year	**—**	(21,066)
Increase in investment in a jointly controlled entity	**—**	(50,000)
Decrease in amount due from related parties with non-trade nature	**—**	73,355
Repayment of loan receivables	**120,000**	90,000
Addition of loan receivables	**—**	(120,000)
Dividend received from associates	**2,146**	6,370
Dividend received from a jointly controlled entity	**1,593**	—
NET CASH USED IN INVESTING ACTIVITIES	**(505,160)**	(307,332)
FINANCING ACTIVITIES		
New bank loans raised	**201,500**	438,386
Repayments of bank loans	**(456,086)**	(622,910)
Interest paid	**(14,527)**	(32,473)
Payment for acquisition of additional interests in a subsidiary	**—**	(798,558)
Proceeds from issue of shares	**291,942**	300,000
Expenses on issue of shares	**(1,600)**	(1,199)
Repayment of obligation under finance leases	**(508)**	(462)
Dividend paid	**(225,131)**	(183,052)
Dividend paid to non-controlling shareholders of subsidiaries	**(9,998)**	(74,420)
NET CASH USED IN FINANCING ACTIVITIES	**(214,408)**	(974,688)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(37,968)**	(176,774)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,171,575**	1,348,349
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash	**1,133,607**	1,171,575

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 issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for the Group's financial year beginning on 1 January 2010.

Except as described below, the application of the new and revised Standards, Amendments and Interpretations in the current year has had no material effect on the consolidated financial statements of the Group.

HKFRS 3 (as revised in 2008) Business Combinations

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

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

HKFRS 3 (as revised in 2008) Business Combinations (Continued)

HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

In the current year, the application of HKFRS 3 (as revised in 2008) has affected the acquisition of Chia Tai Trading (Tianjin) Company Limited. The acquisition-related costs of RMB243,000 were recognised as an expense in profit or loss. There is no material effect on the calculation of the earnings per share.

Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases.

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

Amendments to HKAS 17 Leases (Continued)

The application of the amendments to HKAS 17 has had no impact on consolidated financial statements for the Group.

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)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK (IFRIC) — Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK (IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

[1] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 July 2010.
[3] Effective for annual periods beginning on or after 1 July 2013.
[4] Effective for annual periods beginning on or after 1 January 2013.
[5] Effective for annual periods beginning on or after 1 January 2012.
[6] Effective for annual periods beginning on or after 1 January 2011.
[7] Effective for annual periods beginning on or after 1 February 2010.

IFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under IFRS 9, all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

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

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending December 31, 2013 and that the application of the new Standard may not have any material effect in respect of the Groups' financial assets and financial liabilities based on an analysis of the financial instruments of the Group as at 31 December 2010.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Allocation of total comprehensive income to non-controlling interests

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

Changes in the Group's ownership interests in existing subsidiaries

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

Business combinations that took place on or after 1 January 2010

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Business combinations that took place on or after 1 January 2010 (Continued)

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

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

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 acquire, plus any costs directly attributable to the business combination. The acquire's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquire's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The minority interest in the acquire was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquire.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

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

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

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

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

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 initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

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

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

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

Jointly controlled entities

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

Jointly controlled entities prepare their financial information using accounting policies in conformity with the accounting policies adopted by the Group. The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

Revenue from 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 is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable,which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination 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 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Operating lease contracts

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

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

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

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in 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 lease term.

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasehold land and building

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

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

Inventories

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

Foreign currencies

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

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

Government grants

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

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

Retirement benefit costs

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

Taxation

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

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

Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

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

Financial assets

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

Effective interest method

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at FVTPL represent financial assets held for trading.

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables including loan receivables, trade and other receivables, amounts due from related parties, restricted bank balances and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on loans and receivables below).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of loans and receivables

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

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

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

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

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

Financial liabilities

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees 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.

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of intangible assets

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

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 2010, the carrying amount of goodwill is RMB844,964,000 (2009: RMB844,964,000) and no impairment loss has been provided. Details of the recoverable amount calculation are disclosed in note 18.

Deferred tax assets

As at 31 December 2010, a deferred tax assets of RMB65,194,000 (2009: RMB43,655,000) in relation to temporary differences and unused tax losses have been recognised in the consolidated statement of financial position. The recognition of the deferred tax assets mainly depends on whether sufficient taxable temporary differences or future assessable profits will be available in the future. In cases where the actual future assessable profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss in the period such a reversal takes place.

Useful lives of property, plant and equipment

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

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

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

Estimated impairment of 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 2010, the carrying amount of trade receivables, deposits and other receivables is RMB292,830,000, net of allowance for doubtful debts of RMB18,328,000 (31 December 2009: carrying amount of RMB267,840,000, net of allowance for doubtful debts of RMB18,328,000).

5. REVENUE AND OTHER REVENUES

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

	2010 RMB'000	2009 RMB'000
Revenue		
Sales of goods	**12,571,524**	10,511,410
Other revenues		
Rental income from leasing of shop premises	**365,313**	329,833
Income from suppliers, including store display income and promotion income	**1,310,044**	940,766
	1,675,357	1,270,599
Total revenue	**14,246,881**	11,782,009

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 as the Group has only one operating segment.

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7. INVESTMENT AND OTHER INCOME

	2010 RMB'000	2009 RMB'000
Government subsidies (note)	11,764	19,116
Sales of scrapped materials	14,719	18,118
Compensation received from lessors for cancellation of lease contract	19,599	11,500
Delivery service income	43,195	10,123
Compensation received from suppliers for delaying goods delivery	13,010	9,169
Interest income	11,663	4,870
Fair value changes of held-for-trading investments	1,640	4,351
Others	27,978	17,059
	143,568	94,306

Note: The Group was awarded government subsidies totally RMB11,764,000 during the year (2009:RMB19,116,000), for the recognition of the Group's contribution to local community and fulfilling other conditions which the local government considered necessary.

8. OTHER EXPENSES

	2010 RMB'000	2009 RMB'000
Net foreign exchange losses	9,175	—

9. FINANCE COSTS

	2010 RMB'000	2009 RMB'000
Interests on:		
— Bank loans wholly repayable within five years	14,527	32,149
— Finance leases	—	324
	14,527	32,473

10. INCOME TAX EXPENSE

	2010 RMB'000	2009 RMB'000
The charge (credit) comprises:		
PRC income tax	**239,539**	181,682
Deferred tax (note 31)		
Current year	**(21,827)**	(25,480)
	217,712	156,202

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:

	2010 RMB'000	2009 RMB'000
Profit before tax	**777,249**	647,562
Taxation at the PRC Enterprise Income Tax rate of 25% (2009: 25%)	**194,312**	161,891
Tax effect of share of profit of associates and a jointly controlled entity	**(2,599)**	(1,420)
Tax effect of expenses not deductible for tax purpose	**673**	765
Tax effect of tax losses not recognised	**27,233**	1,116
Utilisation of tax losses previously not recognised	**(1,805)**	(2,257)
Utilisation of deductible temporary difference previously not recognised	**—**	(3,655)
Tax effect of additional tax deductible expense in determining taxable profit	**(102)**	(238)
Income tax expense for the year	**217,712**	156,202

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

11. PROFIT FOR THE YEAR

	2010 RMB'000	2009 RMB'000
Profit for the year has been arrived at after charging:		
Depreciation for property, plant and equipment	**256,928**	181,548
Release of prepaid lease payments	**63,933**	38,910
Amortisation for intangible assets	**3,512**	5,521
Total depreciation and amortisation	**324,373**	225,979
Operating lease rentals in respect of rented premises	**543,284**	407,843
Auditor's remuneration	**4,750**	4,700
Staff costs:		
Directors' emoluments	**2,377**	3,021
Other staff costs		
— Salaries and other benefits	**603,266**	461,448
— Contributions to retirement benefits schemes	**63,911**	41,886
	669,554	506,355
Share of tax of associates and a jointly controlled entity (included in share of profit of associates and a jointly controlled entity)	**4,768**	3,508
Loss on disposal/write-off of property, plant and equipment	**2,262**	4,683
Cost of inventory recognised as expense	**11,446,293**	9,580,791

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2009: seven) 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
2010								
Fees	–	–	–	–	60	60	60	180
Other emoluments								
Salaries and other benefits	651	696	719	–	–	–	–	2,066
Contributions to retirement benefits schemes	44	44	43	–	–	–	–	131
Total emoluments	695	740	762	–	60	60	60	2,377
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

The amounts disclosed above included directors' fees of RMB180,000 (2009: RMB180,000) payable to independent non-executive directors. No other emoluments were paid to the independent non-executive directors during the year.

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

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

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13. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals included three (2009: three) directors of the Company for the year (details of whose emoluments are set out in note 12 above), the emoluments of the remaining two (2009: two) highest paid individuals for the year were as follows:

	2010 **RMB'000**	2009 RMB'000
Salaries and other benefits	**1,704**	1,588
Retirement benefits scheme contributions	**87**	38
	1,791	1,626

Their emoluments were within the following bands:

	2010 **No. of employees**	2009 No. of employees
HK$ nil to HK$1,000,000	**2**	2

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

14. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Dividends recognised as distribution during the year:		
2009 final paid — RMB0.18 (2009: 2008 final paid RMB0.15) per share	**225,131**	183,052

Subsequent to the end of the reporting period, the final dividend of RMB0.20 per share with the total amount of RMB256,255,000 in respect of the year ended 31 December 2010 (2009: final dividend of RMB0.18 per share with the total amount of RMB225,131,000 in respect of the year ended 31 December 2009) to shareholders whose names appear on the register of members on the date of the 2010 annual general meeting has been proposed by the directors and is subject to approval by the shareholders in general meeting.

15. EARNINGS PER SHARE

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

	2010 RMB'000	2009 RMB'000
Profit for the year attributable to owners of the Company	**529,837**	437,764

	2010 '000	2009 '000
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	**1,268,607**	1,229,110

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

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16. 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 2009	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
Additions	–	218,870	93,781	38,505	4,559	55,551	411,266
Acquired on acquisition of a subsidiary (Note 34)	–	59,356	16,235	1,638	254	–	77,483
Transfer	–	4,085	–	–	–	(4,085)	–
Disposals/write-off	–	(3,921)	(11,847)	(28,063)	(2,564)	–	(46,395)
At 31 December 2010	1,362,947	1,102,981	582,911	173,802	31,529	51,466	3,305,636
ACCUMULATED DEPRECIATION							
At 1 January 2009	98,448	162,802	151,004	43,814	3,137	–	459,205
Depreciation expense	41,251	65,820	51,661	20,158	2,658	–	181,548
Eliminated on disposals of assets	–	–	(4,777)	(7,486)	(2,746)	–	(15,009)
At 31 December 2009	139,699	228,622	197,888	56,486	3,049	–	625,744
Depreciation expense	44,529	122,291	56,037	30,007	4,064	–	256,928
Eliminated on disposals/ write-off of assets	–	(1,869)	(9,332)	(23,655)	(1,736)	–	(36,592)
At 31 December 2010	184,228	349,044	244,593	62,838	5,377	–	846,080
CARRYING AMOUNTS							
At 31 December 2010	1,178,719	753,937	338,318	110,964	26,152	51,466	2,459,556
At 31 December 2009	1,223,248	595,969	286,854	105,236	26,231	–	2,237,538

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Leasehold land and buildings	Over the shorter of the term of the lease or 25–40 years
Leasehold improvements	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 in respect of assets held under finance lease. In 2010, as the finance lease contract had expired and the ownership of the equipment has been transferred to the Group, there are no assets held under finance lease as at 31 December 2010.

At 31 December 2010, 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 RMB8,096,000(2009: RMB8,298,000) whereby the Group is still in the progress of obtaining the Housing Ownership Certificate.

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17. PREPAID LEASE PAYMENTS

	2010 RMB'000	2009 RMB'000
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in the PRC	**30,187**	31,179
Prepaid lease rentals	**93,445**	109,297
	123,632	140,476
Analysed for reporting purposes as:		
Current assets	**58,419**	63,933
Non-current assets	**65,213**	76,543
	123,632	140,476

Prepaid lease rentals represent the prepayment of operating lease rentals for stores situated in the PRC for unexpired lease periods between 1 and 14 years.

18. GOODWILL

	2010 RMB'000	2009 RMB'000
COST		
At 1 January	**844,964**	843,708
Arising on acquisition of subsidiaries	**—**	1,256
At 31 December	**844,964**	844,964
CARRYING AMOUNTS		
At 31 December	**844,964**	844,964

18. GOODWILL (Continued)

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

	2010 RMB'000	2009 RMB'000
Hangzhou Tiantian Wumart Commerce Company, Ltd.		
— Superstores	**350,386**	350,386
Beijing Merrymart Chain Stores Development Company, Ltd.		
— Superstores	**260,148**	260,148
Beijing Huixin Hypermarket — Superstores	**143,560**	143,560
Zhejiang Gongxiao Supermarket Company, Ltd.		
— Superstores and Minimarts	**88,611**	88,611
Huzhou Laodafang Supermarket Company, Ltd.		
— Superstores and Minimarts	**1,256**	1,256
Beijing Wumart Bolante Convenience Stores Company, Ltd.		
— Minimarts	**698**	698
Beijing Wumart Convenience Stores Company, Ltd.		
— Minimarts	**255**	255
Beijing Mencheng Wumart Shangcheng Company, Ltd.		
— Superstores	**50**	50
	844,964	844,964

During the year, the directors of the Group determine that there are no impairments of any of its CGUs containing goodwill. The recoverable amounts of the CGUs are determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate and growth rate. The Group prepared cash flow forecasts derived from the one year financial budgets and extrapolates cash flows for the following nine years based on an estimated growth rate of 5% to 10% and a discount rate of 10.06% (2009: 7.87%). 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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19. INTANGIBLE ASSETS

	Land use right RMB'000	Operating lease contracts RMB'000	Total RMB'000
COST			
At 1 January 2009 and 31 December 2009	90,727	15,476	106,203
Acquired on acquisition of a subsidiary (Note 34)	—	12,314	12,314
At 31 December 2010	90,727	27,790	118,517
ACCUMULATED AMORTISATION			
At 1 January 2009	3,935	1,838	5,773
Amortisation expense	2,636	2,885	5,521
At 31 December 2009	6,571	4,723	11,294
Amortisation expense	2,705	807	3,512
At 31 December 2010	9,276	5,530	14,806
CARRYING AMOUNTS			
At 31 December 2010	81,451	22,260	103,711
At 31 December 2009	84,156	10,753	94,909

All above intangible assets were acquired on acquisition of subsidiaries.

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

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

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

20. INTERESTS IN ASSOCIATES

	2010 RMB'000	2009 RMB'000
Cost of investments in associates unlisted	**103,189**	103,389
Share of post-acquisition profits, net of dividends received	**41,079**	36,164
	144,268	139,553

As at 31 December 2010, 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
					2010	2009	
Beijing Chao Shifa Company Limited(i)	Incorporated	PRC	Beijing, PRC	Ordinary	**25.03%**	25.03%	Operation of superstores
Beijing Chongwenmen Vegetable Market Supermarket Company Limited	Incorporated	PRC	Beijing, PRC	Ordinary	**49%**	49%	Operation of superstores and mini-marts
Beijing Meiyijia Marketing Limited	Incorporated	PRC	Beijing, PRC	Ordinary	**25%**	25%	Operation of design, production agency and distribution of advertisements in the PRC
Anji mini-mart Limited(ii)	Incorporated	PRC	Zhejiang, PRC	Ordinary	**–**	20%	Operation of mini-mart

(i) Included in the cost of investment in associates at 31 December 2010 was goodwill of RMB57,525,000 (2009: RMB57,525,000). The carrying amount of the goodwill represents goodwill arising from acquisition of Beijing Chao Shifa Company Limited ("Chao Shifa").

(ii) Anji mini-mart Limited was liquidated in 2010 and the Group recovered the cost of investment of RMB200,000 with no any gain or losses incurred.

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20. INTERESTS IN ASSOCIATES (Continued)

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

	2010 RMB'000	2009 RMB'000
Total assets	**1,283,667**	1,074,087
Total liabilities	**(1,015,185)**	(820,180)
Net assets	**268,482**	253,907
Group's share of net assets of associates	**86,743**	82,028
Revenue	**2,465,867**	2,373,246
Profit for the year	**14,594**	11,619
Group's share of profit of associates for the year	**7,061**	5,072

21. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	2010 RMB'000	2009 RMB'000
Cost of unlisted investment in a jointly controlled entity	**100,000**	100,000
Share of post-acquisition losses	**(50)**	(1,791)
	99,950	98,209

21. INTERESTS IN A JOINTLY CONTROLLED ENTITY (Continued)

As at 31 December 2010, 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)	**2010**	2009	**2010**	2009	
Beijing Aoshikai Wumart Company Ltd.	Incorporated	PRC	200,000	**50%**	50%	**50%**	50%	Operation of superstores

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

	2010 RMB'000	2009 RMB'000
Current assets	**46,282**	23,891
Non-current assets	**98,100**	100,734
Current liabilities	**(44,432)**	(26,416)
Net assets of a jointly controlled entity attributable to the Group's interest therein	**99,950**	98,209
Income recognised in profit or loss	**136,126**	118,790
Expenses recognised in profit or loss	**132,792**	118,180
Group's share of profit of a jointly controlled entity for the year	**3,334**	610

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22. INVENTORIES

	2010 RMB'000	2009 RMB'000
Merchandise for resale	**1,203,953**	832,791
Consumables	**7,514**	6,012
	1,211,467	838,803

23. LOAN RECEIVABLES

	2010 RMB'000	2009 RMB'000
Fixed-rate loan receivables	**–**	120,000

The loan receivables at 31 December 2009 were unsecured, due within one year and carried fixed interest rate of 4% per annum. The loan receivables were settled in full in January 2010.

24. TRADE AND OTHER RECEIVABLES

	2010 RMB'000	2009 RMB'000
Trade receivables	**77,737**	54,269
Prepayments to suppliers	**212,158**	80,266
Deductible input value added tax	**327,805**	238,380
Deposits and other receivables	**215,093**	213,571
	832,793	586,486

Trade receivables represent receivables from supply of merchandise to franchised stores and retail sales customers. The average credit period is 30 to 60 days for receivables from supply of merchandise to franchised stores. Before accepting any new franchised store, the Group will assess the potential credit quality and define credit limits by store. Credit limits attributed to franchised stores are reviewed twice in every 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.

24. TRADE AND OTHER RECEIVABLES (Continued)

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

	2010 RMB'000	2009 RMB'000
0–30 days	**33,350**	22,179
31–60 days	**44,387**	32,090
	77,737	54,269

25. AMOUNTS DUE FROM/TO RELATED PARTIES

	2010 RMB'000	2009 RMB'000
Amounts due from associates (note a)	**74,428**	28,628
Amounts due from a jointly controlled entity (note a)	**67,660**	31,297
Amounts due from subsidiaries of a Company's shareholder which has significant influence over the Company ("Company's Controlling Shareholder") (note a)	**61,375**	35,597
	203,463	95,522
Amount due to associates (note b)	**17,748**	17,637
Prepayments from subsidiaries of the Company's Controlling Shareholder	**55,572**	50,264
	73,320	67,901

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25. AMOUNTS DUE FROM/TO RELATED PARTIES (Continued)

Note:

(a) The amounts due from associates, 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:

	2010 RMB'000	2009 RMB'000
0–30 days	**92,707**	48,338
31–60 days	**60,875**	24,859
61–90 days	**36,266**	22,325
91–180 days	**13,615**	—
	203,463	95,522

Included in those trade in nature balances is an amount of RMB49,881,000 (2009:RMB22,325,000) 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 are trade in nature, unsecured and non-interest bearing. The average aging is 60 days.

26. HELD-FOR-TRADING INVESTMENTS

	2010 RMB'000	2009 RMB'000
Investment funds quoted in the PRC	**10,105**	—

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

27. 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 2.25% (2009: 0.36% to 1.17%) per annum.

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

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

	2010 **RMB'000**	2009 RMB'000
Hong Kong Dollar ("HK$")	**284,291**	–
United States dollar ("US$")	**3,058**	–

Restricted bank balances

The restricted bank balances represent deposits pledged for bill payables. As at 31 December 2010, restricted bank balances of RMB16,000,000 (2009: nil) carry interest at prevailing market rates at 0.36% per annum.

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28. TRADE AND OTHER PAYABLES

	2010 RMB'000	2009 RMB'000
Bill payables	**16,000**	—
Trade payables	**2,485,814**	2,101,898
Advances from customers	**767,303**	640,843
Other payables, deposits and accruals	**724,684**	612,539
	3,993,801	3,355,280

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

	2010 RMB'000	2009 RMB'000
0–30 days	**1,592,620**	1,457,198
31–60 days	**409,861**	279,592
61–90 days	**326,245**	239,305
Over 90 days	**157,088**	125,803
	2,485,814	2,101,898

The average credit period on purchase of merchandises is 60 days (2009: 60 days).

29. BANK LOANS

	2010 RMB'000	2009 RMB'000
Secured	**1,500**	17,700
Unsecured	**200,000**	438,386
	201,500	456,086

The loans are repayable within one year and carry interests at fixed rates ranging from 5.56% to 6.13% (2009: 4% to 6.37%) per annum.

As at 31 December 2010, included in the secured bank loans are the loans of RMB1,500,000 (2009: RMB17,700,000) which are secured by the pledge of Group's leasehold land and buildings with a carrying amount of RMB5,549,000(2009: RMB27,446,000). Included in the unsecured bank loan is a loan of RMB200,000,000 (2009: RMB200,000,000) which is guaranteed by the Company's Controlling Shareholder.

30. SHARE CAPITAL

	Number of Domestic Shares '000	Number of H Shares '000	Number of Total Shares '000	Value RMB'000
Authorised, issued and fully paid:				
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
New issue of H shares (note c)	—	30,000	30,000	7,500
At 31 December 2010	744,706	536,568	1,281,274	320,319

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30. SHARE CAPITAL (Continued)

Note:

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

(b) On 12 August 2009, the Company, TPG Asia V L.P ("TPG"), Fit Sports Limited ("FS"), Legend Holdings Limited ("Legend Holdings") and its related party Hony Capital RMB I, L.P. ("Hony Capital") entered into the Investment Agreement. Under the Investment Agreement, the Company, Legend Holdings and Hony Capital entered into a Domestic Shares Subscription Agreement pursuant to which the Company has conditionally agreed to allot and issue to Legend Holdings and Hony Capital, and Legend Holdings and Hony Capital have conditionally agreed to subscribe for 50,000,000 Domestic Subscription Shares 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 Holdings and Hony Capital shall have the right to require the Company to hold 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) there is 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 meeting. Detailed information was set out in the Company's announcement on 12 August 2009.

Since the obligation of the Company to repurchase the Domestic Subscription Shares is subject to the approval of shareholders meetings, 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 Holdings, 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 approximately 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 because of the approval from the China Securities Regulatory Commission, one of the conditions precedent for completion, is still in the process at 31 December 2009.

Due to the continuous improvements in the Company's financing channels in 2010, the Company, TPG, FS, Legend Holdings and Hony Capital (together as "the Contracting Parties") unanimously agreed to cancel the Investment Agreement and entered into a deed of cancellation (the "Deed of Cancellation") on 7 May 2010.

Under the Deed of Cancellation, the Contracting Parties agree to cancel the Investment Agreement and mutually release and discharge each other from all obligations, duties, responsibilities, claims and liabilities owed to any other party (if any) arising out of or in connection with the Investment Agreement and from the performance by the parties of any further obligations towards each other (if any) under the Investment Agreement.

The Board of Directors of the Company have confirmed that the Domestic Subscription Shares (of 30,926,116 shares in total) issued as aforesaid are all the domestic shares that would be issued by the Company under the Domestic Subscription Agreement and the remaining 19,073,884 Domestic Subscription Shares will not be issued.

30. SHARE CAPITAL (Continued)

Note: (Continued)

(c) On 12 August 2009, under the Investment Agreement which is described in note (b), the Company, TPG and FS entered into the H Shares Subscription Agreement pursuant to which the Company has conditionally agreed to allot and issue to TPG and FS, and TPG and FS have conditionally agreed to subscribe for an aggregate of 100,000,000 H Subscription Shares at HK$11.00 per H Subscription Share ("H Shares Subscription"). Detailed information was set out in the Company's announcement on 12 August 2009. The approval from the China Securities Regulatory Commission, one of the conditions precedent for completion was obtained on 6 April 2010.

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

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

31. 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 2009	4,582	25,334	2,039	903	(2,408)	(23,989)	6,461
Acquired on acquisition of subsidiaries	–	–	–	–	–	(4,683)	(4,683)
Credited to profit or loss	–	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
Acquired on acquisition of subsidiaries	–	–	–	–	–	(3,079)	(3,079)
Credited to profit or loss	–	12,005	8,285	523	(182)	1,196	21,827
At 31 December 2010	4,582	49,852	22,322	976	(2,723)	(29,003)	46,006

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31. DEFERRED TAXATION (Continued)

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

	2010 RMB'000	2009 RMB'000
Deferred tax assets	**65,194**	43,655
Deferred tax liabilities	**(19,188)**	(16,397)
	46,006	27,258

At 31 December 2010, the Group had unused tax losses of RMB203,265,000 (2009: RMB68,413,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB89,288,000 (2009: RMB56,148,000) of such losses. No deferred tax asset has been recognised in respect of such losses of RMB113,977,000 (2009: RMB12,265,000) due to unpredictability of future profit stream, which will expire from the year of 2011 to 2015.

32. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2009.

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

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

33. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2010 RMB'000	2009 RMB'000
Financial assets		
Fair value through profit or loss		
Held-for-trading investments	**10,105**	–
Loans and receivables (including cash and cash equivalents)		
Loan receivables	**–**	120,000
Trade receivables	**77,737**	54,269
Deposits and other receivables	**121,583**	213,571
Amounts due from related parties	**203,463**	95,522
Restricted bank balances	**16,000**	–
Bank balances and cash	**1,133,607**	1,171,575
	1,562,495	1,654,937
Financial liabilities		
Amortised costs		
Bill payables	**16,000**	–
Trade payables	**2,485,814**	2,101,898
Accruals and other payables	**576,891**	485,733
Amounts due to related parties	**17,748**	17,637
Bank loans	**201,500**	456,086
Obligation under finance leases	**–**	508
	3,297,953	3,061,862

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33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies

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

Market risk

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

Interest rate risk management

The Group's fair value interest rate risk relates primarily to loan receivables and bank loans (see notes 23 and 29 respectively for details) and the Group's cash flow interest rate risk relates primarily to floating rate bank balances (see note 27 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.

33. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

Foreign currency risk management

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

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

	Assets	
	2010	2009
	RMB'000	RMB'000
Hong Kong dollars ("HK dollar")	**284,291**	–
United States dollars ("US dollar")	**3,058**	–

Sensitivity analysis

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

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

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33. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

Foreign currency risk management (Continued)

Sensitivity analysis (Continued)

	HK dollar		US dollar	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Profit or loss	**14,215**	–	**153**	–

Credit risk management

As at 31 December 2010, 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 management

At 31 December 2010, the Group had net current liabilities amounting to RMB968,138,000 (2009: RMB1,138,194,000), respectively with short-term bank loans of RMB201,500,000 (2009: RMB456,086,000) 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.

33. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk management (Continued)

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 2010, the Group have cash generated from operating activities of approximately RMB681,600,000 (2009: RMB1,105,246,000). 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

33. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk management (Continued)

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

	Weighted average effective interest rate %	on demand or Less than 1 month RMB'000	1–3 months RMB'000	3 months to 1 year RMB'000	1–5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at year end RMB'000
At 31 December 2010							
Non-derivative financial liabilities							
Trade and other payables		1,005,569	1,573,130	500,006	–	3,078,705	3,078,705
Amount due to related parties		17,748	–	–	–	17,748	17,748
Bank loans							
– fixed rate	5.56	–	1,519	209,353	–	210,872	201,500
		1,023,317	1,574,649	709,359	–	3,307,325	3,297,953
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

33. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value of financial instruments

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

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

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

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

Fair value measurements recognised in the statement of financial position

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

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

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

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

	31/12/2010 Level 1 RMB'000	31/12/2009 Level 1 RMB'000
Financial assets at FVTPL		
— Held-for-trading investments	**10,105**	—

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34. ACQUISITION OF SUBSIDIARIES

Acquisition in 2010

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

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

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

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

34. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition in 2010 (Continued)

(b) Net cash outflow on acquisition

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

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

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

Acquisition in 2009

At 31 December 2009, Zhejiang Gongxiao Supermarket Company Limited ("Zhejiang Gongxiao"), a subsidiary of the Group, 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.

Notes to the Consolidated Financial Statements

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34. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition in 2009 (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	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 payable	(22,592)	—	(22,592)
Tax liability	(1,871)	—	(1,871)
Deferred tax liability	—	(4,683)	(4,683)
	5,991	14,047	20,038
Non-controlling 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)

34. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition in 2009 (Continued)

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

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.

35. 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:

	2010 **RMB'000**	2009 RMB'000
Within one year	**579,402**	419,179
In the second to fifth year inclusive	**2,402,014**	1,630,926
Over five years	**6,590,909**	4,977,403
	9,572,325	7,027,508

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

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35. OPERATING LEASES (Continued)

The Group as lessor

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

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

	2010 **RMB'000**	2009 RMB'000
Within one year	**289,276**	265,815

36. CAPITAL COMMITMENTS

	2010 **RMB'000**	2009 RMB'000
Capital expenditure In respect of property, plant and equipment contracted for but not provided in the consolidated financial statements	**113,060**	–
Capital expenditure In respect of property, plant and equipment authorised but not contracted for	**145,053**	134,165

37. LITIGATION

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

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

On 20 December 2007, Beijing Municipal High-Level People's Court announced the judgment of first trial in respect of the Claim that the Trust Agreement and the Acquisition Agreement are valid and that Chao Shifa Shareholder should bear all costs relating to the Claim. Chao Shifa Shareholder disputed the judgment and 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.

On 26 November 2010, The Supreme People's Court of the P.R.C announced the judgment of final 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.

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38. RELATED PARTY TRANSACTIONS

(a) Apart from the amounts due from and to related companies as disclosed in note 25, during the year, the Group had the following related party transactions:

	2010 RMB'000	2009 RMB'000
Sales of goods to associates	**99,305**	144,872
Sales of goods to a jointly controlled entity	**197,365**	173,902
Sales of goods to subsidiaries of the Company's Controlling Shareholder	**151,041**	110,497
Purchase of goods from associates	**96,632**	97,970
Service fee income received from subsidiaries of the Company's Controlling Shareholder in respect of merchandise delivery services	**4,531**	3,315
Service fee income received from associates and a jointly controlled entity in respect of merchandise delivery services	**5,096**	4,782
Management fee income received from subsidiaries of the Company's Controlling Shareholder	**128**	631
Management fee income received from an associate	**—**	342
Rental expense paid to a subsidiary of the Company's Controlling Shareholder	**3,655**	3,659

As at 31 December 2010, the Company's Controlling Shareholder provided a guarantee free of charge for an unsecured bank loan of RMB200,000,000 (2009: RMB200,000,000) borrowed by the Group.

(b) Compensation of key management personnel

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

	2010 RMB'000	2009 RMB'000
Short-term benefits	**6,509**	6,191
Post-employment benefits	**350**	352
	6,859	6,543

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

39. SUBSIDIARIES

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

Name of subsidiary	Place/Country of incorporation or registration/ operations	Class of share held	Paid up issued/ registered ordinary share capital	Proportion ownership interest and Proportion of voting power held by the Company				Principal activities
				Directly		Indirectly		
				2010 %	2009 %	2010 %	2009 %	
Beijing Wumart Bolante Convenience. Stores Company Limited	Beijing, PRC	Ordinary	10,000,000	80	80	–	–	Operation of mini-marts
Beijing Wumart Stores Company Limited	Beijing, PRC	Ordinary	10,000,000	80	80	16	16	Operation of superstores
Beijing Mencheng Wumart Shangcheng Company Limited	Beijing, PRC	Ordinary	1,000,000	70	70	–	–	Operation of superstore
Beijing Wumart Tongfu Commerce Company Limited	Beijing, PRC	Ordinary	1,000,000	55	55	–	–	Operation of superstore
Beijing Wumart Tianxiang Convenience Stores Company Limited	Beijing, PRC	Ordinary	1,000,000	60	60	–	–	Operation of mini-marts
Beijing Tongtang Wumart Convenience Stores Company Limited	Beijing, PRC	Ordinary	1,000,000	100	100	–	–	Operation of mini-marts
Beijing Wumart Jingxi Convenience Stores Company Limited	Beijing, PRC	Ordinary	1,000,000	75	75	–	–	Operation of mini-marts
Beijing Wumart Gulou Commerce and Trading Company Limited	Beijing, PRC	Ordinary	10,000,000	65	65	–	–	Operation of superstores
Beijing Wumart Convenience Stores Company Limited	Beijing, PRC	Ordinary	50,000,000	80	80	–	–	Operation of mini-marts
Beijing Jiahe Wumart Commerce Company Limited	Beijing, PRC	Ordinary	10,000,000	80	80	14.4	14.4	Operation of superstores
Tianjin Wumart WeiLai Commercial Development Company Limited	Tianjin, PRC	Ordinary	100,000,000	99.80	99.80	0.19	0.19	Operation of superstores
Chia Tai Trading (Tianjin) Company Limited	Cayman Islands	Ordinary	13.25	100	–	–	–	Operation of superstores
Tianjin Lotus Supermarket Chain Co., Limited	Tianjin, PRC	Ordinary	97,639,384	–	–	100	–	Operation of superstores
Baoding Wumart Stores Company Limited	Beijing, PRC	Ordinary	1,000,000	80	80	19.2	19.2	Operation of superstores
Beijing Wumart Hypermarket Commercial	Beijing, PRC	Ordinary	10,000,000	95	95	4.8	4.8	Operation of superstores
Beijing Wumart Jingbei Dashijie Commercial and Trading Company Limited	Beijing, PRC	Ordinary	20,000,000	95	95	4.8	4.8	Operation of superstores
Beijing Wumart Distribution Technology Company Limited	Beijing, PRC	Ordinary	8,000,000	80	80	20	20	Operation of superstores
Beijing Wumart Home Appliance Company Limited	Beijing, PRC	Ordinary	20,000,000	100	100	–	–	Operation of home appliance wholesales
Beijing Merrymart Chain stores Development Company Limited	Beijing, PRC	Ordinary	52,480,000	100	100	–	–	Operation of superstores
Hangzhou Tiantian Wumart Commerce Company Limited	Zhejiang, PRC	Ordinary	50,000,000	100	100	–	–	Operation of superstores
Zhejiang Gongxiao Supermarket Company Limited	Zhejiang, PRC	Ordinary	21,000,000	–	–	54.09	54.09	Operation of mini-marts
Huzhou Laodafang Supermarket Company Limited (note i)	Zhejiang, PRC	Ordinary	5,000,000	–	–	27.59	27.59	Operation of mini-marts
Wumart Jialian(Hangzhou)Commerce Company Limited	Zhejiang, PRC	Ordinary	68,269,000	–	–	100	100	Operation of superstores
Wumart Jiacheng(Hangzhou)Commerce Company Limited	Zhejiang, PRC	Ordinary	68,272,000	–	–	100	100	Operation of superstores

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

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40. FINANCIAL INFORMATION OF THE COMPANY AT THE END OF THE REPORTING PERIOD INCLUDES:

	2010 **RMB'000**	2009 RMB'000
Non-current Assets		
Property, plant and equipment	**313,340**	269,986
Investments in subsidiaries	**2,215,382**	2,104,840
Interests in associates	**103,189**	103,389
Interests in a jointly controlled entity	**100,000**	100,000
Deferred tax assets	**5,955**	4,818
	2,737,866	2,583,033
Current Assets		
Inventories	**236,798**	117,605
Loan receivables	**—**	120,000
Trade and other receivables	**241,324**	140,960
Amounts due from related parties	**84,269**	78,715
Amounts due from subsidiaries	**1,698,322**	1,224,028
Prepaid lease payments	**4,472**	5,191
Held-for-trading investments	**10,105**	—
Restricted bank balances	**16,000**	—
Bank balances and cash	**295,470**	257,364
	2,586,760	1,943,863
Current Liabilities		
Trade and other payables	**862,237**	576,873
Amounts due to related parties	**17,065**	15,693
Amounts due to subsidiaries	**1,626,387**	1,540,010
Tax liabilities	**70,857**	64,761
Bank loans	**200,000**	200,000
Obligations under finance leases	**—**	508
	2,776,546	2,397,845
Net Current Liabilities	**(189,786)**	(453,982)
Total assets less Current Liabilities	**2,548,080**	2,129,051
Capital and Reserves		
Share capital	**320,319**	312,819
Share premium and reserves	**2,227,761**	1,816,232
Total equity	**2,548,080**	2,129,051

Financial Summary

	For the year ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Revenue from sales of goods	**12,571,524**	10,511,410	8,759,263	7,118,755	5,159,666
Cost of sales	**(11,446,293)**	(9,580,791)	(7,987,333)	(6,580,967)	(4,812,302)
Gross profit	**1,125,231**	930,619	771,930	537,788	347,364
Other revenues	**1,675,357**	1,270,599	990,527	747,050	533,683
Investment and other income	**143,568**	94,306	253,061	121,901	107,113
Distribution and selling expenses	**(1,839,130)**	(1,369,093)	(1,003,014)	(754,420)	(473,118)
Administrative expenses	**(314,470)**	(252,078)	(272,873)	(219,065)	(185,836)
Other expenses	**(9,175)**	—	—	—	—
Share of profit of associates	**7,061**	5,072	27,731	43,332	7,148
Share of profit (loss) of a jointly controlled entity	**3,334**	610	25	(2,426)	—
Finance costs	**(14,527)**	(32,473)	(20,406)	(16,589)	(5,654)
Profit before tax	**777,249**	647,562	746,981	457,571	330,700
Income tax expense	**(217,712)**	(156,202)	(190,013)	(131,992)	(104,748)
Profit for the year	**559,537**	491,360	556,968	325,579	225,952
Attributable to:					
Owners of the Company	**529,837**	437,764	490,343	300,078	212,308
Non-controlling interests	**29,700**	53,596	66,625	25,501	13,644
	559,537	491,360	556,968	325,579	225,952
Earnings per share — Basic (RMB yuan per share)	**0.42**	0.36	0.40	0.25	0.18

Financial Summary (Continued)

	As at 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	**7,448,710**	6,411,690	6,366,034	4,697,768	4,491,057
Total liabilities	**(4,453,180)**	(4,030,910)	(3,729,204)	(2,467,209)	(2,502,146)
	2,995,530	2,380,780	2,636,830	2,230,559	1,988,911
Equity attributable to Owners of the Company	**2,857,211**	2,262,163	2,442,214	2,110,205	1,895,551
Non-controlling interests	**138,319**	118,617	194,616	120,354	93,360
	2,995,530	2,380,780	2,636,830	2,230,559	1,988,911