Annual Report 2007 年報

WIN SHARE

四川新華文軒連鎖股份有限公司

SICHUAN XINHUA WINSHARE CHAINSTORE CO.,LTD.*

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

(於中華人民共和國註冊成立之股份有限責任公司)

(Stock Code 股份代號：00811)

*For identification purposes only
僅供識別

Contents

Corporate Information

Legal name of the Company

四川新華文軒連鎖股份有限公司

Company name in English

SICHUAN XINHUA WINSHARE CHAINSTORE CO., LTD.

Legal Representative

Mr. Gong Cimin

Board of Directors

EXECUTIVE DIRECTORS

Mr. Gong Cimin *(chairman)*
Mr. Dai Chuanping *(vice chairman)*
Mr. Yang Miao
Mr. Zhang Yexin

NON-EXECUTIVE DIRECTORS

Ms. Wang Jianping
Mr. She Jingping
Mr. Li Jiawei
Mr. Wu Qiang
Mr. Mo Shixing
Mr. Zhao Junhuai

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Han Xiaoming
Mr. Cheng Sanguo
Mr. Chan Yuk Tong

Board Committees

STRATEGY PLANNING COMMITTEE

Mr. Cheng Sanguo *(chairman)*
Mr. Gong Cimin
Mr. Zhang Yexin
Mr. Zhao Junhuai

AUDIT COMMITTEE

Mr. Chan Yuk Tong *(chairman)*
Mr. Han Xiaoming
Ms. Wang Jianping

REMUNERATION AND REVIEW COMMITTEE

Mr. Han Xiaoming *(chairman)*
Mr. Chan Yuk Tong
Mr. Zhang Yexin

Supervisory Committee

SUPERVISORS

Mr. Luo Jun *(chairman)*
Mr. Li Yunyi
Mr. Wang Feng
Mr. Peng Xianyi
Ms. Lan Hong
Ms. Liu Nan
Mr. Li Qiang

INDEPENDENT SUPERVISORS

Mr. Fu Daiguo
Mr. Li Guangwei

Joint Company Secretaries

Mr. You Zugang
Mr. Ngai Wai Fung

Qualified Accountant

Mr. Mak Ming Fai

Authorised Representatives

Mr. Zhang Yexin
Mr. You Zugang

Corporate Information (Continued)

Alternate Authorised Representative

Mr. Ngai Wai Fung

International Auditor

Ernst & Young
18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

PRC Auditor

ShineWing Certified Public Accountants
9th Floor, Block A
Fu Hua Mansion
No.8 Chao Yang Men Bei Da Jie
Dong Cheng District
Beijing
China

Compliance Adviser

WAG Worldsec Corporate Finance Limited
6th Floor, New Henry House
10 Ice House Street
Central
Hong Kong

Hong Kong Legal Advisers

Mallesons Stephen Jaques
37th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

Registered Office in the PRC

12th Floor, No. 86 Section One
People's South Road, Qingyang District
Chengdu, Sichuan
China

Principal Place of Business in Hong Kong

8th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong

Principal Bankers

The Industrial and Commercial Bank of China
China Construction Bank

Hong Kong H Share Registrar

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

Company Website

http://www.winshare.com.cn

Stock Code

811

Chairman's Statement

Gong Cimin
Chairman and
Executive Director

Dear shareholders,

I am pleased to present to the shareholders the annual report of the Sichuan Xinhua Winshare Chainstore Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007 on behalf of the board of directors (the "Board") of Company. The Company became listed on the main board (H shares) of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 May 2007.

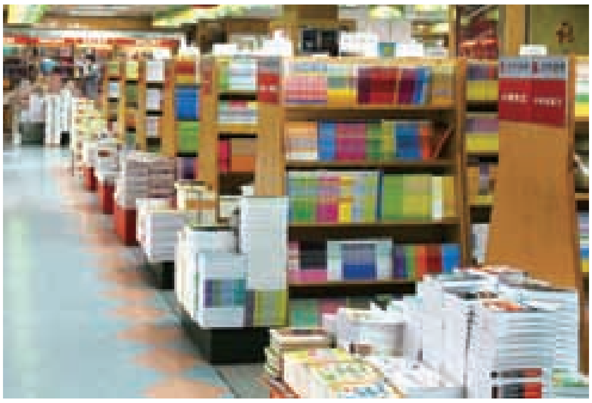
As the first large-scale joint stock distributing enterprise from the PRC to be listed on the main board of the Stock Exchange, we undertake the responsibility to intensify the pilot work for the reform of the cultural system of the nation, as well as to sustain long-term and stable growth of the Company's results and to protect shareholders' utmost interests as a whole, thereby achieving sustainable development of the enterprise.

In 2007, the Group recorded a turnover of RMB2,309 million, representing an increase of 4.1% over 2006; net profits of RMB387 million, representing an increase of 28.0% over 2006, and basic earnings per share of RMB0.40. Profits attributable to equity holders of the Company amounted to RMB389 million, representing an increase of 28.4% over 2006.

Over the past year, the Company successfully coped with the sudden changes in the policy framework governing the supplementary material distribution market, secured our position in a sector transforming from a government planning oriented to a market-driven model and recorded recovery for our business in supplementary material distribution. In addition, to capture nascent market opportunities as an intermediary service platform between publishers on one hand and book retailers and wholesalers on the other, we have set up our Zhongpan operation as a core addition to our third line of business.

At the same time, we endeavored to control cost expenditure and strengthen the training of employees, in order to enhance operation efficiency and profitability.

In 2008, with the accelerated pace of cross-regional development and integration of the industry among provinces, competition in the industry is increasingly fierce and we faced more new challenges. While building and strengthening the operational capability of our core network and expanding the scale of our Zhongpan operation of publications distribution, in future the Company will fully leverage upon its advanced system, innovative mechanism, brand reputation, sound network, professional operation and advantage of its newly-formed business chain to develop a complete chain of publishing and



distribution, continue to seek cooperation and expansion into industries that are closely related to the enterprise's core business, explore and realise cross-regional integration of resources and capital, and further enhance our core competitiveness in the market and ability of sustainable development.

We believe that it is the reform and development opportunities of China's economy and its cultural industry, as well as the development prospects of the publications market, that made us forge ahead of the market, grasp valuable development opportunities, and take advantage of our early reform to further expand. With the continuous effort of our management team and staff as well as the support of shareholders and investors, the Company will further develop and expand with a view to integrating and leading the cultural industry in China, thereby bringing good investment returns to all shareholders of the Company.

I would like to take this opportunity to thank all the shareholders and stakeholders for the trust and support that they have shown to us.

Gong Cimin
Chairman

18 April 2008

Management Discussion and Analysis

Industry Overview

In 2007, the PRC experienced a steady growth in its book distribution market, which demonstrated various characteristics in different segments. In respect of the market of obligatory education textbooks, the policy of providing government-subsidised textbooks continued, whereas the effect of the government's pilot scheme of textbook distribution right tendering which commenced in 2001 on the prices of textbooks is stabilised. In respect of textbooks for use in tertiary and vocational education, the growth of student population resulting from the expanded student recruitment by tertiary institutions and vocational schools swelled the capacity of the market, where wholly or partially state-owned distribution enterprises performed in a more competitive manner than private enterprises. Similarly, in respect of segment of book distribution to libraries, wholly or partially state-owned enterprises also showed their competitive strengths over private ones. In respect of supplementary educational books, the mode of distribution was gradually changing from planning-oriented to market-driven. In respect of audio-visual publications, under the development of digital technology including network transmission, as well as new media, the sales of audio-visual products had shown a downward trend.

In 2007, the government's stepped-up efforts in favour of industry integration in the PRC was seen from those transactions integrating businesses in the publishing and distribution industry. Acquisition and restructuring activities in the industry started to see downstream businesses taking over upstream ones, for example the acquisition and restructuring of Anhui Cultural Sounds and Pictures Publisher (安徽文化音像出版社) by Anhui Xinhua Distribution Group (安徽新華發行集團), the restructuring and formation of Shenzhen Publishing and Distribution Group (深圳出版發行集團) by the former Shenzhen Distribution Group (深圳發行集團) and Haitian Publisher (海天出版社). Those were new attempts to line up resources and link up chains within the industry in order to become even bigger and stronger, and it is anticipated that further breakthroughs will be seen in the publishing and distribution industry. The landmark restructuring activity, whereby Hainan Xinhua Distribution Company Limited (海南新華發行有限責任公司) was established by Jiangsu Xinhua Distribution Group (江蘇省新華發行集團) and Hainan Xinhua Bookstore (海南省新華書店), signified a ground-breaking step in strategic cross-regional restructuring of the book distribution industry.

The Group believes that in 2008, the reform in the publishing and distribution industry will make its way forward step by step. On policy front, the government will continue to encourage more competent publishing and distribution enterprises to conduct cross-regional acquisition and restructuring activities to grow stronger, whereby some large-scale media groups with correct direction, in sound standing, with great competitiveness and large market share will be formed, becoming market leaders and strategic investors for the development of the industry. This will undoubtedly create greater opportunities for the development of the Group.

Business Review

During the period, the Group underwent a smooth transition from a government-planning-oriented mode of distribution to a market-driven mode of distribution in respect of supplementary educational books and realised recovery in its sales revenue, which amounted to RMB2,309 million, representing a year-on-year increase of 4.1% over the same period of last year. Despite the unfavorable decrease in the selling price of textbooks under tendering in our Subscription segment, the Company's profit still managed a certain level of growth. The sustainable growth of our business was primarily attributable to the growth of the PRC publishing and distribution industry, the economy of scale resulted from centralised procurement, and the enhanced variety of products in ancillary support and services.

PRODUCT

The Company provides ancillary support and services to publishers of books of general interest, textbooks and supplementary materials and co-operate with them, including selection of appropriate authors and topics, printing agency service and delivery of cooperative products to customers. During the period under review, our capability of providing ancillary support and services continued to expand, producing 931 items of cooperative products. During the period, sales revenue of the segment amounted to RMB385 million (including intersegment revenue).

ZHONGPAN

The Company's Zhongpan segment primarily coordinates merchandise sold through different channels (including those produced from our Product segment), the related logistics as well as distribution. In 2007, our nationwide distribution network further adjusted and optimised, defining more clearly our targets and division of work. In order to optimise market coverage and also enhance the control and influence over the end market, the Company refined its distribution network according to the characteristics of market coverage during the year. Pursuant to that, 25 branches were adjusted to form 14 regional offices. Corresponding adjustments were made to the management structure and method of those regional offices to better suit the needs of regional development and to lay a good foundation for the nationwide distribution network. Construction of three logistics sub-centres in Guangyuan, Nanchong and Neijiang commenced as scheduled. In 2008, with our ongoing business development in the market of book distribution to libraries and textbooks for tertiary institutions and vocational schools across the nation, our distribution chain division will be expanded to become a Zhongpan division which will be based in Beijing. During the period, sales revenue of the segment amounted to RMB1,716 million (including intersegment revenue).

RETAILING

In 2007, adjustments and optimisations were made to our retail network in Sichuan as scheduled. Construction of book cities in second-tier cities was stepped up, adding 14,700 square metres to the total area of our book cities. Of the additional area, 7,500 square metres has already commenced operation, gradually filling up the blanks of coverage of the chained retail network in Sichuan. In addition, substantial work has been done to prepare for the horizontal integration of retail channels within the industry and it is believed that positive result will be seen in the near future. During the period, sales revenue of the segment amounted to RMB392 million (including intersegment revenue).

SUBSCRIPTION

The year 2007 saw a decrease in tender price of non-government-subsidised textbooks which affected the total sales of textbooks. Upon abolishment of the standard catalogue for supplementary materials, the mode of distribution has changed from a government-planning-oriented mode to a market-driven mode. In response to the more fierce market competition, we made rapid adjustment to our operational strategy and market competition strategy which helped to maintain our market share. Meanwhile, we strengthened our business of distributing supplementary materials in markets outside of Sichuan Province and proactively participated in the construction of a subscription network outside of Sichuan Province (including the Beijing exploration centre for our textbooks and services centres in Yunnan, Guizhou and Chongqing) and continually developed our business and gradually formed our capability of a more complete expansion. According to industry researches, under those policies, industry peers in the PRC came under enormous impact in many cases. The Group's ability to sustain growth in its results of operations under those policies fully illustrated the Group's ability to harness and compete in the Sichuan market of supplementary materials. During the period, sales revenue of the segment amounted to RMB1,865 million (including intersegment revenue).

In addition, we will leverage on the improving education funding protection mechanism of the state which will implement the full supply of government-subsidised textbooks in obligatory education in rural areas, and continue to foster the development of our business of textbooks and related materials. Since the spring term of 2008, the benchmark subsidy per annum for purchase of textbooks under the national syllabus has been increased under central funding from the state, whereas books and materials selected locally would receive additional funding from local finance authorities. In January 2008, the Company entered into a "Sichuan Province Government-subsidised Textbook Purchase Agreement for the Spring Term 2008" with the Department of Education of Sichuan Province to continue its role as the general supplier for government-subsidised textbooks in Sichuan Province and acting as agent and distributor in respect of government-subsidised textbooks in Sichuan Province in spring 2008.

CAPABILITY BUILDING

In 2007, the Group's capability in cross-regional management and strategic control took its initial shape. Further expansion and enhancement of our logistics network, and enhancement of our logistics management and services capability contributed to a reduction in logistics costs of our core businesses. The Group also further refined its information system, including application of the Office Automation system, successful launch of SAP system Phase III, implementation of Business Information Warehouse project, which served as better and more efficient support to our procurement, sale, logistics, finance and operations. The budget management, target management system, finance management, operational management mechanism and business processes had been further improved.

INVESTMENT AND COOPERATION

Since our listing in May 2007, the strategic development and use of proceeds of the Company moved forward in a steady pace and was in accordance with our commitments. In practice, it was primarily shown in the expansion of our retail network outside of Sichuan Province, the enhancement and expansion of the network of distribution of our textbook and supplementary materials, the establishment and enhancement of our nationwide Zhongpan network, the expansion of our ancillary publishing services and product cooperation, the expansion of our logistics network, and the development and upgrading of our information system. Relatively little resources were invested in integrating industry resources and the newly-established networks. It is anticipated that in the forthcoming year, more resources will be invested for integrating industry resources and the expansion and optimisation of our sales network.

In December 2007, the Company acquired 7.79% equity interest in Anhui Xinhua Distribution Group Co. Ltd. at a consideration of RMB186 million. It is expected that the acquisition will create synergy for the Company and assist both parties in acquiring additional market share in the distribution of textbooks and related materials, promote cooperation between the two parties in the areas of logistics, wholesale and retail; and enable improvement of their respective corporate management and business models through such cooperation. As at the end of December 2007, the acquisition had already completed.

On 26 September 2007, the Company entered into a Framework Cooperation Agreement with Xinhua Bookstore Headquarters pursuant to which it was proposed that the Company would acquire 45% equity interest in Xinhua Liutong from Xinhua Bookstore Headquarters. As at the date of this report, no formal agreement had been entered into between the Company and Xinhua Bookstore Headquarters in relation to the proposed acquisition, and negotiations in relation to that were still underway.

On 26 December 2007 and 2 January 2008, the Company and Chengdu City Commercial Bank entered into a Subscription agreement and a Supplemental Subscription Agreement, pursuant to which the Company agreed to conditionally acquire shares representing 2.461% of the enlarged capital of Chengdu City Commercial Bank at a subscription price of RMB3 per share, which amounted to RMB240 million in aggregate, of which RMB160 million had been paid by the Company during the year. The acquisition does not represent any dilution of focus from the principal business of the Company, and the Company will continue to develop its principal business. By entering into the acquisition, the Company and the Chengdu City Commercial Bank will become strategic partners, and the Company may benefit from good financial services. As at the date of this report, work was in progress in respect of the acquisition.

Future Prospects

As the first publication and distribution enterprise from the PRC to become listed overseas, the Group had a total asset of RMB4,935 million as at 31 December 2007. The Group believes that with the gradual stepping up of the reform of the cultural framework in the PRC, we will be in a position to fully leverage on the invaluable development opportunity for the publishing and distribution industry and surmount the difficulties created by frameworks and mechanisms and continue to take up the duties to lead the reform, development and integration of the industry, strengthen network construction in respect of the conventional market, optimise existing business operations and internal governance, supervision, control and decision making systems. Taking the distribution of publications as our principal business, network operation as our core foundation, and industry development and expansion as our aims, we will endeavour to implement our development strategy, by fully utilising our existing core competence, and further expand our business outside of Sichuan Province, with a view to steadily promoting the development and expansion of the business and step up the upstream extension of the industry chain, for a complete chain of businesses to cater to industry development, integrate industry resources and establish a cross-regional development framework. It is intended to become a strong, national, large-scale media group with great power of control within the publication and distribution industry. To meet the aforesaid development, the Company intends to implement the following key strategies:

(1) To implement the horizontal integration of retail channels within the industry, which is expected to see remarkable breakthroughs in 2008 in view of the substantial preparation work done in 2007.

(2) To seek progress in our vertical integration of industry resources in 2008.

(3) In the first quarter of 2008, we already refined our Zhongpan network and completed the construction of a nationwide Zhongpan framework. Given that, our Zhongpan business will become more efficient, and rapid growth will be sought in our new markets of textbooks for tertiary institutions and vocational schools as well as book distribution to libraries, apart from the rapid growth of existing business operations.

(4) With the nationwide network for the sales of educational books already formed in 2007, the business will see rapid growth in the future.

(5) The Company will expand into the market of periodicals in 2008 and it is anticipated that the new business will become a new growth driver of the Company.

(6) In line with the commencement of the nationwide businesses, we will further enhance our cross-regional management and strategic control capability, and consolidate and enhance our operational capability.

(7) To further plan and enhance our logistics network system and reduce our logistics costs and to provide stronger support for our business.

(8) To invest in and upgrade our information management system, enhance and optimise our existing information platform, to provide stronger support for the expansion and cross-regional development of the Company.

Financial Review

TURNOVER BY SEGMENTS

The turnover and the percentage attributable to each major business segment of the Group for 2007 and 2006 are as follows:

	2007		2006	
	RMB'000	%	RMB'000	%
Retailing (including intersegment revenue)	**394,674**	**17.1**	349,677	15.8
Distribution (including intersegment revenue)				
— textbooks	**1,159,412**	**50.2**	1,181,640	53.3
— supplementary materials	**699,294**	**30.3**	639,578	28.8
Sub-total	**1,858,706**	**80.5**	1,821,218	82.1
Others (including intersegment revenue)	**235,946**	**10.2**	101,422	4.6
Intersegment revenue eliminated	**(179,845)**	**(7.8)**	(54,692)	(2.5)
Total	**2,309,481**	**100.0**	2,217,625	100.0

For the year 2007, the Group's turnover amounted to approximately RMB2,309 million, representing an increase of approximately 4.1% from RMB2,218 million in 2006.

RETAILING

Benefiting from the Group's continuing outlet networks optimisation and the growth of books industry in the PRC, the turnover of the Group's retail segment maintained a stable growth, recording an increase of 12.9% to RMB395 million in 2007 from RMB350 million in 2006.

DISTRIBUTION

Textbook

The Group's textbook distribution business remained stable but the sales revenue of textbooks in 2007 decreased by 1.9% from that of 2006 due to the decrease in tender price of non-government-subsidised textbooks.

Supplementary Materials

Affected by the "Double Eight Regulations", the standard catalogue of supplementary materials has been abolished, and the supplementary materials market in Sichuan Province has shrinked since the autumn term of 2006. The Group recorded recovery in the spring term of 2007 after the Group strengthened its sales effort and market mechanism. In addition, the sales of supplementary materials in markets outside of Sichuan also recorded substantial growth. The sales revenue of supplementary materials in 2007 amounted to RMB699 million, representing an increase of 9.3% over 2006. It showed that the impact of the "Double Eight Regulations" on the supplementary material market was diminishing.

OTHERS

In 2007, the sales revenue of other segments amounted to RMB236 million, a 1.3 times growth over year 2006. The growth was primarily attributable to the increase in the variety of products provided by the Company in ancillary support and services, and the establishment and adjustment of the cross-regional framework of a Zhongpan network across the PRC.

Gross Profit and Gross Profit Margin

The gross profit and the gross profit margin of each segment of the Group for 2007 and 2006 are as follows:

	2007		2006	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%
Retailing (including intersegment revenue)	**132,617**	**33.6**	116,489	33.3
Distribution (including intersegment revenue)				
— textbooks	**411,616**	**35.5**	398,332	33.7
— supplementary materials	**348,171**	**49.8**	314,797	49.2
Sub-total	**759,787**	**40.9**	713,129	39.2
Others (including intersegment revenue)	**37,765**	**16.0**	20,433	20.1
Intersegment revenue eliminated	**(4,208)**	**N/A**	—	N/A
Total	**925,961**	**40.1**	850,051	38.3

RETAILING

In a period of steady growth, the retailing segment also recorded humble growth in its gross profit margin in 2007 compared with last year.

DISTRIBUTION

Textbooks

The Group offers ancillary support and services to certain suppliers. The cost of products purchased from them (collectively "cooperative products") is lower than that from the other suppliers which do not receive ancillary support and services. During 2007, the gross profit margin of textbooks distribution recorded an increase of 1.8% compared with last year which was primarily attributable to the higher proportion of cooperative products, the expansion of the scope of government-subsidised-textbooks and the change in the mode of selling government-subsidised-textbooks in Sanzhou to agency sales.

Supplementary materials

Since the implementation of "Double Eight Regulations" in the autumn term of 2006, most supplementary materials distributed by the Group were cooperative products, ensuring a higher gross profit margin. Therefore, the gross profit margin from distributing supplementary materials increased to 49.8% in 2007 from 49.2% in 2006.

In 2007, the Company adjusted its business segment in accordance with the needs of our business development. This will be beneficial to the accurate and clear presentation of our actual state of operations. The revised position is as follows:

SALES REVENUE

	2007	
	RMB'000	%
Product (including intersegment revenue)	385,286	16.7
Zhongpan (including intersegment revenue)	1,716,399	74.3
Subscription (including intersegment revenue)	1,864,927	80.8
Retailing (including intersegment revenue)	391,680	17.0
Others (including intersegment revenue)	2,332	0.1
Intersegment revenue eliminated	(2,051,143)	(88.9)
Total	2,309,481	100.0

GROSS PROFIT AND GROSS PROFIT MARGIN

	2007	
	Gross profit	Gross profit margin
	RMB'000	%
Product (including intersegment revenue)	40,794	10.6
Zhongpan (including intersegment revenue)	254,983	14.9
Subscription (including intersegment revenue)	568,166	30.5
Retailing (including intersegment revenue)	118,119	30.2
Others (including intersegment revenue)	1,486	63.7
Intersegment revenue eliminated	(57,857)	N/A
Total	925,961	40.1

PRODUCT

The Product segment is primarily the provision of ancillary support and services to book publishers, whereas relevant products are sold through the channel of Zhongpan segment. In 2007, this segment recorded a gross profit margin of 10.6%.

ZHONGPAN

The Zhongpan segment primarily handles the purchase of merchandise from publishers and related logistics business. The merchandise purchased by this segment are mainly sold to the Subscription and Retailing segments, while a small portion are sold directly to end customers at the outlets in various provinces. In 2007, this segment recorded a gross profit margin of 14.9%.

SUBSCRIPTION

The Subscription segment purchases textbooks and supplementary materials from the Zhongpan segment, which will in turn be distributed to schools and students through the subscription channel. In 2007, this segment recorded a gross profit margin of 30.5%.

RETAILING

The Retailing segment purchases various books and audio-visual products from the Zhongpan segment, which will in turn be sold to our end customers through our retail outlets or under our group purchase schemes. In 2007, this segment recorded a gross profit margin of 30.2%.

Expenses

In 2007, the Group's selling and distribution costs and administrative expenses totaled RMB612 million. Excluding the effect of the write-back of accrued welfare of last year amounting to RMB26 million, the total expenses in 2007 amounted to RMB638 million, representing an increase of 19.0% over RMB536 million in 2006, which was primarily attributable to: (i) the construction of Zhongpan network across the nation. The Company seeks to improve the profit structure of the Company through Zhongpan construction, therefore additional efforts were made in this regard; (ii) intensified competition in the market of supplementary materials in Sichuan. Since the abolishment of the standard catalogue of supplementary materials, efforts were made to improve our marketing strategy to maintain our market share; (iii) the increase in staff costs. Firstly, adjustment was made during the year to our lower-than-average staff costs. Secondly, new business expansion during the year translated to a larger staff headcount; and (iv) increase in agency fee due to the change in the mode of selling government-subsidised-textbooks in Sanzhou to agency sales.

In 2007, the Group's other expenses increased by 16.3% from RMB55 million in 2006 to RMB64 million. This was primarily attributable to the exchange loss of approximately RMB13 million and expenses on conversion of state-owned shares transferred to the National Council for the Social Security Fund ("NSSF") of approximately RMB8 million. Excluding these two items, other expenses actually decreased by 21.6%.

Finance Income, Net

Finance income, net increased sharply by 5 times from approximately RMB7 million in 2006 to approximately RMB46 million in 2007. This increase was mainly attributable to the interest income on application monies in connection with the H shares offering of the Company and the interest income on the proceeds from the listing.

Profit

In 2007, the Group recorded a profit of RMB387 million, representing an increase of 28.0% from RMB302 million in 2006. Net profit margin in 2007 was 16.8%, up from 13.6% in 2006. The growth of net profit and net profit margin was primarily attributable to the increase in gross profit margin and the increase in interest income and government grant.

Operating Profits

In 2007, the Group's results of operations were affected by a number of non-operating factors, including the write-back of accrued welfare of RMB26 million (2006: nil), government grant of RMB53 million (2006: RMB21 million), the share conversion expenses due to the listing of the state-owned shares of RMB8 million (2006: nil), exchange loss of RMB13 million (2006: nil) and the interest on application monies in connection with the H shares offering of the Company of RMB20 million (2006: nil). Excluding such factors, the Group's profits for 2007 was RMB308 million, representing an increase of 9.4% from RMB282 million in 2006.

Earnings Per Share

Earnings per share is calculated by dividing profits attributable to equity holders of the parent by weighted average number of ordinary shares in issue for the period. For 2007, the Group's earnings per share was RMB0.40, similar to that in 2006. Please refer to note 13 to financial statements for the calculation of earnings per share.

Fixed Assets

During our initial public offering in May 2007, valuation was conducted on the property interests held by the Group. However, those property interests were still carried at historical costs less accumulated depreciation and accumulated impairment loss (if any) on the balance sheet.

By reference to the property valuation set out in Appendix III to the prospectus of the Company dated 16 May 2007 (the "Prospectus"), a revaluation surplus of RMB314 million was recorded in respect of the property interests of the Group. Were the property stated at that valuation, the depreciation and amortisation charges per year would have increased by approximately RMB8 million.

Liquidity and Financial Resources

Except for the borrowings of Chengdu Xin Hui Industrial Company Limited ("Chengdu Xin Hui"), a subsidiary of the Company, the Group did not have any bank borrowings. As at 31 December 2007, the Group had other long-term borrowings of RMB13 million as fixed-interest financing. The stable and strong cash flow and robust financial conditions laid out a sound foundation for the continuing development of the Group.

As at 31 December 2007, the gearing ratio (calculated by dividing total liabilities by total assets) of the Group was 24.5% (2006: 45.4%). The significant decrease in the gearing ratio of the Group was mainly due to the proceeds from the listing of the Company.

As at 31 December 2007, the Group had cash and short-term deposits of approximately RMB1,536 million. To increase the yield on the fund, the Group deposited part of the fund in commercial banks in the PRC as structured deposits according to its own cashflow projection. Except for investments with principal of RMB360 million, other structured deposits are principal-secured on terms ranging from one month to one year. These structured deposits are stated on the balance sheet as held-to-maturity investments and investments at fair value through profit or loss. As at 31 December 2007, the Group had cash and short-term deposits, pledged deposits and structured deposits totaled approximately RMB2,745 million.

As at 31 December 2007, all of the bank deposits of the Group was held in commercial banks in the PRC or licensed banks in Hong Kong in accordance with applicable laws and regulations. Except for deposits of RMB27 million in foreign currency, the balance was denominated in RMB.

The Group's assets, liabilities, sales, costs and expenses were substantially denominated in RMB. As a result, the management considers that foreign exchange exposure of the Group is minimal and has not entered into any foreign exchange hedging arrangement.

Working capital management

	2007	2006
Current ratio	**3.14**	1.52
Inventory turnover days	**120.7**	111.8
Trade receivables turnover days	**48.3**	45.0
Trade payables turnover days	**249.4**	241.3

The Group maintains strict control over its working capital. As at 31 December 2007, the current ratio of the Group is 3.14 (2006: 1.52), which shows that the Group remain financially stable. By excluding the proceeds from the initial public offering, the current ratio of the Group is 1.66, which is still higher than that of 2006.

To better prepare for the sales peak of textbooks and supplementary materials for the 2008 spring term, the Group procured the respective merchandises from supplier in late 2007. As a result, the balance of inventory and trade payables as at 31 December 2007 are both higher than last year, and this also caused an increase in inventory and trade payables turnover days. Up to the date of this report, most of the textbooks and supplementary materials purchased in late 2007 for the 2008 spring term have been sold to the end customer, thus there is no significant change in the Group's inventory and trade payables turnover days.

Trade receivables turnover days of the Group for 2007 is 48.3 days, which is slightly longer than 45 days in 2006. This is mainly due to longer credit period granted to the customers in 2006 as part of the Group's effort to expand its new business. This result in a larger balance of trade receivables for 2006 and 2007 which in turn caused the turnover days in 2007 to lengthen. While continue to expand our new business, the Group has strengthened its management over trade receivables in 2007, so the balance of trade receivables in 2007 decreased by approximately 10% when compared to 2006.

Corporate Governance Report

In accordance with the relevant rules and regulations of the Company Law of the People's Republic of China (together with the "Company Law") and the Securities Law of the People's Republic of China ("Securities Laws") and related laws and regulations, the organisational structure of the Company consisting of shareholders, the Board of Directors (the "Board"), Supervisory Committee and Senior Management of the Company has been established. Detailed rules of procedures are established for shareholders, the Board and Supervisory Committee, General Manager Working Regulations, clearly define the responsibilities and division of work and ensure the regulated effective operation. During the reporting period, the Company has complied with the Code of Corporate Governance Practice ("the Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

During the reporting period, based on the relevant rules and regulations issued by the regulatory authorities, and the circumstances of the Company, we have further amended the Articles of Association and Audit Committee Working Regulations and established our Internal Audit Policies and Reporting System, so as to further regulate the Company's operation and improve the Company's organisational structure.

Board

RESPONSIBILITIES AND DIVISION OF WORK

The Board acts on behalf of the interests of the shareholders as a whole and is accountable to the shareholders. The main duties of the Board are to: implement the resolutions of the shareholders; decide on our Company's business plans and investment plans; formulate our Company's annual financial budget and annual report; formulate our Company's profit distribution plan and loss recovery plan; decide on the establishment of our Company's internal management structure; decide on our Company's basic management system; etc.

The Board is responsible for making decisions on specifically reserved issues, while the management is delegated the power to manage the Company's day-to-day affairs. The Company does not have a Chief Executive Officer but have a general manager who has a role similar to that of a Chief Executive Officer. The positions of Chairman and the general manager of the Company are taken up by Mr. Gong Cimin and Mr. Yang Miao respectively, with clear division of work. The Chairman takes charge of the affairs of the Board and reviews the implementation of the Board's resolutions whereas the general manager, under the leadership of the Board, is mainly responsible for the Company's management operations and business coordination.

COMPOSITION OF THE BOARD

The Board is in its first session since the establishment of the Company. It comprises 13 members, namely 4 executive Directors, 6 non-executive Directors and 3 independent non-executive Directors. The size and composition of the Board are in compliance with the requirements of the relevant laws and regulations. Pursuant to the Articles of Association of the Company, the terms of office of the existing Directors (including non-executive Directors) commenced from 11 June 2005, or from the date on which the Directors were elected, to the date on which a new session of the Board is elected (which is expected to be held in or around late July). An extraordinary general meeting was held on 16 October 2007 to approve the appointment of Mr. Zhao Junhuai as non-executive Director following the resignation of a former non-executive Director. The composition of the Board as at the date of this report is set out in the section "Profile of Directors, Supervisors and Senior Management" in the annual report.

BOARD MEETINGS

During the year, the Board of our Company convened a total of 7 Board meetings, including 5 meetings by physical presence and 2 meetings by correspondence, considering matters such as corporate strategies, investment proposals and operations and financial agendas such as public offer and listing of H Shares, acquisition of 7.79% equity interests in Anhui Xinhua Distribution Group Co. Ltd and the interim results announcement. Independent non-executive Directors expressed no dissenting opinions on these decision matters.

Attendance of the Directors is listed below:

Name	Attendance in person/ Required attendance	Attendance rate
Executive Directors		
Gong Cimin *(Chairman)*	7/7	100%
Dai Chuanping *(Vice Chairman)*	3/7	43%
Yang Miao	7/7	100%
Zhang Yexin	7/7	100%
Non-Executive Directors		
Wang Jianping	7/7	100%
Li Jiawei	5/7	71%
She Jingping	7/7	100%
Zhao Junhuai*	3/3	100%
Wu Qiang	4/7	57%
Mo Shixing	4/7	57%
Cui Zhenyu*	3/4	75%
Independent Non-Executive Directors		
Chan Yuk Tong	7/7	100%
Cheng Sanguo	7/7	100%
Han Xiaoming	7/7	100%

* Mr. Cui Zhenyu ceased to be a non-executive Director of the Company on 27 August 2007. Mr. Zhao Junhuai was appointed as a non-executive Director of the Company on 16 October 2007.

During the year, except for Mr. Wu Qiang, a non-executive Director, who could not attend or entrust other Directors to attend the second and third Board meetings on 29 April 2007 due to health reasons, Directors who did not attend the meeting in person have entrusted other Directors to attend and vote at the meetings, and are therefore regarded as having attended the meetings.

Board Committees

The Audit Committee, Remuneration and Review Committee and Strategy Planning Committee have been established by the Board of the Company. Details of each of the committee are as follows:

AUDIT COMMITTEE

The main responsibilities of the Audit Committee are: (1) to recommend the engagement or removal of external audit organisation; (2) to supervise the internal audit system and its enforcement; (3) to be responsible for the communications between internal audit and external audit; (4) audit the Company's financial information and its disclosure; (5) to review the Company's internal control system.

The Audit Committee comprises three Directors, currently being Mr. Chan Yuk Tong, Mr. Han Xiaoming and Ms. Wang Jianping. All members of the Audit Committee are non-executive Directors, in which Mr. Chan Yuk Tong and Mr. Han Xiaoming are independent non-executive Directors. Mr. Chan Yuk Tong is an accounting professional and serves as chairman of the committee.

During the reporting period, the Audit Committee convened a total of two meetings, which were chaired by Mr. Chan Yuk Tong, attendance of the Committee members is listed below:

Name	Attendance in person/ Required attendance	Attendance rate
Chan Yuk Tong	2/2	100%
Han Xiaoming	2/2	100%
Wang Jianping	2/2	100%

During the meetings, members have reviewed the resolutions such as "Audit Committee Working Regulations of Sichuan Xinhua Winshare Chainstore Co., Ltd." and the interim report; took notice of the work report of the audit department and inquired into, examined and monitored the progress of the work of the internal audit department, reviewed the soundness and effectiveness of the internal control system; and reported to the Board and advised on major issues. During the reporting period the Company has complied with the requirements on the composition of audit committees as set out in Rule 3.21 of the Listing Rules.

During the reporting period, the Company has complied with the requirements on the composition of audit committee as set out in Rule 3.21 of the Listing Rules.

The Audit Committee represented and is satisfied that the Company's internal control did not have any failure similar to those occurred between the period from 2004 to 2006 that led to any violation of applicable regulations during the reporting period.

REMUNERATION AND REVIEW COMMITTEE

The main responsibilities of the Remuneration and Review Committee are: (1) to examine the assessment criteria of Directors and managers, conduct assessment and provide recommendations; and (2) to examine the remuneration policies and packages applicable to the Directors and senior management.

The Remuneration and Review Committee comprises three Directors, currently being Mr. Han Xiaoming, Mr. Chan Yuk Tong and Mr. Zhang Yexin. Mr. Han Xiaoming, an independent non-executive Director, serves as chairman of the committee.

During the reporting period, the Remuneration and Review Committee convened one meeting. Attendance of the Committee members at the meeting is listed below:

Name	Attendance in person/ Required attendance	Attendance rate
Han Xiaoming	1/1	100%
Chan Yuk Tong	1/1	100%
Zhang Yexin	0/1	0%

During the meeting, the members mainly discussed relevant issues including the Company's remuneration structure, as well as the Share Appreciation Right Incentive Scheme.

STRATEGY PLANNING COMMITTEE

The main responsibilities of the Strategy Planning Committee are to examine and advise on the Company's long-term development strategies and major investment decisions.

The Strategy Planning Committee comprises four Directors, currently being Mr. Cheng Sanguo, Mr. Gong Cimin, Mr. Zhang Yexin and Mr. Zhao Junhuai. Mr. Cheng Sanguo, an independent non-executive Director, serves as chairman of the committee.

During the reporting period, the Strategy Planning Committee examined the Company's development strategies and major investment decisions, provided professional advice when the Board considered resolutions such as the public offer and listing of H Shares, and substantial investment proposals, significantly contributing to the Board's decisions.

Directors

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each session of the Board lasts for 3 years, Directors of the Company are elected by the shareholders at general meetings, for a term commencing on the commencement date of the relevant session of the Board or from the dates on which the Directors were elected, and ending on the date on which a new session of the Board is elected. Directors are eligible for re-election upon the expiry of the term. During the election of new session of the Board, the list of candidates should be proposed by previous session of the Board and put forward for consideration and approval by shareholders' meeting. New session of the Board is appointed after the individual voting of each of the candidate for the directors in shareholders' meeting.

NOMINATION OF DIRECTORS

The Company currently does not have a nomination committee in place.

According to the Articles of Association of the Company, the candidates for the new appointment and appointment to fill in casual vancancy of Directors is proposed by the present Board, and shareholders individually or collectively holding more than 3% of shares can also propose candidates for directorship. The Board examines the qualifications and fitness of the candidates. Upon passing of a board resolution, the proposal will be submitted in writing to the shareholders' general meeting for approval. Before the general meeting is convened, candidates for directorship undertake in writing to accept the nominations and guarantee to perform the duties of a director. Standards of recommendation include the integrity of the respective candidates, their relevant management skills and professional background, as well as the time they can contribute and their attentiveness on related issues.

During the reporting period, a meeting of following the resignation of a former non-executive Director the Board was held on 16 October 2007 to approve the recommendation of Mr. Zhao Junhuai as a candidate for directorship.

INDEPENDENCE OF DIRECTORS

The Company has 3 independent non-executive Directors, in compliance with the requirements of the Listing Rules. Independent non-executive Directors serve as chairmen in Board Committees. Independent non-executive Directors are experienced professionals from various industries including publishing and distribution, accounting and finance and are familiar with the rights and obligations of directors and independent non-executive directors. With a responsible attitude and extensive professional knowledge and experience, the independent non-executive Directors have played a positive role in the Board's decision making, reviewing the fairness and justness of connected transactions and capital flow as well as giving their independent opinions and recommendations. The independent non-executive Directors have played an important role in different aspects such as supervising the operation management of the Company, improving the Company's organisational structure and safeguarding the interests of the shareholders.

The 3 independent non-executive Directors confirmed to the Company that they fulfilled the level of independence required by Rule 3.13 of the Listing Rules for the period since the date of listing of the Company on 30 May 2007 to 31 December 2007. The Company is of the view that all the existing independent non-executive Directors are independent persons in compliance with the relevant guidelines set out therein.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the remuneration of Directors and supervisors of the Company for 2007 are set out in note 9 to the financial statements of the annual report.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 to the Listing Rules (the "Model Code") as a code for securities transactions carried by the Company's Directors and supervisors. Upon specific enquiries made to all Directors and supervisors, all the Directors and supervisors have confirmed that they have complied with all the terms in the Model Code during the year.

Shareholders and Shareholders' General Meetings

The Company endeavors to ensure all shareholders, especially minority shareholders, are treated equally and entitled to full exercise of their rights.

SUBSTANTIAL SHAREHOLDER

As at 31 December 2007, the substantial shareholder of the Company is Sichuan Xinhua Publishing Group Co. Ltd.. The business operations of the Company is independent from the business operations of the substantial shareholder and is separated in terms of personnel, organisation, assets and business. Sichuan Xinhua Publishing Group Co. Ltd. conformed to the standard and never bypassed the general meetings to directly or indirectly interfere with the Company's decisions and operations.

Shareholding details of the substantial shareholders as at the end of the reporting period are set out in the "Report of the Directors" of the annual report.

SHAREHOLDERS' GENERAL MEETINGS

As the highest authority of the Company, the general meeting exercises its power in accordance with the law. General meetings consist of annual general meetings and extraordinary general meetings and are convened by the Board. Annual general meeting is convened once a year and shall be convened within 6 months after the end of the respective financial year. In convening a general meeting, shareholders whose name appear on the register of members of the Company are served with a written notice 45 days prior to the convening of the general meeting and is notified of all matters to be considered and approved and the date and time of the meeting. The Board, the Supervisory Committee and shareholders individually or collectively holding more than 3% of the total number of voting shares are entitled to propose resolutions. Matters so proposed which are within the scope of the general meetings shall be included in the agenda of that meeting.

During the year, the Company convened 1 annual general meeting and 2 extraordinary general meetings.

Supervisory Mechanism

SUPERVISORY COMMITTEE

Supervisory Committee is the Company's supervisory organisation and is accountable to the shareholders. It exercises its independent power to supervise the Company in accordance with the laws to safeguard the lawful interests of shareholder and the Company.

The Supervisory Committee is currently in its first session since the establishment of the Company. It comprises 9 members, with 4 members recommended by shareholders, 2 independent members and 3 employee representatives. The size and composition of the Board are in compliance with the requirements of laws and regulations. The term of the existing Supervisors commenced from 11 June 2005, or from the dates on which the respective supervisors were elected, to the date on which a new session of Supervisory Committee is elected. The supervisors and independent supervisors who are recommended by shareholders are elected and subject to removal by shareholders in general meetings; the supervisors representing employees are elected and subject to removal by the staff of the Company in a democratic manner as confirmed by shareholders in general meetings. Each session of the Supervisory Committee last for 3 years and the Supervisors are eligible for re-election.

During the year, the Supervisory Committee convened two meetings and attended the Board meetings and general meetings as observers. Details of work of the Supervisory Committee are set out in the "Report of the Supervisory Committee" of the annual report.

INTERNAL CONTROL

The Board is responsible for establishing and maintaining an internal control system of the Company. The management is delegated with the power to implement the internal control system, the effectiveness of which is reviewed by the Audit Committee. The Company's internal control system includes the Company's organisational structure, codes and frameworks, processes and procedures, related operational manual, implementation rules, etc, which cover financial control, investment management, scope of business, operation and risk management, compliance control, etc.

The Group values internal control and has in place an internal audit department to supervise, evaluate and verify the validity, lawfulness and effectiveness of financial income and expenses and economic activities of the Group. The relevant internal control system and procedures for the Company's management, operation, set-up and administration are also established. In order to further improve the Company's internal control frameworks and systems, the Company formulated its Internal Audit Policies and Reporting System which were considered and approved by the Audit Committee. Subsequent to the listing on 30 May 2007, Horwath Risk Advisory Services Limited was engaged by the Board to examine and review the Company's internal control system. The areas under review involved control environment, financial management, information communication, risk management, etc. After reviewing the report, the Board was basically satisfied with the effectiveness and sufficiency of the aforesaid internal control mechanism currently in operation. At the same time, the Board planned to further improve and enhance the Company's internal control and risk management so as to raise the standard of control of the Company.

Auditors and Remuneration of Auditors

At the general meeting of the Company held on 29 April 2007, the shareholders approved the appointment of Ernst & Young as the international auditor in 2007 and ShineWing Certified Public Accountants as the domestic auditor of the Company. Their engagement shall continue until the end of the forthcoming annual general meeting. The Board was authorised to determine their remunerations in negotiation with each of them in accordance with market practice.

In respect of the Company's initial public offering in Hong Kong, a professional service fee on H share listing, amounting to RMB 4.84 million, was paid to Ernst & Young in 2007.

During the reporting period, the Group paid a professional audit service fee of a total of RMB 4 million to Ernst & Young on financial audit. Save as aforesaid, the Group did not engage Ernst & Young to perform any substantial non-audit service.

Directors' Responsibilities on Financial Statement

The Directors confirm that they have the responsibilities to prepare the financial statements of each financial year that truly reflects the Company's operation results according to the complete and detailed financial and other information submitted from the management to the Board. The Directors are not aware of any issues or circumstances that may cause any material adverse effect to the ongoing operation of the Company.

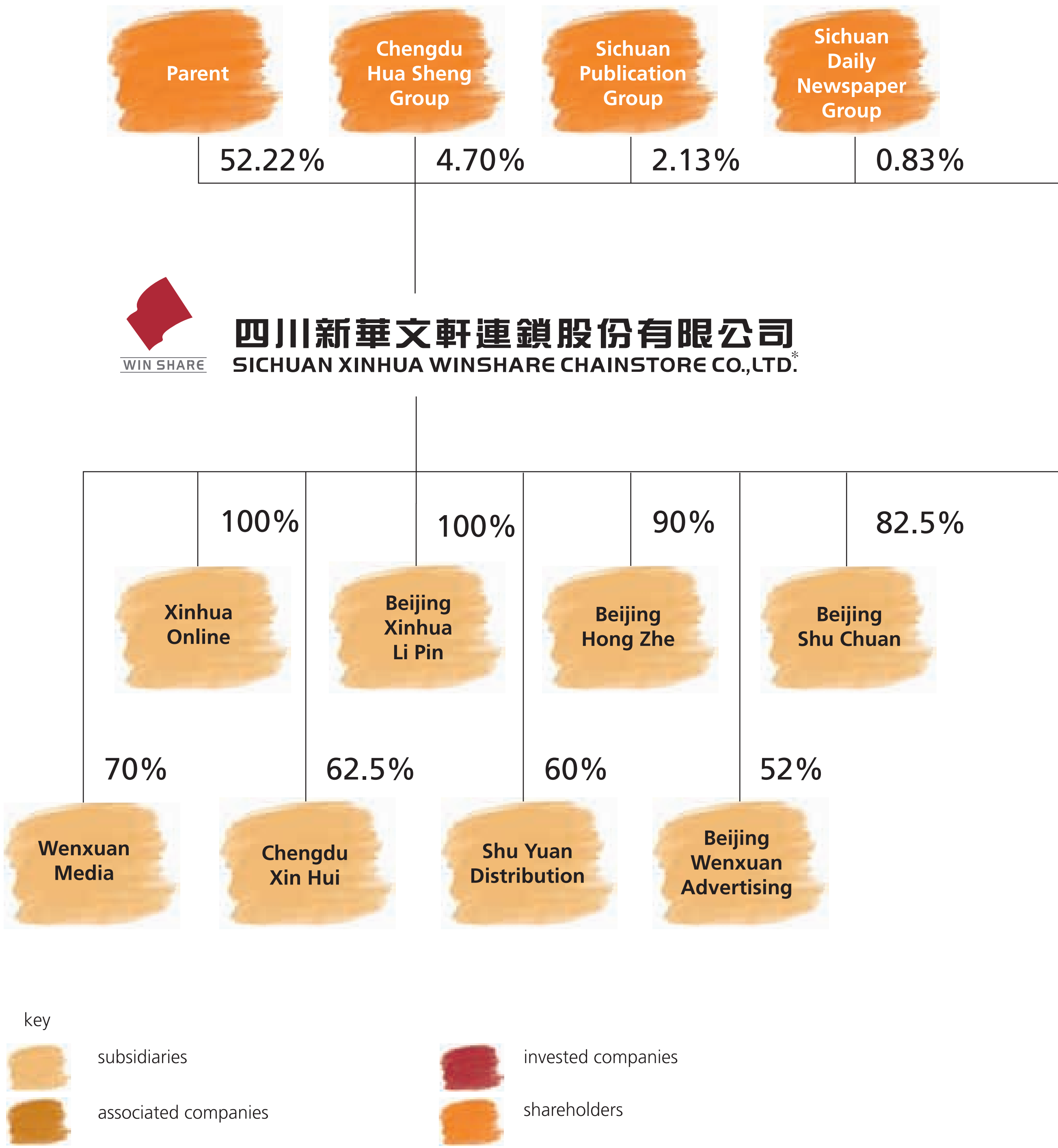
Rights of Shareholders and Investor Relations

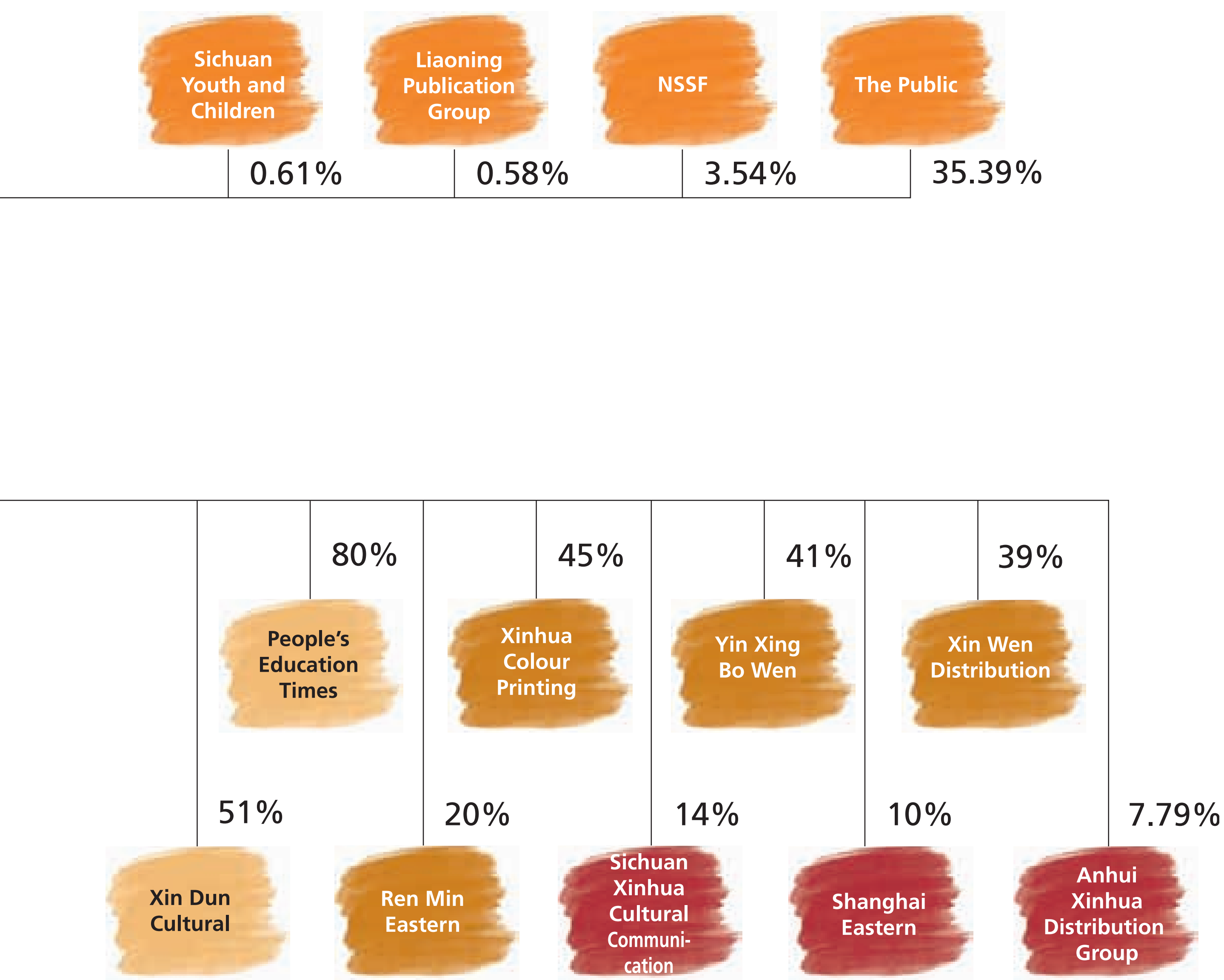
The Company issues its reports on a periodic basis and its announcements on an ad-hoc basis as required by the relevant laws to ensure the disclosure of information is on a timely, fair, accurate, true and complete basis. All other information that might have a significant impact on the decisions of shareholders and other concerned parties is also disclosed in a proactive and timely manner. Also, the Company takes effort in ensuring all shareholders have equal access to information. As such, the Company has faithfully performed its statutory obligation in respect of information disclosure.

In order to continue with the work on investor relations after listing, in 2007, various forms and channels of communications such as roadshows, accommodation of visiting investors, teleconferences, e-mails, telephone hotlines, investors website, etc were made available to enhance and accomplish the understanding and communication with investors and extensive contacts with various investors and analysts. This can enhance the two-way communications in investor relations, which on one hand promotes investors' understanding of the Company and on the other hand facilitates collection of opinions and suggestions of the capital market by the management.

Upon listing, the Company has been committed to improving the communications with investors, and has organised more than 40 meetings between the management and investors and analysts.

Corporate Structure




Sichuan Youth and Children
0.61%
Liaoning Publication Group
0.58%
NSSF
3.54%
The Public
35.39%
80%
People's Education Times
45%
Xinhua Colour Printing
41%
Yin Xing Bo Wen
39%
Xin Wen Distribution
51%
Xin Dun Cultural
20%
Ren Min Eastern
14%
Sichuan Xinhua Cultural Communi-cation
10%
Shanghai Eastern
7.79%
Anhui Xinhua Distribution Group

Report of the Directors

The directors of the Company hereby submit their report, together with the audited financial statements of the Group, for the year ended 31 December 2007.

Principal Activities

The Group's principal activities are i) the retailing of books and audio-visual products; ii) distribution of textbooks and supplementary materials; iii) provision of ancillary support and services to publishers.

State of Affairs and Results

The state of affairs of the Group as at 31 December 2007 and the profit of the Group for the year ended 31 December 2007 are set out on pages 60 to 62 of the annual report.

Dividend

The Board has proposed the distribution of a final dividend for the year ended 31 December 2007 of RMB0.3 (tax inclusive) per share, (2006: RMB0.1 per share) totaling RMB341 million (tax inclusive). Total dividend comprised the ordinary dividend of RMB0.09 per share, and special dividend of RMB0.21 per Share. The distribution of a special dividend was not an indication of any future distribution of the same. Dividends payable to holders of the Company's Domestic Shares will be made and paid in RMB, whereas dividends payable to holders of the Company's H Shares will be declared in RMB and payable in Hong Kong dollars.

The proposed final dividend is subject to approval by shareholders at the annual general meeting (the "AGM") on 20 June 2008. Holders of H Shares and Domestic Shares whose names appear on the register of members of the Company on 20 June 2008 will be entitled to the final dividend and to attend and vote at the AGM.

Holders of the Company's Shares should be aware that the register of members of the Company will be closed from 20 May to 20 June 2008 (both days inclusive), during which period no transfer of Shares will be registered. In order to establish entitlement to the proposed final dividend and entitlement to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's H share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for H Shares shareholders, or the registered office of the Company at 12/F, No. 86 Section One, People's South Road, Qingyang District, Chengdu, Sichuan, the PRC for Domestic Shares shareholders for registration, not later than 4:30 pm on 19 May 2008.

Financial Summary

A summary of the annual results, assets, liabilities and minority interests of the Group for the last 4 years is set out in the section headed 'Financial Summary' on pages 128.

Use Of Proceeds From the Initial Public Offering

The Company was listed on the Stock Exchange in May 2007, the net proceeds of which amounted to RMB2,110 million. As at 31 December 2007, approximately RMB329 million have been applied according to the intended use stated in the Prospectus as follows:

— Pursuant to the use of proceeds stated in the Prospectus in relation to the expansion of retail network and the expansion of the distribution network outside of Sichuan Province, approximately RMB186 million has been applied to acquire 62,320,000 state-owned shares in Anhui Xinhua Distribution Group Co. Ltd., representing 7.79% of the share capital of Anhui Xinhua Distribution Group Co. Ltd..

— Approximately RMB14 million to finance the establishment of Guangyuan logistics centre and enhancement of our information system.

— Approximately RMB100 million as general working capital.

— Approximately RMB24 million for the renovation of our retail outlets.

Fixed Assets

Details of movements in the Group's fixed assets during the year are set out in note 14 to the consolidated financial statements.

Reserves

Details of movements in the Group's reserves during the year are set out in the Consolidated Statement of Changes in Equity.

Subsidiaries and Associates

Particulars of the Company's subsidiaries and associates are set out in notes 18 and 19 to the consolidated financial statements.

Major Customers and Suppliers

For the year ended 31 December 2007, the five largest customers of the Group accounted for approximately 12% of the total turnover of the Group. The largest customer accounted for approximately 10% of the total turnover of the Group.

For the year ended 31 December 2007, the five largest suppliers of the Group accounted for approximately 49% of the total purchases of the Group. The largest supplier accounted for approximately 34% of the total purchases of the Group.

During the year, save as the interests held by Sichuan Xinhua Publishing Group Co. Ltd. in the sales arrangement between the Company and Sanzhou Xinhua Bookstores, none of the Directors, supervisors or their associates or any Shareholder (so far as the Directors are aware) holding more than 5% of the equity interests of the Company has any interest in any of the Group's five largest customers or suppliers. Sanzhou Xinhua Bookstores is managed and operated by Sichuan Xinhua Publishing Group Co. Ltd.

Contingent Liabilities

As at 31 December 2007, the Group did not have any material contingent liabilities.

Pledge of Assets

As at 31 December 2007, other than a pledged time deposit amounting to RMB10 million with a maturity date within 3 months, no assets of the Group were under pledge or guarantee.

Management Contract

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into during the year.

Share Capital

As at 31 December 2007, the issued capital of the Company totaled 1,135,131,000 shares, including:

Class of shares	Number of shares	Percentage of issued share capital of the Company
Domestic Shares		
State-owned shares	639,857,900	56.37%
Including		
(i) State-owned Shares held by Sichuan Xinhua Publishing Group Co., Ltd. ("our parent" or the "Parent")	592,809,525	52.22%
(ii) State-owned Shares held by other Promoters (Note 1)	47,048,375	4.15%
Social Legal Person Shares (Note 2)	53,336,000	4.70%
H Shares	**441,937,100**	**38.93%**
Total Share Capital	**1,135,131,000**	**100%**

Notes:

(1) Other Promoters include Sichuan Publication Group, Sichuan Daily Newspaper Group, Sichuan Province Youth and Children Press, and Liaoning Publication Group Co. Ltd. but exclude Chengdu Hua Sheng (Group) Industry Co. Ltd..

(2) Social Legal Person Shares are held by Chengdu Hua Sheng (Group) Industry Co. Ltd., a Promoter.

Details of movement in the share capital of the Company during the year are set out in note 33 to the consolidated financial statements.

Substantial Shareholders' and Other Persons' Interests in the Shares and short positions of the Company

As at 31 December 2007, so far as is known to the Directors, supervisors and chief executive of the Company, the following persons (not being a Director, supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

Name of shareholders	Number of shares directly or indirectly held	Capacity	Class of Shares	Approximate percentage in relevant class of Shares	Approximate percentage in total issued share capital
Parent	592,809,525	Beneficial owner	State-owned shares	92.65%	52.22%
Chengdu Hua Sheng (Group) Industry Co. Ltd.	53,336,000	Beneficial owner	Social legal person shares	100%	4.70%
Atlantis Investment Management Ltd	22,200,000	Investment manager	H Shares	5.02%	1.96%
HSBC Investments (Hong Kong) Limited	25,984,000	Investment manager	H Shares	5.88%	2.29%
Och Daniel Saul (Note 1)	55,032,000	Interest of controlled corporation	H Shares	12.45%	4.85%
Och-Ziff Capital Management Group LLC (Note 1)	55,032,000	Interest of controlled corporation	H Shares	12.45%	4.85%
OZ Management L.P. (Note 1)	55,032,000	Investment manager	H Shares	12.45%	4.85%
OZ Asia Master Fund, Ltd. (Note 1)	24,611,400	Beneficial owner	H Shares	5.57%	2.17%
OZ Master Fund, Ltd. (Note 1)	28,679,253	Beneficial owner	H Shares	6.49%	2.53%

Name of shareholders	Number of shares directly or indirectly held	Capacity	Class of Shares	Approximate percentage in relevant class of Shares	Approximate percentage in total issued share capital
Arisaig Greater China Fund Limited (Note 2)	22,300,000	Beneficial owner	H Shares	5.05%	1.96%
Arisaig Partners (Mauritius) Limited (Note 2)	22,300,000	Investment manager	H Shares	5.05%	1.96%
Cooper Lindsay William Ernest (Note 2)	22,300,000	Interest of controlled corporation	H Shares	5.05%	1.96%
National Council for the Social Security Fund	40,176,100	Beneficial owner	H Share	9.09%	3.54%

Notes:

1. These Shares were held as to 24,611,400 Shares by OZ Asia Master Fund, Ltd., as to 28,679,253 Shares by OZ Master Fund, Ltd., as to 506,447 Shares by Fleel Maritime, Inc., as to 545,282 Shares by GPV LVII LLC, as to 370,573 Shares by Goldman Sachs & Co. Profit Sharing Master Trust, and as to 319,045 Shares by OZ Global Special Investment Master Fund, L.P.. OZ Asia Master Fund, Ltd., OZ Master Fund, Ltd., Fleel Maritime Inc., GPV LVII LLC, Goldman Sachs & Co. Profit Sharing Master Trust and OZ Global Special Investment Master Fund, L.P. were wholly owned subsidiaries of OZ Management L.P., which was in turn a wholly owned subsidiary of Och-Ziff Holding Corporation, which was in turn a wholly owned subsidiary of Och-Ziff Capital Management Group LLC, which was in turn owned as to 79.1% by Och Daniel Saul. As such, OZ Management L.P., Och-Ziff Holding Corporation, Och-Ziff Capital Management Group LLC and Och Daniel Saul were deemed to be beneficially interested in the said Shares held by OZ Asia Master Fund, Ltd., OZ Master Fund, Ltd., Fleel Maritime Inc., GPV LVII LLC, Goldman Sachs & Co. Profit Sharing Master Trust and OZ Global Special Investment Master Fund, L.P..

2. The above references to 22,300,000 Shares refer to the same block of Shares.

Save as disclosed above, as at 31 December 2007, so far as is known to the Directors, supervisors and chief executive of the Company, no other person (not being a Director, supervisor or chief executive of the Company) had an interest or short position in the Shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital.

Save that (i) Gong Cimin, an executive Director and the Chairman of the Company, is the Chairman of the Parent, (ii) Dai Chuanping, an executive Director and the Vice Chairman of the Company, is a director and the President of the Parent; and (iii) Wu Qiang, a non-executive Director, is the Chairman of Chengdu Hua Sheng (Group) Industry Co., Ltd.; and (iv) Zhao Junhuai, a non-executive Director, is the Vice-Chairman of Chengdu Hua Sheng (Group) Industry Co., Ltd., as at 31 December 2007, no Director was a director or employee of a company which has an interest or short position in the Shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Interests and short positions of Directors, Supervisors and Senior management in Shares, Underlying Shares and Debentures of the Company and associated corporation

As at 31 December 2007, none of the Directors, supervisors and senior management of the Company and each of their respective associates had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or supervisors were taken or deemed to have under such provisions of the SFO); or were required, pursuant to section 352 of the SFO, to be entered in the register required to be kept by the Company; or were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Purchase, Sale or Redemption of Listed Securities of the Company

During the period from 30 May 2007, the date of listing, to 31 December 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the PRC which would otherwise require the preferential offer of new Shares to existing shareholders.

Public Float

In accordance with publicly-available information and so far as the Directors are aware, as at the date of this report, more than 25% of the issued shares of the Company are held by the public in compliance with the Listing Rules.

Employees and Remuneration Policy

As at 31 December 2007, we employed a total of 6,174 (2006: 5,728) employees.

We have in place a performance appraisal system and incentive/penalty mechanism whereby salaries are linked to the performance of employees. Remuneration policy is regularly reviewed and remuneration system is regularly enhanced, and to share corporate development with our employees. Standard remuneration package includes basic salary, performance-based bonus and benefits. Pension, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing welfare funds are made available to employees.

Internal training and regular training is made available to our employees. During the year, we offered training sessions concerning our ERP system, retail sales skills, educational publication subscription skills, professional knowledge of publishing, logistics information system, finance and auditing knowledge, human resources knowledge and other general management skills.

Online training was made available during the year to supplement and adjust the relevant information system training in order to consolidate the enhancement of our management staff's capability, to improve the business knowledge of our teams involved in finance and securities, capital operations, publication and editing of books and sales, as well as the business skills of other primary-level staff members.

Connected Transactions

During the year, we entered into continuing connected transactions which constituted "continuing connected transactions" as defined in Chapter 14A of the Listing rules and we had been granted a waiver by the Stock Exchange from strict compliance with requirements of announcements and independent Shareholders' approvals specified under Chapter 14A of the Listing Rules. Details of the connected transactions are as follows:

TRANSACTIONS WITH THE PARENT GROUP

Our Parent is the Controlling Shareholder and a promoter of the Company, holding 52.22% equity interests in the Company. Under the Listing Rules, our Parent is a connected person of the Company.

1. *Leases entered into by the Company and our Parent*
   a. The Company entered into two leases with our Parent on 16 April 2007 and 29 April 2007 respectively. Pursuant to the leases, properties comprising 313 buildings of approximately 93,653.58 square metres in Sichuan Province were leased to the Company as its operation premises.

      For the year ended 31 December 2007, rental payment made by the Group to the Parent amounted to RMB22,823,664.

   b. The Company entered into a lease with our Parent on 29 April 2007. Pursuant to the lease, premises at 12/F., No. 86 Section One, People's South Road, Qingyang District, Chengdu, the PRC of approximately 1,555.04 square metres were leased to our Parent as offices.

      For the year ended 31 December 2007, rental payment received by the Company from the Parent amounted to RMB 1,343,554.

2. *Sales arrangements between our Parent and the Company as to Sanzhou Xinhua Bookstores (as defined in the Prospectus)*

   On 12 July 2006, the Company entered into an agreement with our Parent regarding the sales arrangements with regard to Sanzhou Xinhua Bookstores. The agreement was subsequently replaced by a new sales arrangement on 29 April 2007. The new sales arrangements for a term commenced from 1 January 2007 and ending 31 December 2009 covered: (i) the distribution by the Company of non-government-subsidised textbooks and supplementary materials to Sanzhou Xinhua Bookstores (the "Distribution"); (ii) payment by the Company of an agency fee to Sanzhou Xinhua Bookstores, which is calculated at 18% of the total Mayang of all government-subsidised textbooks (to primary and lower secondary schools) sold by Sanzhou Xinhua Bookstores ("Agency")' and (iii) the franchise management fee charged on certain bookstores of Sanzhou Xinhua Bookstores which become franchise stores of the Company ("Franchising").

   For the year ended 31 December 2007, the transaction amounts under the sales arrangements are as follows:

   Distribution: in aggregate RMB17,647,129;
   Agency: in aggregate RMB14,496,833;
   Franchising: in aggregate RMB 3,616,836.

3. A property management agreement was entered into between the Company and Chengdu Huang Peng Property Limited Liability Company, a wholly-owned subsidiary of our Parent, on 8 May 2007. Pursuant to the agreement, Huang Peng Property Limited Liability Company shall provide property management services to the Group from 1 January 2007 to 31 December 2009.

   For the year ended 31 December 2007, payment made by the Group to Huang Peng Property in respect of the provision of property management services amounted to RMB2,442,053.

4. An information technology services agreement was entered into between the Company and Sichuan Xin Xing Information Technology Limited Liability Company , owned as to 80% by our Parent, on 8 May 2007. Pursuant to the agreement, Sichuan Xin Xing Information Technology Limited Liability Company shall provide information technology and computer software and hardware to the Group from 1 January 2007 to 31 December 2009.

   For the year ended 31 December 2007, payment made by the Group to Xin Xing Information Technology in respect of information technology products amounted to RMB966,157.

TRANSACTION WITH SICHUAN XINHUA COLOUR PRINTING COMPANY LIMITED ("XINHUA COLOUR PRINTING")

On 8 May 2007, a printing service agreement was entered into between the Company and Xinhua Colour Printing. Pursuant to the agreement, Xinhua Colour Printing shall provide printing services to the Group from 1 January 2007 to 31 December 2009,

Xinhua Colour Printing is an associate of the Company and is owned as to 45% by the Company. In addition, Xinhua Colour Printing holds 10% equity interests in Beijing Hongzhe Cultural Development Company Limited ("Bejing Hongze"), a 90% subsidiary of the Company. Accordingly, Xinhua Colour Printing is a substantial shareholder of Beijing Hongzhe and, accordingly, a connected person of the Company under the Listing Rules.

For the year ended 31 December 2007, the payment made by the Group to Xinhua Colour Printing in respect of printing services amounted to RMB686,639.

TRANSACTION WITH CHENGDU HUA SHENG (GROUP) INDUSTRY COMPANY LIMITED ("CHENGDU HUA SHENG GROUP")

On 8 May 2007, a lease agreement was entered into between the Company and Chengdu Hua Sheng Group for a term commenced from 1 January 2007 and ending 31 December 2009. Pursuant to the lease, the property located at No. 68-190, Datiankan Road, Jinjiang District, Chengdu, Sichuan of approximately 1,080.92 square metres was leased by Chengdu Hua Sheng Group to the Company as its operating premises.

Chengdu Hua Sheng Group is a promoter of the Company. Under the Listing Rules, Chengdu Huasheng Group is a connected person of the Company.

For the year ended 31 December 2007, the rental payment made by the Company to Chengdu Huasheng Group amounted to RMB1,404,667.

TRANSACTION WITH SICHUAN PUBLICATION GROUP AND ITS SUBSIDIARIES/ENTITIES MANAGED BY SICHUAN PUBLICATION GROUP (COLLECTIVELY, THE "PUBLICATION GROUP")

On 8 May 2007 a purchase agreement was entered into between the Company and the Publication Group. Pursuant to the agreement, the Publication Group agreed to supply, and the Company agreed to distribute and purchase on a retail basis textbooks, supplementary materials and other publications from 1 January 2007 to 31 December 2009.

Publication Group is a promoter of the Company. Under the Listing Rules, Publication Group is a connected person of the Company.

For the year ended 31 December 2007, the payment made by the Group to the Publication Group in respect of the purchase of textbooks, supplementary materials and other publications amounted to RMB505,836,362.

TRANSACTION WITH JIE LI PRESS

On 8 May 2007 a purchase agreement was entered into between the Company and Jie Li Press. Pursuant to the agreement, Jie Li Press agreed to supply, and the Company agreed to purchase supplementary materials and other publications from 1 January 2007 to 31 December 2009.

Jie Li Press holds 28% interests in Beijing Xinhua Wenxuan Advertising Company Limited, a non-wholly owned subsidiary of the Company. Accordingly, Jie Li Press is a substantial shareholder of Beijing Xinhua Wenxuan Advertising Company Limited and, accordingly, a connected person of the Company under the Listing Rules.

For the year ended 31 December 2007, the payment made by the Group to Jie Li Press in respect of the purchase of supplementary materials and other publications amounted to RMB1,387,327.

The particulars of the above connected transactions is set out in the Prospectus.

The independent non-executive Directors of the Company has reviewed the connected transactions and confirmed in the annual report and accounts of the Company that the transactions were entered into:

(i) in the ordinary and usual course of business of the Company;

(ii) on normal commercial terms, or in the absence of similar transactions to judge whether the terms are normal commercial terms, on terms no less favorable those adopted for transactions between the Company and independent third parties; and

(iii) on the terms of the respective agreements, which terms are fair and reasonable so far as the Company and shareholders as a whole are concerned.

In accordance with Rule 14A.38 of Listing Rules, the Company has engaged its auditor to perform certain agreed procedures in respect of our connected transactions. Ernst & Young, auditor of the Company, has performed certain procedures on the aforesaid continuing connected transactions and reported their work to the board of Directors. The aforesaid connected transactions:

1. has been approved by the Board; and

2. does not exceed the annual cap amounts set out in the Prospectus of the Company.

Non-competition Undertaking and Sanzhou Acquisition Option

Our Parent has declared to the Company that it had complied with the Non-competition Undertaking (as defined in the Prospectus) in the reporting period.

The independent non-executive Directors have conducted an annual review on the businesses of the Sanzhou Xinhua Bookstores (as defined in the Prospectus) and have resolved not to exercise the Sanzhou Acquisition Option (as defined in the Prospectus) or the right of first refusal under the Non-Competition Undertaking.

Corporate Governance

The Company is committed to sound corporate governance. The Company was in compliance with the code provisions under the Code of Corporate Governance Practices contained in Appendix 14 to the Listing Rules during the year. Details of compliance with the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules during the year are set out in the Corporate Governance Report in this annual report.

Directors and Supervisors

During the year and as at the date of this report, the Directors and supervisors are as follows:

EXECUTIVE DIRECTORS

Mr. Gong Cimin
Mr. Dai Chuanping
Mr. Yang Miao
Mr. Zhang Yexin

NON-EXECUTIVE DIRECTORS

Ms. Wang Jianping
Mr. She Jingping
Mr. Li Jiawei
Mr. Wu Qiang
Mr. Mo Shixing
Mr. Cui Zhengyu (resigned on 27 August 2007)
Mr. Zhao Junhuai (appointed on 16 October 2007)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Han Xiaoming
Mr. Cheng Sanguo
Mr. Chan Yuk Tong

SUPERVISORS

Mr. Luo Jun
Mr. Li Yunyi
Mr. Wang Feng
Mr. Peng Xianyi
Ms. Lan Hong
Ms. Liu Nan
Mr. Li Qiang

INDEPENDENT SUPERVISORS

Mr. Fu Daiguo
Mr. Li Guangwei

Service Contracts of Directors and Supervisors

As at the date of this report, the Company has entered into service contracts with all Directors and supervisors for a term of three years respectively. As at 31 December 2007, none of the Directors or supervisors had any existing or proposed service contract with the Company or any member of the Group (excluding contract expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

Postponement of Re-election of Directors and Supervisors

Pursuant to the articles of association of the Company, the respective terms of the current session of the board of Directors (the "Board") and the board of supervisors of the Company (the "Board of Supervisors") shall expire in June 2008 and the current Directors and Supervisors shall retire from offices and be subject to re-election in June 2008. On 18 April 2008, the Board passed a resolution to postpone the re-election of the Directors, and the Board of Supervisors also passed a resolution to postpone the re-election of the Supervisors, to a general meeting of the Company to be held in or around late July 2008 (the "EGM").

Under the articles of association of the Company, all existing Directors and Supervisors shall continue to perform their duties as Directors/Supervisors before a new session of each of the Board and the Board of Supervisors is elected. All existing Directors and Supervisors have confirmed that they will continue to hold their offices and perform their duties until the EGM, in accordance with the articles of association of the Company and all relevant laws and regulations.

Directors' and Supervisors' Interest in Contracts

No contracts of significance to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party and which remained valid at year-end and was/were entered into at any time during the year, and in which a Director or supervisor had direct or indirect material interest, subsisted as at the date of this report, during the year or at any time from year-end up to the date of this report.

Directors' Interests in Competing Business

As at the date of this report, so far as the Directors are aware, except Sanzhou Xinhua Bookstores which was retained by our Parent for policy reasons (as disclosed in the Prospectus), neither our Parent nor its subsidiaries (excluding the Company) was engaged in any business activities directly or indirectly in competition with the business of the Group. Except for Mr. Li Jiawei, a non-executive Director, none of the other Directors or supervisors had any interest in any business which is or may be in competition with that of the Group. Mr. Li Jiawei is currently the vice president and general manager of Liaoning Publication Group and the director of Liaoning Publication Media Company Limited. The business of those companies in which he serves may be in competition with that of the Group.

Save as disclosed above, none of the Directors or their respective associates (as defined in the Listing Rules) had any interest in any business which is or may be in competition with that of the Group.

Emoluments of Directors and Supervisors and Remunerations of the Five Highest Paid Individuals

Details of the emoluments of the Directors and supervisors and remunerations of the five highest paid individuals for the year are set out in note 9 to the consolidated financial statements.

Board of Directors and Board Committees

As at the date of this report, the Board comprises 13 Directors. Biographical details of the Directors are set out in the section headed "PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT".

Details of the three board committees, namely the Audit Committee, Strategy Planning Committee and the Remuneration and Review Committee, are set out in the Corporate Governance Report.

Change of Directors, Supervisors and Senior Management

During the year and up to the date of this report, the change of Directors, supervisors and senior management members is as follows:

In August 2007, Ms. Shen Xiaoyi was appointed Chief Production Officer of the Company.

In August 2007, Mr. Cui Zhenyu resigned as a non-executive Director of the Company.

In October 2007, Mr. Zhao Junhuai was elected as a non-executive Director of the Company.

In December 2007, Mr. Jiang Huarong resigned as a deputy general manager of the Company.

In March 2008, Mr. Zhao Xuefeng was elected as Chief Procurement Officer of the Company.

Share Appreciation Right Incentive Scheme

As described in the Prospectus, the Company proposed to adopt a share appreciation right incentive scheme (the "Share Appreciation Right Incentive Scheme") , the operation of which will not involve any issue of new H Shares of the Company, and the exercise of any share appreciation rights will not create a dilution effect on the Company's shareholding structure. The Company has obtained an approval in principle from Sichuan Provincial Government SASAC (四川省政府國有資產監督管理委員會) on 28 April 2007 for the adoption of the Share Appreciation Right Incentive Scheme. A detailed proposal has been submitted to Sichuan Provincial Government SASAC (四川省政府國有資產監督管理委員會) for its approval.

Legal Proceedings

As disclosed in the Prospectus, the Group is involved in a legal proceeding in respect of our South-western Book City in Chengdu, Sichuan Province, the PRC. As at 31 December 2007, the proceeding was still pending.

Save as disclosed above, as at 31 December 2007, no member of the Group was engaged in any pending or threatened litigation or claims of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

Audit committee

The company established the Audit committee on 20 April 2006 with written terms of reference in compliance with Appendix 14 to the Listing Rules to review and supervise the financial reporting process and internal control procedures of the Company. The Audit committee consists of two independent non-executive director and a non-executive director, namely Chan Yuk Tong. Han Xiaoming and Wang Jianping, with Chan Yuk Tong serving as chairman. Chan Yuk Tong holds financial experience and professional qualifications in accounting.

Audit committee has reviewed the audited consolidated financial statements set out in the annual report.

Auditor

Ernst & Young and ShineWing Certified Public Accountants have been appointed as the international and domestic auditors of the Company respectively for the year 2007. The financial statements of the Group, prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, has been audited by Ernst & Young, which will retire and shall be eligible for re-appointment at the AGM of the Company. A resolution for the re-appointment of Ernst & Young as auditor of the Company will be proposed at the AGM.

By order of the Board of
Gong Cimin
Chairman

18 April 2008

Profile of Directors, Supervisors and Senior Management

Directors

EXECUTIVE DIRECTORS

Gong Cimin (龔次敏), aged 53, was appointed a Director with effect from 11 June 2005 and was designated chairman of our Company on 14 September 2006. His designation as an executive Director was formalised on 22 April 2007. Mr. Gong is a council member of the China Book Publication Industry Association (中國書刊發行協會) and the China Xinhua Bookstore Association. Mr. Gong obtained a master's level course completion certificate in economics and business administration from Sichuan University (四川大學) in July 2002 and he is also an economist. Mr. Gong started his career as a sales clerk at Chengdu City Xinhua Bookstore (成都市新華書店), a member of the China Xinhua Bookstore Association under Sichuan Province Xinhua Bookstore's management, in December 1972 and was subsequently promoted to deputy manager and general manager in 1984 and 1988, respectively. He became the Party Secretary of Chengdu City Xinhua Bookstore in October 1994. Mr. Gong joined Sichuan Xinhua Publishing Group in December 2003 and worked as the head of the Chengdu City Management Centre (成都市管理中心主任) until April 2005. Mr. Gong served as the general manager, and then vice chairman of our Company from June 2005 to April 2006. He has been chairman of our Company since September 2006. Mr. Gong was vice president of Sichuan Xinhua Publishing Group from January 2006 to February 2007 and was designated its chairman on 25 February 2007. Mr. Gong has over 34 years of extensive experience in administration and business management in relation to the publishing industry.

Dai Chuanping (戴川平), aged 52, was appointed a Director with effect from 11 June 2005 and was designated vice chairman of our Company on 14 September 2006. His designation as an executive Director was formalised on 22 April 2007. Mr. Dai graduated from Sichuan Radio and Television University (四川廣播電視大學) in 1985. Mr. Dai obtained a master's level course completion certificate in business administration from People's University of China (中國人民大學) in December 2002. Mr. Dai is also an economist. Mr. Dai started his career as the head of the research department (調研科長) in Sichuan Province Xinhua Bookstore in 1986, and was subsequently promoted to office head (辦公室主任), assistant to the manager and deputy general manager. Mr. Dai joined Sichuan Province Xinhua Bookstore Group in March 2000 and became vice president of Sichuan Xinhua Publishing Group in January 2006 and president on 25 February 2007. Mr. Dai is also the director of Chengdu Xin Hui, Xinhua Colour Printing, and Sichuan Xinhua Cultural Communication. Mr. Dai has over 22 years of experience in the publishing industry and corporate management.

Yang Miao (楊杪), aged 37, was appointed general manager of our Company since 20 April 2006 and a Director of our Company on 14 September 2006. His designation as an executive Director was formalised on 22 April 2007. He was also the general manager of the Beijing branch and dean of the management research institute of Sichuan Xinhua Winshare Chainstore Co., Ltd. (四川新華文軒連鎖股份有限公司) in June and September 2007, respectively. Mr. Yang graduated from the University of Chengdu (成都大學) in 1990 with a bachelor's degree majoring in public relation and economic law. He also completed two research courses in business administration at the School of Economics and Management of Tsinghua University (清華大學經濟管理學院) and People's University of China (中國人民大學工商管理研究班) in 2002 and 2003, respectively. Mr. Yang started his career as a deputy sales manager of Sichuan Province Xinhua Bookstore Textbook Company in 1994 and became sales manager and deputy manager in 1996 and 1999, respectively. He also worked as the deputy manager of Sichuan Xinhua Book & Trading Company Limited (四川新華圖貿有限責任公司) (from 1999 to 2000. From 2001 to June 2005, Mr. Yang served as manager at the textbook distribution company of our

Parent. Mr. Yang joined our Company in June 2005 and he was appointed deputy general manager of our Company and general manager of our textbook distribution department. Mr. Yang has more than 12 years of experience in a wide variety of areas within the book publishing and distributing industries.

Zhang Yexin (張業信), aged 51, was appointed a Director and executive deputy general manager of our Company with effect from 11 June 2005. His designation as an executive Director was formalised on 22 April 2007. He was also the associate dean of the management research institute of Sichuan Xinhua Winshare Chainstore Co., Ltd. since September 2007. Mr. Zhang obtained a master's level course completion certificate in technology, economics and business administration from Sichuan University in July 2002. Mr. Zhang started his career in the administration department of Sichuan Province Xinhua Bookstore in 1977 and was promoted to deputy head of the science and teaching materials department (科教科副科長), head of the computer department and manager of Sichuan Province Xinhua Bookstore Textbook Company (四川省新華書店教材公司) in 1985, 1988 and 1990, respectively. He became the assistant manager of Sichuan Province Xinhua Bookstore in 1995 and was promoted to deputy general manager in 1997. Mr. Zhang joined Sichuan Xinhua Publishing Group in 2000 and was a deputy general manager until 2005. Currently, Mr. Zhang is the director of Xin Dun Cultural and Shanghai Eastern. Mr. Zhang has more than 29 years of experience in the publishing industry and more than 21 years of experience in administrative management.

NON-EXECUTIVE DIRECTORS

Wang Jianping (王建平), aged 53, was appointed a non-executive Director of our Company with effect from 11 June 2005 and her designation as a non-executive Director was formalised on 22 April 2007. Ms. Wang graduated from Sichuan Normal Institute (四川師範學院) majoring in Chinese literature in 1984. Ms. Wang worked as a deputy head (副主任) editor of "Hong Ling Jin" magazine (《紅領巾雜誌》) in 1984. She joined Sichuan Youth and Children publishing house and worked as a chief officer (主任), editor, and vice president (副社長) starting from 1988, 1992, and 1994, respectively. Prior to joining our Company, Ms. Wang was appointed president of Sichuan Youth and Children Publishing House in May 2004 and still holds that position. Ms. Wang has more than 29 years of experience in the publishing and book distribution industries.

She Jingping (佘景平), aged 61, was appointed a non-executive Director of our Company with effect from 11 June 2005 and his designation as a non-executive Director was formalised on 22 April 2007. Mr. She completed a course in journalism at Beijing University (北京大學) in 1975. Mr. She started his career in the publishing industry in 1968 when he worked for Chongqing Daily (重慶日報). He joined Sichuan Daily Newspaper Group as a journalist in 1971 and was then promoted to deputy head (副主任), chief officer (主任), deputy general manager, and vice president (副社長) of Sichuan Daily Newspaper Group in 1983, 1985, 1988 and 1990, respectively. Prior to joining our Company, Mr. She had been the deputy general manager of Sichuan Daily Newspaper Group since 2000. He has over 35 years of experience in the publishing industry. In addition, Mr. She is the director and the vice chairman of the board of Sichuan Lian Xiang Printing Company Limited (四川聯翔印務有限公司), a subsidiary of Sichuan Publication Group. He is currently vice president and secretary general of Sichuan Press Association (四川報業協會).

Li Jiawei (李家巍), aged 52, was appointed a non-executive Director of our Company with effect from 11 June 2005 and his designation as a non-executive Director was formalised on 22 April 2007. Mr. Li completed a master's degree course in economics management at Liaoning Provincial Government Chinese Communist Party School (中共遼寧省委黨校) in July 1997. Mr. Li joined our Company in June 2005, and he is currently the vice president and general manager of Liaoning Publication Group, a Promoter, and the director of Liaoning Publication Media Company Limited.

Wu Qiang (武強), aged 43, was appointed a non-executive Director of our Company with effect from 11 June 2005 and his designation as a non-executive Director was formalised on 22 April 2007. Mr. Wu became a director of Chengdu Hua Sheng Group in 1999, and is also a director of Chengdu Hua Sheng Industry Shu Du Garden Project Development Company Limited (成都華盛實業蜀都花園項目開發有限公司), a subsidiary of Chengdu Hua Sheng Group. Prior to joining Chengdu Hua Sheng Group, Mr. Wu worked for Chengdu City Construction No. 5 Company (成都市建築第五公司) and the Political Affairs Service Centre of Chengdu City (成都市政務服務中心). Mr. Wu has more than 20 years of experience in business management and administration.

Mo Shixing (莫世行), aged 60, was appointed a non-executive Director of our Company with effect from 11 June 2005 and his designation as a non-executive Director was formalised on 22 April 2007. Mr. Mo graduated from Harbin Industrial University (哈爾濱工業大學) with a bachelor's degree majoring in liquid pressure technology in the Department of Power Engineering (動力工程系液壓技術專業) in 1982. Prior to joining Sichuan Publication Group in November 2003, Mr. Mo joined Sichuan Province Press and Publication Bureau in August 1994 and was in charge of the publishing, distribution and printing departments as well as the human resources department. In addition, Mr. Mo is the director of Sichuan Shang Rui Education Book Limited Liability Company (四川上瑞教育圖書有限責任公司). Mr. Mo has 12 years of experience in relation to the publishing industry and business management.

Zhao Junhuai (趙俊懷), aged 40, was appointed a non-executive Director of our Company with effect from 16 October 2007 and his designation as a non-executive Director was formalised on 16 October 2007. Mr. Zhao obtained a bachelor's degree in agricultural economic management (農經管理本科) at Sichuan Agricultural University (四川農業大學) in 1990. He also obtained a master's degree in finance (金融碩士) and a PhD degree in financial investment (財政投資博士) at Southwest University of Finance (西南財經大學) in 1995 and 2002 respectively. Mr. Zhao is currently the vice-chairman of Chengdu Hua Sheng (Group) Industry Company Limited, a promoter of the Company. Prior to joining Chengdu Hua Sheng (Group) Industry Company Limited, Mr. Zhao was the vice-head of the committee of Chengdu Economic Development Zone, the president of the eighth sub-branch of Sichuan branch of China Construction Bank and the deputy general manager of the International Business Department of the Sichuan Branch of China Construction Bank.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Han Xiaoming (韓小明), aged 55, was appointed an independent non-executive Director with effect from 11 June 2005 and his designation as an independent non-executive Director was formalised on 22 April 2007. Mr. Han graduated from People's University of China majoring in politics and economics in 1983, where he is currently a professor in the Department of Economics. He was also associate dean of the China Economic Reform and Development Research Institute (中國經濟改革與發展研究院). Mr. Han was involved in several research projects organised by the Department of Propaganda, GAPP, the Joint Research and Study Committee for Higher Education Press Reform of the Ministry of Education (教育部高校出版社改革聯合調研組) and GAPP's Publication System Reform Research and Study Group (新聞出版總署發行體制改革調研組) and has published a number of related research reports or papers. He was a panel member of the State Review Committee for Major Publication Projects (國家重大出版工程評審組) and the State Review Committee for Science and Technology Fundamental Platform Projects of the Ministry of Science and Technology (科技部國家科技基礎條件平臺項目評審組). Mr. Han is currently a member of the Expert Committee on Telecommunication Economic and Management of the Ministry of Information Industry (信息產業部電信經濟和電信管理專家委員會). Mr. Han has been a consultant on many projects in relation to asset restructuring and strategy development. He was involved in the strategic development project of Beiren Group Corporation (北人集團公司). He also participated in a research and study project of Zhongguancun Technology Zone in Beijing (北京市中關村科技園區).

Cheng Sanguo (程三國), aged 45, was appointed an independent non-executive Director of our Company on 20 April 2006 and his designation as an independent non-executive Director was formalised on 22 April 2007. Mr. Cheng graduated from Wuhan University (武漢大學) majoring in library science in July 1985, and obtained his master's degree from the same university in September 1988. Mr. Cheng became the founder of China Book Business Report (中國圖書商報) in 1995 where he served as chief editor and executive deputy president (常務副社長) until December 2005. Currently, Mr. Cheng is the general manager of Beijing Xinliugan Cultural Communications Co., Ltd., and he has been a member of the editorial committee of Publishing Research Quarterly (US) (出版研究季刊), and a strategy consultant and expert panelist for several publishing presses and an executive committee member of the China Periodicals Associations (中國期刊協會). Mr. Cheng is an expert lecturer at the Cultural Industry Research Institute of Beijing University (北京大學文化產業研究所). Mr. Cheng has more than 18 years of experience in the publishing industry and business management.

Chan Yuk Tong (陳育棠), aged 45, was appointed an independent non-executive Director of our Company on 20 April 2006 and his designation as an independent non-executive Director was formalised on 22 April 2007. Mr. Chan obtained his bachelor's degree in commerce from the University of Newcastle in Australia in 1985 and a master's degree in business administration from the Chinese University of Hong Kong in 2005. Mr. Chan is a practising fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. Mr. Chan joined Ernst & Young in November 1988, and was appointed an audit principal in 1994. Mr. Chan joined G2000 (Apparel) Limited in 2000 and worked as a finance director and sales director from August 2000 to October 2003 and from October 2003 to May 2004, respectively. Currently, Mr. Chan is the deputy head of the accounting and finance department of Dongfeng Motor Group Company Limited (which is listed on the Stock Exchange, stock code: 489). Mr. Chan currently also holds directorships in the following publicly listed companies:

Name of company	Stock code	Title
Vitop Bioengery Holdings Limited	Hong Kong Stock Exchange: 1178	Executive director
Carico Holdings Limited	Hong Kong Stock Exchange: 729	Independent non-executive director
Daisho Microline Holdings Limited	Hong Kong Stock Exchange: 567	Independent non-executive director
Kam Hing International Holding Limited	Hong Kong Stock Exchange: 2307	Independent non-executive director
BYD Electronic (International) Company Limited	Hong Kong Stock Exchange: 285	Independent non-executive director
Anhui Conch Cement Company Limited	Hong Kong Stock Exchange: 914 Shanghai Stock Exchange: 600585	Independent non-executive director

In addition, Mr. Chan was an executive director of Tak Sing Alliance Holdings Limited (which is listed on the Stock Exchange, stock code: 126) and a director of Luks Industrial (Group) Limited (now known as Luks Group (Vietnam Holdings) Company Limited)(which is listed on the Stock Exchange, stock code: 366) and World Trade Bun Kee Limited (now known as China Pipe Group Limited) (which is listed on the Stock Exchange, stock code: 380). Mr. Chan has more than 21 years of experience in auditing, accounting, management consultancy and financial advisory services.

Supervisors

Luo Jun (羅軍), aged 42, was appointed a Supervisor of our Company on 20 April 2006, and was elected chairman of the Supervisory Committee in May 2006. Mr. Luo graduated from Shaanxi Institute of Finance and Economics (陝西財經學院) with a bachelor's degree majoring in material, economics and management. He completed a specialised master's degree course in economics management at the Central Chinese Communist Party School (中央黨校) in July 2001. Mr. Luo joined our Parent and was appointed the vice president of Sichuan Xinhua Publishing Group in January 2006. Prior to joining Sichuan Xinhua Publishing Group, Mr. Luo had extensive work experience in the Sichuan Province Press and Publication Bureau. He was the secretary of the directly administered entities youth league committee (直屬機關團委書記), deputy department head of the personnel education department (人事教育處副處長), and department head from 1990 to 2006. He was appointed chief officer of the training centre of Sichuan Province Press and Publication Bureau (四川省新聞出版局培訓中心主任) in November 2001. Mr. Luo has over 21 years of experience in the publishing industry and corporate management in both government and the private sectors.

Li Yunyi (李韵奕), aged 38, was appointed a Supervisor of our Company with effect from 11 June 2005. Mr. Li graduated from the Department of Philosophy of Beijing Normal University (北京師範大學) with a bachelor's degree majoring in political education in July 1994. He joined Sichuan Daily Newspaper Group as a journalist in August 1994 and was involved in editing, advertisement and investment projects. He was then promoted to the position of assistant to chief officer (主任助理) in the enterprise planning and investment department (企劃投資部) of Sichuan Daily Newspaper Group in 2000. He worked as deputy general manager of Sichuan Daily Newspaper Group Investment Company (四川日報報業集團投資公司) from 2004 to 2005, and has acted as deputy head of the general manager's office of Sichuan Daily Newspaper Group since 2006. Mr. Li was also a director of Sichuan Daily Newspaper Online Media Development Company Limited (四川日報網絡傳媒發展有限公司) and Sichuan Lian Xiang Printing Company Limited, and is currently the deputy general manager of Sichuan Daily Newspaper Online Media Development Company Limited. Mr. Li has over 13 years of experience in both the publishing industry and in corporate investment.

Wang Feng (汪峰), aged 38, was appointed a Supervisor of our Company with effect from 11 June 2005. Mr. Wang graduated from Southwestern University of Political Science and Law (西南政法大學) with a bachelor of laws degree in 1991. Mr. Wang joined Sichuan Publication Group in December 2003 and was responsible for publishing and production operation management. He has been manager of the circulation centre (發行中心) since September 2004. Prior to joining Sichuan Publication Group, Mr. Wang had worked in the Sichuan Province Press and Publication Bureau since July 1991 and was promoted to deputy head of the publication and circulation management department (出版物發行管理處副處長) in July 1998. Mr. Wang was in charge of the marketing of publications. Mr. Wang has over 17 years of experience in the publishing industry and corporate management in government.

Peng Xianyi (彭先毅), aged 43, was appointed a Supervisor of our Company with effect from 11 June 2005. Mr. Peng graduated from Southwestern University of Finance and Economics in October 1988. He is a qualified accountant. Prior to joining our Group, Mr. Peng worked for Chengdu City Petrochemical Company (成都市化工公司) from July 1983 to December 1991 and was responsible for various financial matters. He joined the Sichuan Branch of Shenzhen Zhonghua Bicycle (Group) Shares Company Limited (深圳中華自行車(集團)股份有限公司四川分公司) in January 1992 and was assistant to the general manager of the finance department. From

December 1998 to August 1999, Mr. Peng worked as head of the finance department of China Richu Industrial Group Company (中國日出產業集團公司). Mr. Peng became manager of the finance department of Chengdu Zhuang Sen Industrial Shu Du Garden Project Company Limited (成都莊森實業蜀都花園項目公司), Chengdu Hua Sheng Industry Shu Du Garden Project Development Company Limited, and Chengdu Hua Sheng Group Company (成都華盛集團公司) since September 1999. Mr. Peng has more than 24 years of experience in financial accounting.

Lan Hong (蘭紅), aged 41, was appointed a Supervisor of our Company with effect from 11 June 2005, while also being an elected employee representative Supervisor. Ms. Lan obtained a graduate certificate in accounting conferred jointly by Sichuan Self-study University (四川自修大學) and South-west University of Finance and Economics (西南財經大學) in June 1989, and graduated from Sichuan Radio and Television University in July 2003 majoring in accounting. Ms. Lan joined Chengdu City Xinhua Bookstore in 1984, started to work in the finance department in 1989, then joined our Parent in December 2001 as head of the finance and audit department, and subsequently deputy chief officer of the audit department of the Company. Ms. Lan is currently deputy office head of the Board of our Company. Ms. Lan has more than 19 years of experience in financial accounting.

Liu Nan (劉南), aged 43, was appointed a Supervisor of our Company with effect from 11 June 2005, while also being an elected employee representative Supervisor. Ms. Liu graduated from Chengdu University in 1986 with a degree in book distributions management. She obtained a master's level course completion certificate in economics and business administration in July 2002 at Sichuan University. Ms. Liu also completed a specialised course in computer application at the University of Chengdu in July 1989. Ms. Liu is deputy general manager of our Company's procurement centre. Prior to joining our Company, Ms. Liu was deputy manager of the operations department of Sichuan Province Xinhua Bookstore Group Audio and Visual Product Company (四川省新華書店集團音像公司), and assistant to the general supervisor of the procurement centre of Sichuan Times Xinhua Audio and Visual Product Chainstore Company (四川時代新華音像連鎖公司) starting from 1992 and 2001, respectively and the head of the information centre of the Company. Ms. Liu previously worked in the computer centre of the Sichuan Province Planning Commission (四川省計劃委員會) from 1981 to 1984. Ms. Liu has more than 16 years of experience in the purchase and distribution of audio-visual products and more than 25 years of experience in information technology.

Li Qiang (李強), aged 34, was appointed a Supervisor of our Company with effect from 11 June 2005, while also being an elected employee representative Supervisor. Mr. Li graduated from Wuhan University in July 1995 with a bachelor's degree majoring in book distribution. Mr. Li joined Sichuan Province Xinhua Bookstore in July 1995. He worked as the deputy manager, manager of the sales department and manager of the operations centre of Sichuan Xinhua Publishing Group Textbook Company from March 2003 to May 2005. Mr. Li joined our Company in June 2005 as manager of the operations centre and assistant to the general manager of the textbook distribution department. Mr. Li is currently general manager of the textbook distribution department of our Company. Mr. Li has over 11 years of experience in the publishing and distribution industries.

Independent Supervisors

Fu Daiguo (傅代國), aged 43, was appointed an independent Supervisor of our Company on 20 April 2006. Mr. Fu obtained his doctoral degree in accounting from the Southwestern University of Finance and Economics in December 2001 and is a member of the China Accounting Association (中國會計學會). Mr. Fu is a deputy dean and an accounting professor at the College of Accounting at the Southwestern University of Finance and Economics and has published over 30 papers on corporate accounting issues in a number of well-known periodicals in the field. Mr. Fu used to work as project manager of Sichuan Province Assets Reorganisation Centre (四川省資產重組中心) and an independent director of Sichuan Baoguang Pharmaceuticals Company Limited (四川寶光藥業股份有限公司). He is also on the committee of the China Research Institution of Finance and Costs for Adults and Youths (中國中青年財務成本研究會), and a member of the Chengdu City Expert Panel on Computerisation of Accounting (成都市會計電算化專家組成員). Mr. Fu is in charge of the Sichuan Province Accounting Personnel Training Base (四川省會計人才培養基地) and Sichuan Province premium courses on accounting (四川省級精品課程《會計學》). Mr. Fu is an independent director of Chengdu City People's Shopping Mall (Group) Company Limited (成都人民商場(集團)股份有限公司, formerly known as Chengdu City People's Shopping Mall Company Limited (成都人民商場股份有限公司) listed on the Shanghai Stock Exchange, stock code: 600828), China Tungsten and Hightech Materials Co., Ltd. (中鎢高新材料股份有限公司, listed on the Shenzhen Stock Exchange, stock code: 000657) and Sichuan Zhonghui Pharmaceuticals (Group) Company Limited (四川中匯醫藥(集團)股份有限公司, formerly known as Sichuan Zonghui Pharmaceuticals Company Limited (四川中匯醫藥股份有限公司), listed on Shenzhen Stock Exchange, stock code: 000809). Mr. Fu has more than 20 years of experience in corporate accounting.

Li Guangwei (李光煒), aged 67, was appointed an independent Supervisor of our Company on 20 April 2006. Mr. Li graduated from Kunming Polytechnic University (昆明工學院) majoring in mechanics in 1962. Mr. Li was given the professional qualification of deputy editor-revisor (副編審) in 1988 and editor-revisor (編審) in 1996. From 1993 to May 2001, Mr. Li served as president of Sichuan Technology Press (四川科技出版社), National Discovery Magazine Press (《大自然探索》雜誌社), and Audio and Visual Technology Magazine Press (《視聽技術》雜誌社). Mr. Li has more than 23 years of experience in the publishing industry and business management.

Senior Management

Xiao Liping (肖莉萍), aged 52, was appointed the executive deputy general manager of our Company in June 2005 and the associate dean of the management research institute of Sichuan Xinhua Winshare Chainstore Co., Ltd. since September 2007. Ms. Xiao graduated from Sichuan Radio and Television University with a bachelor's degree majoring in electronics in 1982 and completed a Master of Business Administration degree course at People's University of China in September 2002. Prior to joining our Company, Ms. Xiao worked at Sichuan Province Xinhua Bookstore from 1976 and became deputy general manager in 1996. Ms. Xiao served as deputy general manager of our Parent from 2000 to 2005. Ms. Xiao has over 19 years of experience in the book publishing and distribution industries and corporate management.

Chen Dali (陳大利), aged 45, was appointed deputy general manager of our Company as well as general manager of our publication department (出版事業部) in June 2005. Mr. Chen obtained his master's degree in the history of Chinese language from Sichuan Normal University (四川師範大學) in 1987. Prior to joining our Group, Mr. Chen worked at Sichuan Bashu Book Shop (四川巴蜀書社) in 1987 and became vice president (副社長) in 2000. From May 2001 to May 2005, Mr. Chen worked as deputy general manager of our Parent and general manager of its publication department (出版事業部). Mr. Chen has over 18 years of experience in the publishing and distribution industries.

Deng Xinming (鄧新明), aged 51, was appointed deputy general manager of our Company in June 2005. Mr. Deng completed a Master of Business Administration degree course at People's University of China in August 2002. Mr. Deng worked as a manager of the audio-visual products department of Sichuan Province Foreign Language Bookstore from May 1983 and subsequently became deputy general manager. He joined our Parent and became a deputy general manager in November 2001. During Mr. Deng's employment with our Parent he also worked as general manager of Sichuan Xinhua Bookstore Group Wenxuan Chainstore from March 2004 to May 2005. After joining our Company in 2005, Mr. Deng also served as general manager of our retail department (零售連鎖事業部) until August 2006. Mr. Deng has over 25 years of experience in the book publishing and distribution industries and corporate management.

Zhu Zaixiang (朱在祥), aged 47, was appointed our Chief Financial Officer in June 2005. Mr. Zhu completed a Master of Business Administration degree course at People's University of China in August 2002. He is a senior qualified accountant. Mr. Zhu started working in the planning and audit office of Sichuan Province Xinhua Bookstore in 1982 and subsequently became deputy department head. He was then promoted to department head and chief officer (主任) of the planning and finance department in 1992 and 1993, respectively. Mr. Zhu joined our Parent in 2000 as head of the financial management department until May 2005. He also served as general chief accountant of our Parent from 2004 to May 2005. Mr. Zhu has more than 24 years of experience in financial accounting.

You Zugang (游祖剛), aged 45, was appointed our Board secretary and Chief Administrative Officer (行政總監) in June 2005. Mr. You completed a Master of Business Administration degree course at People's University of China in August 2002. Mr. You is also a member of the Institute of International Internal Auditors. Mr. You started working in the planning and finance department of Sichuan Province Xinhua Bookstore in 1981, and was promoted to deputy department head in February 1989. He was seconded to Guangyuan City Xinhua Bookstore as deputy manager in September 1991. Mr. You was in charge of Sichuan Province Audio-visual Products Wholesale Market Operations Office (四川圖像音像批發市場辦公室) from September 1992 to April 1995. Prior to joining our Parent in 2000, Mr. You was head of the audit office and deputy head of the planning and finance department of Sichuan Province Xinhua Bookstore from January 1996 to May 2000. From May 2000 to May 2005, Mr. You was head of the audit office, deputy head of the financial management department, and head of the manager's office of our Parent. He was also head of Guangyuan City Management Centre of our Parent from April 2004 to May 2005. Mr. You has more than 25 years of experience in financial accounting.

Zhang Jian (張踐), aged 42, was appointed the Chief Operating Officer of our Company in June 2005. Ms. Zhang graduated from Chengdu University majoring in book distribution and management in July 1986. Ms. Zhang joined Sichuan Province Xinhua Bookstore in 1986 and became deputy department head and department head of the computer centre from October 1998 to May 2000. Ms. Zhang joined Sichuan Province Xinhua Bookstore Group as head of the information centre in May 2000, and was promoted to chief operating officer of Sichuan Xinhua Bookstore Group Wenxuan Chainstore in November 2001. Prior to joining our Company, Ms. Zhang was the head of the industrial development department of our Parent. Ms. Zhang has over 18 years of experience in the book publishing and distribution industries and the information technology field.

Liu Yuecheng (劉岳成), aged 44, is currently Chief Sales Officer of our Company. Mr. Liu graduated from Chengdu University majoring in book distribution and management in July 1988. Mr. Liu worked as deputy manager of Sichuan Province Xinhua Bookstore Textbook Company from 1990 and was promoted to manager in 1997. From May to December 2000, Mr. Liu acted as manager of Sichuan Xinhua Bookstore & Trading Company (四川新華圖貿有限責任公司). Mr. Liu gained valuable experience in corporate finance while working as general manager of Sichuan Xinhua Investment Company Limited (四川新華投資有限責任公司) from December 2000 to May 2005. Mr. Liu joined our Company in June 2005 and served as executive deputy general manager of our textbook distribution department until April 2006. He became general manger of that department in May 2006. Mr. Liu has over 16 years of experience in the textbook distribution industry and corporate management.

Shen Xiaoyi (沈曉翊), aged 54, was appointed Chief Production Officer of our Company in August 2007. Ms. Shen obtained a certificate of graduate studies in Journalism from Sichuan University (四川大學) in July 2003, and has worked in Sichuan Province Press and Publication Bureau since 1980. She worked as deputy department head of the printing department of Sichuan Province Press and Publication Bureau from 1991 to 1997 and deputy general manager of Sichuan Publication Group from January 1998 to June 2004. Ms. Shen served as department head of the audio electronic network publishing management department (音像電子網路出版管理處處長) of Sichuan Province Press and Publication Bureau from July 2004 to June 2007. Ms Shen has over 28 years of experience in the publishing industry and business management.

Zhao Xuefeng (趙學鋒), aged 44, was appointed Chief Procurement Officer of our Company in March 2008. Mr. Zhao completed an advanced studies course of the business administration research centre of Renmin University of China in November 2002. Mr. Zhao joined Chengdu Xinhua Bookstore in 1982. He was deputy general manager of Chengdu City Xinhua Bookstore in 1997 and deputy manager of the Beijing publishing department (北京發行所) of Xinhua Bookstore in 2003. Mr. Zhao served as deputy general manager of the chainstore department (連鎖事業部) of our Company from September 2005 to May 2006 and general manager of the procurement centre of our Company from May 2006 to March 2008. Mr. Zhao has over 26 years of experience in book procurement and publishing.

Mak Ming Fai (麥銘輝), aged 28, is the qualified accountant of our Company and joined us in October 2006. Mr. Mak graduated from the Chinese University of Hong Kong with a bachelor's degree in accountancy in 2001. He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and also a Chartered Financial Analyst charterholder. Mr. Mak worked as a senior accountant at a company listed on the Stock Exchange from January 2005 to May 2006 where he was responsible for preparation of consolidated financial statements of the group and internal coordination. Prior to that, Mr. Mak was an auditor at an international accounting firm from September 2001. Mr. Mak has over 6 years of experience in financial accounting.

Joint Company Secretaries

Mr. You Zugang is one of the joint company secretaries of the Company, his biographical details are set out in the sub-section headed "Senior Management" above.

Mr. Ngai Wai Fung, age 46, was appointed as one of the joint company secretaries of our Company on 8 February 2007. Mr. Ngai is a director and head of listing services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. Mr. Ngai is currently vice president of The Hong Kong Institute of Chartered Secretaries (HKICS) and the Chairmen of its China Affairs Committee and Membership Committee. He is also a fellow of HKICS and the Institute of Chartered Secretaries and Administrators in United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants, a member of the Association of Chartered Certified Accountants in the United Kingdom, a member of Hong Kong Institute of Directors and a member of Hong Kong Securities Institute. Mr. Ngai holds a Master of Corporate Finance from The Hong Kong Polytechnic University, a Master of Business Administration from Andrews University of the United States and a Bachelor of Laws (with Honours) degree from the University of Wolverhampton, the United Kingdom. He is also a PhD (thesis stage) in Finance at Shanghai University of Finance and Economics.

Report of the Supervisory Committee

During the year, the Supervisory Committee of the Company carried out its supervisory duties efficiently in a conscientious and diligent manner to protect the interests of shareholders and the Company, in accordance with the requirements of the Company Law of the People's Republic of China (the "Company Law"), the Listing Rules, the Company's Articles of Association and provisions of other relevant laws.

1. Meetings held by the Supervisory Committee

During the year, the Company convened two Supervisory Committee meetings, where the number of supervisors present at the meetings was in compliance with the relevant provisions of the Company Law and the Company's Articles of Association.

1) On 29 April, 2007, the Company convened the first meeting of the 1st Supervisory Committee for the year 2007. The meeting considered and approved unanimously the Working Report of the Supervisory Committee for 2006, the Special Supervisory Report of the Supervisory Committee for 2006, the Profit Distribution Proposal for 2006, the Budget Proposal for 2007 and the Working Procedures for the Supervisory Committee.

2) On 11 October, 2007, the Company convened a special meeting of the 1st Supervisory Committee for the year 2007. Zhu Zaixiang, Chief Financial Officer of the Company, reported on the business operations and financial position of the Company for the first six months of 2007 to the supervisors on behalf of the Company's management. You Zugang, secretary to the Board, gave an introduction on the implementation of resolutions of shareholders' and Board meetings of the Company.

2. Supervision and inspection conducted by the Supervisory Committee

During the year, the Company's Supervisory Committee duly carried out its supervisory duties with a view to protecting the interests of the Company and the shareholders. Members of the Company's Supervisory Committee were present at all Board meetings of the Company during the reporting period, took notice of the management's report on the Company's operation and management and the Board secretary's report on the execution of Board resolutions by the Company's management, in order to supervise the critical decision-making process of the Company and the performance of duties of Board members and senior management officers. After supervision, the Supervisory Committee is of the view that the decision-making procedures of all Board meetings are in compliance with the laws, the Board has duly implemented resolutions of shareholders and faithfully carried out the fiduciary duties. We were not aware of any act in breach of laws, regulations and the Company's Articles of Association or detrimental to the interests of the Company and infringement of the interests of the shareholders by the Directors and senior management officers of the Company in the course of performance of their duties for the Company.

3. Independent opinion of the Supervisory Committee on certain issues of the Company in 2007

1) OPERATION OF THE COMPANY PURSUANT TO THE RELEVANT LAWS

Operation of the Company in 2007 was generally in compliance with requirements specified by the relevant laws. Since 2007, the Company has fully implemented budget management and performance target management, continuously improving procedures and systems and established procedural control mechanism, established corresponding tracing systems and targeting key procedural control points.

The Supervisory Committee is of the view that the Board managed to regulate its operation, make reasonable decisions, diligently perform its duties and duly implement resolutions of shareholders strictly in accordance with the requirements of the Company Law, the Listing Rules and the Company's Articles of Association. Internal control system was further improved, and the Directors and senior management officers of the Company did not perform any act in breach of laws, regulations and the Company's Articles of Association or which is detrimental to the interests of the Company and infringe the interests of the shareholders in the course of performance of their duties for the Company.

2) FINANCIAL POSITION OF THE COMPANY

The Supervisory Committee of the Company duly considered information relevant to the Company's financial statements for 2007, the Profit Distribution Proposal and the Annual Report for 2007. The Supervisory Committee is of the view that the financial statements of the Company truly reflect the financial positions of the Company as of 31 December 2007 and the operation results for the year 2007 of the Company in all material aspects and that the audit report with unqualified opinion issued by Ernst & Young and ShineWing Certified Public Accountants were fair and objective.

3) CONNECTED TRANSACTIONS FOR THE COMPANY

The Supervisory Committee has conducted supervision and verification on the Company's connected transactions for the year 2007, and is of the view that the connected transactions for the Company had been conducted at fair prices, by procedures in accordance with laws and regulations, and were not against the interests of the Company and shareholders.

4) ACQUISITIONS AND DISPOSALS OF COMPANY ASSETS

Material acquisitions by the Company during the reporting period were conducted in accordance with the laws, and did not involve any insider dealing or any act against the interests of shareholders, and did not cause any loss to the Company's assets.

In year 2008, the supervisors will continue to perform their duties faithfully, further enhance the regulated operation of the Company, protect the interests of shareholders and the Company as a whole from infringement, and diligently carry out every task strictly in accordance with the powers conferred by applicable laws and regulations of the PRC and Hong Kong and the Company's Articles of Association.

By order of the Supervisory Committee
Luo Jun
Chairman

18 April 2008

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
Phone : (852) 2846 9888
Fax : (852) 2868 4432
www.ey.com/china

To the shareholders of Sichuan Xinhua Winshare Chainstore Co., Ltd.
(A joint stock limited company incorporated in the People's Republic of China)

We have audited the financial statements of Sichuan Xinhua Winshare Chainstore Co., Ltd. (the "Company") and its subsidiaries (collectively the "Group") set out on pages 60 to 127, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

Independent Auditors' Report (Continued)

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
18 April 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	5	2,309,481	2,217,625
Cost of sales		(1,383,520)	(1,367,574)
Gross profit		925,961	850,051
Other income and gains	5	95,717	40,613
Selling and distribution costs		(448,354)	(397,074)
Administrative expenses		(163,173)	(138,859)
Other expenses		(63,734)	(54,793)
Finance income, net	7	45,787	6,515
Share of losses of associates		(3,445)	(593)
PROFIT BEFORE TAX	6	388,759	305,860
Tax	10	(1,765)	(3,422)
PROFIT FOR THE YEAR		386,994	302,438
Attributable to:			
Equity holders of the parent		388,796	302,801
Minority interests		(1,802)	(363)
		386,994	302,438
DIVIDENDS — Proposed final	12	340,539	70,943
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (RMB)	13	0.40	0.41

Consolidated Balance Sheet

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	494,119	408,559
Lease prepayments for land use rights	15	72,051	73,056
Investment properties	16	6,066	2,470
Intangible assets	17	26,901	19,391
Investments in associates	19	47,308	50,753
Available-for-sale equity investments	20	188,835	2,420
Deferred tax assets	21	47,090	62,158
Property under development	22	126,025	123,102
Long-term prepayment	23	160,000	—
Other long term assets		—	1,404
Total non-current assets		1,168,395	743,313
CURRENT ASSETS			
Inventories	24	576,218	338,853
Trade receivables	25	289,745	321,201
Prepayments, deposits and other receivables	26	156,293	130,267
Held-to-maturity investments	27	330,000	—
Investments at fair value through profit or loss	28	868,180	—
Pledged deposits	29	10,000	—
Cash and short-term deposits	29	1,536,434	873,026
Total current assets		3,766,870	1,663,347
CURRENT LIABILITIES			
Other borrowings	30	—	15,395
Trade and bills payables	31	1,021,007	869,299
Deposits received, other payables and accruals	32	171,007	197,919
Tax payable		6,130	10,998
Total current liabilities		1,198,144	1,093,611
NET CURRENT ASSETS		2,568,726	569,736
TOTAL ASSETS LESS CURRENT LIABILITIES		3,737,121	1,313,049

Consolidated Balance Sheet (Continued)
31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT LIABILITIES			
Other borrowings	30	13,125	—
Total non-current liabilities		13,125	—
Net assets		3,723,996	1,313,049
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	33	1,135,131	733,370
Reserves	34	2,202,968	461,576
Proposed final dividend	12	340,539	70,943
		3,678,638	1,265,889
Minority interests		45,358	47,160
Total equity		3,723,996	1,313,049

Gong Cimin
Director

Yang Miao
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

	Notes	Attributable to equity holders of the parent								Minority interests	Total equity
		Issued capital	Share premium account	Capital reserve	Statutory surplus reserve	Other reserve	Proposed final dividend	Retained profits	Total		
		RMB'000	RMB'000	RMB'000	RMB'000 (note 34 (b)(i))	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2006		733,370	—	33,514	26,403	63,461	60,210	106,340	1,023,298	7,056	1,030,354
Final dividend for 2005		—	—	—	—	—	(60,210)	—	(60,210)	—	(60,210)
Profit for the year		—	—	—	—	—	—	302,801	302,801	(363)	302,438
Appropriation to statutory surplus reserve		—	—	—	26,637	—	—	(26,637)	—	—	—
Investment in subsidiaries		—	—	—	—	—	—	—	—	35,798	35,798
Acquisition of subsidiaries		—	—	—	—	—	—	—	—	4,808	4,808
Equity transaction with minority equity holders		—	—	—	—	—	—	—	—	(139)	(139)
Proposed final 2006 dividend	12	—	—	—	—	—	70,943	(70,943)	—	—	—
As at 31 December 2006		733,370	—	33,514*	53,040*	63,461*	70,943	311,561*	1,265,889	47,160	1,313,049
As at 1 January 2007		733,370	—	33,514*	53,040*	63,461*	70,943	311,561*	1,265,889	47,160	1,313,049
Profit for the year		—	—	—	—	—	—	388,796	388,796	(1,802)	386,994
Final dividend for 2006		—	—	—	—	—	(70,943)	—	(70,943)	—	(70,943)
Effect of change in tax rate	21	—	—	—	—	(15,068)	—	—	(15,068)	—	(15,068)
Issue of H shares upon listing	33(a)	369,400	1,726,743	—	—	—	—	—	2,096,143	—	2,096,143
Issue of H shares upon partial exercise of the over-allotment option	33(b)	32,361	151,270	—	—	—	—	—	183,631	—	183,631
Share issue expenses		—	(169,810)	—	—	—	—	—	(169,810)	—	(169,810)
Appropriation to statutory surplus reserve		—	—	—	40,245	—	—	(40,245)	—	—	—
Proposed final 2007 dividend	12	—	—	—	—	—	340,539	(340,539)	—	—	—
As at 31 December 2007		1,135,131	1,708,203*	33,514*	93,285*	48,393*	340,539	319,573*	3,678,638	45,358	3,723,996

* These reserve accounts comprise the consolidated reserves of RMB2,202,968,000 (2006: RMB461,576,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		388,759	305,860
Adjustments for:			
Finance income, net	7	(45,787)	(6,515)
Gain on held-to-maturity investments	5	(7,830)	—
Gain on investment designated at fair value through profit or loss	5	(8,180)	—
Excess over the cost of a business combination	5/6	—	(296)
Amortisation of intangible assets	6	2,833	2,174
Recognition of lease prepayments for land use rights	6	3,823	3,795
Share of losses of associates		3,445	593
Loss/(gain) on disposal of items of property, plant and equipment	6	561	(141)
Depreciation	6	35,402	33,755
Expenses on conversion of shares	6	7,545	—
Impairment of trade and other receivables	6	6,002	29,083
Write-down of inventories to net realisable value	6	22,358	19,205
		408,931	387,513
(Increase)/decrease in inventories		(259,723)	141,488
(Increase)/decrease in trade receivables		22,149	(103,387)
(Increase)/decrease in prepayments, deposits and other receivables		(57,358)	1,373
Increase/(decrease) in trade and bills payables		151,708	(88,536)
Increase/(decrease) in deposits received, other payables and accruals		(38,862)	42,429
Increase in property under development		(2,923)	(2,164)
(Increase)/decrease in other long term assets		1,404	(1,404)
Cash generated from operations		225,326	377,312
Interest paid		(796)	(419)
PRC corporate income tax paid		(6,633)	(3,046)
Net cash inflow from operating activities		217,897	373,847

Consolidated Cash Flow Statement (Continued)

Year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		46,583	6,934
Proceeds from gain on held-to-maturity investments		7,830	—
Dividends received		—	662
Proceeds from disposal of items of property, plant and equipment		2,319	2,318
Purchase of items of property, plant and equipment		(80,794)	(85,803)
Purchase of a lease prepayment for land use right		(2,875)	—
Purchase of intangible assets		(10,343)	(4,583)
Increase in non-pledged time deposits with original maturity of more than three months when acquired		(200,000)	—
Acquisition of subsidiaries, net of cash paid		—	12,653
(Increase)/decrease in available-for-sale equity investments		(186,415)	2,150
Increase in long-term prepayment		(160,000)	—
Increase in pledged time deposits		(10,000)	—
Purchase of held-to-maturity investments		(330,000)	—
Purchase of investments at fair value through profit or loss		(860,000)	—
Equity transaction with minority equity holders		—	(4,799)
Net cash outflow from investing activities		(1,783,695)	(70,468)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of H shares		2,109.964	—
Cash contribution from minority shareholders		—	35,798
New other borrowings		13,125	16,000
Repayment of other borrowings		(15,395)	(605)
Prepayment of listing expenses		—	(13,498)
Expenses on conversion of shares		(7,545)	—
Dividends paid		(70,943)	(60,210)
Net cash inflow/(outflow) from financing activities		2,029,206	(22,515)
NET INCREASE IN CASH AND CASH EQUIVALENTS		463,408	280,864
Cash and cash equivalents at beginning of year		873,026	592,162
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,336,434	873,026
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:			
Cash and bank balances	29	1,196,434	873,026
Non-pledged deposits with original maturity of less than three months when acquired	29	140,000	—
	29	1,336,434	873,026

Balance Sheet

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	491,070	406,035
Lease prepayments for land use rights	15	72,051	73,056
Investment properties	16	6,066	2,470
Intangible assets	17	25,514	17,820
Investments in subsidiaries	18	81,452	81,452
Investments in associates	19	53,118	53,118
Available-for-sale equity investments	20	188,835	2,420
Deferred tax assets	21	47,090	62,158
Long-term prepayment	23	160,000	—
Other long term assets		—	1,404
Total non-current assets		1,125,196	699,933
CURRENT ASSETS			
Inventories	24	570,994	333,138
Trade receivables	25	285,622	301,524
Prepayments, deposits and other receivables	26	196,884	142,719
Held-to-maturity investments	27	330,000	—
Investments at fair value through profit or loss	28	868,180	—
Pledged deposits	29	10,000	—
Cash and short-term deposits	29	1,493,449	849,978
Total current assets		3,755,129	1,627,359
CURRENT LIABILITIES			
Trade and bills payables	31	1,007,966	865,522
Deposits received, other payables and accruals	32	160,541	180,266
Tax payable		3,144	4,822
Total current liabilities		1,171,651	1,050,610
NET CURRENT ASSETS		2,583,478	576,749
TOTAL ASSETS LESS CURRENT LIABILITIES		3,708,674	1,276,682
Net assets		3,708,674	1,276,682
EQUITY			
Issued capital	33	1,135,131	733,370
Reserves	34	2,233,004	472,369
Proposed final dividend	12	340,539	70,943
Total equity		3,708,674	1,276,682

Gong Cimin
Director

Yang Miao
Director

1. Corporate Information

Sichuan Xinhua Winshare Chainstore Co., Ltd. (the "Company") was incorporated in the People's Republic of China (the "PRC") on 11 June 2005 as a joint stock limited company as part of the reorganisation (the "Reorganisation") of Sichuan Xinhua Publishing Group Co., Ltd. ("Xinhua"). Details of the formation of the joint stock limited company are set out in the Company's prospectus dated 16 May 2007 (the "Prospectus").

On 30 May 2007, the Company's H shares were listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and 406,340,000 H shares, consisting of 369,400,000 new shares and 36,940,000 shares converted from the Company's domestic shares (the "Domestic Shares") were issued to the public. On 7 June 2007, an additional 32,361,000 new H shares and 3,236,100 H shares converted from the Domestic Shares were issued to the public as a result of the partial exercise of the over-allotment option as detailed in the Prospectus. The detailed movement of the issued capital is set out in note 33 to the financial statements.

The registered office of the Company is located at 12/F, No. 86 Section One, People's Southern Road, Qingyang District, Chengdu, Sichuan, the PRC.

The Group is principally engaged in the production and trading of publications and related products in the PRC. The details of the principal activities of the subsidiaries are set out in note 18 to the financial statements.

In the opinion of the directors, the parent and ultimate holding company of the Company is Xinhua, a state-owned enterprise established in the PRC.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investments at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.1 Basis of Preparation *(continued)*

BASIS OF CONSOLIDATION *(continued)*

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries, and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the entity concept method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised directly in equity.

2.2 Impact of New and Revised International Financial Reporting Standards

The Group has adopted the following new and revised IFRSs and International Financial Reporting Interpretations Committee ("IFRIC") interpretations during the year. Except for IFRS 7 and IAS 1 Amendment, the adoption of these new and revised standards and interpretations did not have any impact on these financial statements.

IAS 1 Amendment	— Capital Disclosures
IFRS 7	— Financial Instruments: Disclosures
IFRIC 7	— Applying the Restatement Approach under IAS 29 *Financial Reporting in Hyperinflationary Economies*
IFRIC 8	— Scope of IFRS 2
IFRIC 9	— Reassessment of Embedded Derivatives
IFRIC 10	— Interim Financial Reporting and Impairment

The principal effects of adopting these new and revised IFRSs are as follows:

IFRS 7 — *FINANCIAL INSTRUMENTS: DISCLOSURES*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

AMENDMENT TO IAS 1 PRESENTATION OF FINANCIAL STATEMENT — *CAPITAL DISCLOSURES*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 39 to the financial statements.

2.3 Impact of Issued but Not Yet Effective International Financial Reporting Standards

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in these financial statements:

IFRS 3 (Revised)	— Business Combinations[5]
IFRS 8	— Operating Segments[4]
IAS 1 (Revised)	— Presentation of Financial Statements[4]
IAS 23 (Revised)	— Borrowing Costs[4]
IAS 27 (Revised)	— Consolidated and Separate Financial Statements[5]
IFRIC 11	— IFRS 2 — Group and Treasury Share Transactions[1]
IFRIC 12	— Service Concession Arrangements[2]
IFRIC 13	— Customer Loyalty Programmes[3]
IFRIC 14	— IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[2]
Amendments to IFRS 2	— Share-based Payments — Vesting Conditions and Cancellations[4]
Amendments to IAS 32 and IAS 1	— Puttable Financial Instruments[4]

1 Effective for annual periods beginning on or after 1 March 2007
2 Effective for annual periods beginning on or after 1 January 2008
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2009
5 Effective for annual periods beginning on or after 1 July 2009

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

IFRS 8, which will replace IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purpose of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers.

IAS 1 (Revised) separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

2.3 Impact of Issued but Not Yet Effective International Financial Reporting Standards *(continued)*

IAS 23 (Revised) has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional provisions in the revised standard, the Group shall apply the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

IFRIC 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC 11 also address the accounting policy for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

IFRIC 12 requires an operator under a public-to-private service concession arrangement to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. As the Group currently has no such arrangement, the interpretation is unlikely to have any financial impact on the Group.

IFRIC 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

IFRIC 14 addresses how to assess the limit under IAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contribution in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists. As the Group currently has no defined benefit scheme, IFRIC 14 is not applicable to the Group and therefore is unlikely to have any financial impact on the Group.

2.3 Impact of Issued But Not Yet Effective International Financial Reporting Standards *(continued)*

The amendments to IFRS 2 restrict the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. As the Group currently has no such arrangement, the interpretation is unlikely to have any financial impact on the Group.

The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Group does not expect these amendments to impact the financial statements of the Group.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that while the adoption of IFRS 8 and IAS 1 (Revised) may result in new or amended disclosures and the adoption of IAS 23 (Revised) may result in a change in accounting policy, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

JUDGEMENTS

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — the Group as lessee

The Group has entered into commercial property leases for some of its retailing business. The Group has determined that the lessor retains all the significant risks and rewards of these properties and so accounts for them as operating leases.

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

2.4 Significant Accounting Judgements, Estimates and Assumptions *(continued)*

JUDGEMENTS *(continued)*

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Income tax provisions

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of these transactions is assessed periodically to take into account all the changes in tax legislation and practice.

ESTIMATES AND ASSUMPTIONS

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment allowance on inventories

Operational procedures have been in place to monitor the risk of provision against inventories as a majority of working capital is devoted to inventories. Procedure wise, the Group reviews its inventory ageing listing on a periodic basis, which involves a comparison of the carrying value of the aged inventories with the respective net realisable value. The purpose is to ascertain whether an allowance is required to be made in the financial statements for any obsolete or slow-moving inventories. In addition, physical counts are carried out on a periodic basis in order to determine whether an allowance is needed in respect of any obsolete or defective inventories identified.

2.4 Significant Accounting Judgements, Estimates and Assumptions *(continued)*

ESTIMATES AND ASSUMPTIONS *(continued)*

Impairment allowances on receivables

The Group periodically reviews its receivable balances to assess whether impairment allowances exist. In determining whether impairment allowances should be recorded in the consolidated income statements, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the receivable balances before the decrease can be identified with an individual receivable balance. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets of the Group. The Group uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those of the receivable balances when scheduling their future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Depreciation

The Group has estimated the useful lives of the property, plant and equipment and investment properties from 3 to 40 years, after taking into account of their estimated residual values, as set out in the principal accounting policies below. Depreciation of items of property, plant and equipment and investment properties is calculated on the straight-line basis over their expected useful lives.

Fair value of financial instruments determined using valuation techniques

Fair value, in the absence of an active market, is estimated by using valuation techniques, such as recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and/or option pricing model.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), types of instruments or currencies and market liquidity. Discount rates are influenced by risk free interest rates and credit risk.

The option pricing models used incorporate all factors that market participants would consider and are based on observable market data. These models consider, among other factors, contractual and market prices, correlation, time value of money, currency risk, credit risk, interest rate risk and market liquidity. The model parameters are calibrated to relevant market data. Monte Carlo simulation techniques are applied to generate random paths of the prices of the underlying financial instruments and then to estimate the fair values of the financial instrument contracts.

The valuation techniques described above are calibrated annually.

3. Summary of Significant Accounting Policies

SUBSIDIARIES

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

ASSOCIATES

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

BUSINESS COMBINATIONS

Business combinations are accounted for using the purchase method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired businesses at fair value.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired exceeds the cost of the business combination, the Group shall:

(a) reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and

(b) recognise immediately in the income statement any excess remaining after that reassessment.

3. Summary of Significant Accounting Policies *(continued)*

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the assets belong.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by quantity multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses are recognised in the consolidated income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

RELATED PARTIES

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

3. Summary of Significant Accounting Policies *(continued)*

RELATED PARTIES *(continued)*

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

LEASES

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

(c) There is a change in the determination of whether fulfillment is dependant on a specified asset; or

(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) and (d) and at the date of renewal or extension period for scenario (b).

Group as a lessee

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

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as rental income in the period in which they are earned.

3. Summary of Significant Accounting Policies *(continued)*

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and provision for any impairment in value.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the item of property, plant and equipment to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the items of property, plant and equipment and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that items of property, plant and equipment.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment over its estimated useful life, taking into account its estimated residual value of nil to 10%. The estimated useful lives for this purpose are as follows:

Buildings	20–40 years
Leasehold improvements	3–5 years
Motor vehicles	5–8 years
Equipment and fixtures	5–10 years

Construction in progress represents stores and storage facilities under construction, or renovation works in progress and is stated at cost less any impairment losses, and is not depreciated. Cost comprises development and construction expenditure incurred and other direct costs attributable to the development less any accumulated impairment losses. When completed and ready for use, the relevant assets are transferred to property, plant and equipment at cost less accumulated impairment losses.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year the item is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

3. Summary of Significant Accounting Policies *(continued)*

INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

The intangible assets of the Group mainly comprise computer software and rights to use trademarks which are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

INVESTMENT PROPERTIES

Investment properties are interests in a building or part of a building held to earn rental income or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business.

Investment properties are measured at cost less accumulated depreciation and provision for any impairment in value. Depreciation is calculated on the straight-line basis over the expected useful life of 20 to 40 years.

The carrying values of investment properties are reviewed for impairment either annually, or whenever events or changes in circumstances indicate that the carrying values may not be recoverable, whichever is earlier. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the investment properties are written down to their recoverable amounts. Impairment losses are recognised in the consolidated income statement.

An investment property shall be derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

3. Summary of Significant Accounting Policies *(continued)*

INVESTMENT PROPERTIES *(continued)*

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

LEASE PREPAYMENTS FOR LAND USE RIGHTS

Lease prepayments for land use rights represent land use rights paid to the PRC government authorities. Land use rights are initially stated at cost and subsequently charged to the consolidated income statement on the straight-line basis over the respective periods of the rights ranging from 40 to 70 years.

PROPERTIES UNDER DEVELOPMENT

Properties under development are stated at the lower of cost and net realisable value and comprise development expenditure and professional fees. Net realisable value is determined by reference to management estimates based on prevailing market conditions less costs to be included in selling the properties. On completion, the properties are transferred to completed properties held for sale.

INVENTORIES

Inventories comprise merchandise purchased for resale and are stated at the lower of cost and net realisable value.

The cost of merchandise is determined on the weighted average basis. The net realisable value is determined based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Consumables are stated at cost less any impairment losses.

INVESTMENTS AND OTHER FINANCIAL ASSETS

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modified the cash flows that would otherwise be required under the contract.

3. Summary of Significant Accounting Policies *(continued)*

INVESTMENTS AND OTHER FINANCIAL ASSETS *(continued)*

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contract. Gains or losses on these financial assets are recognised in the consolidated income statement. The net fair value gain or loss recognised in the income statement does not include any interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. As at 31 December 2007, the financial assets designated as fair value through profit or loss are set out in note 28.

3. Summary of Significant Accounting Policies *(continued)*

INVESTMENTS AND OTHER FINANCIAL ASSETS *(continued)*

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of other categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gains or losses previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

3. Summary of Significant Accounting Policies *(continued)*

INVESTMENTS AND OTHER FINANCIAL ASSETS *(continued)*

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis or other valuation models.

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the 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). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are recognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

3. Summary of Significant Accounting Policies *(continued)*

IMPAIRMENT OF FINANCIAL ASSETS *(continued)*

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

(a) the rights to receive cash flows from the asset have expired;

(b) the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

(c) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

3. Summary of Significant Accounting Policies *(continued)*

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES *(continued)*

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

INTEREST-BEARING LOANS AND BORROWINGS

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of directly attributable transaction costs.

After the initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs, and any discounts or premiums on settlement.

Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised, as well as through the amortisation process.

OTHER FINANCIAL LIABILITIES

Other financial liabilities are carried at amortised cost. Any difference between the proceeds net of transaction costs and the redemption value is recognised in the consolidated income statement over the period of the financial liabilities using the effective interest method.

3. Summary of Significant Accounting Policies *(continued)*

PROVISIONS

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A contingent liability is a possible obligation that arises from past events. The existence of a contingent liability will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required, or that the amount of the obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, a contingent liability will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events. The existence of a contingent asset will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

INCOME TAX

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statements.

3. Summary of Significant Accounting Policies *(continued)*

INCOME TAX *(continued)*

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

(a) where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

(a) where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

3. Summary of Significant Accounting Policies *(continued)*

INCOME TAX *(continued)*

Deferred tax (continued)

Income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

GOVERNMENT GRANTS

Government grants are recognised at their fair value where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with. When a grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statements over the expected useful life of the relevant asset by equal annual instalments. Government grants received where the attaching conditions have not yet been fulfilled are recognised as liabilities. Where the Group receives non-monetary grants, the asset and that grant are recorded at nominal amounts and are released to the income statements over the expected useful life of the relevant asset by equal annual instalments.

SEGMENT REPORTING

A segment is a distinguishable component of the Group that engages either in providing products or services (a business segment), or in providing products or services within a particular economic environment (a geographical segment). Each segment is subject to risks and returns that are different from those of other segments.

REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duties. The following specific recognition criteria must also be met before revenue is recognised:

(a) Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

(b) Commission income is recognised upon the sale of merchandise by the relevant bookstores or services rendered.

3. Summary of Significant Accounting Policies *(continued)*

REVENUE RECOGNITION *(continued)*

(c) Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

(d) Rental income is recognised on a time proportion basis over the terms of the respective leases.

BORROWING COSTS

Borrowing costs are recognised as expenses in the consolidated income statement in the period in which they are incurred.

DIVIDENDS

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

EMPLOYEE BENEFITS

(i) Salaries, bonuses, paid annual leave and the cost to the Group of nonmonetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to defined contribution retirement plans are recognised as an expense in the consolidated income statements as incurred.

Pursuant to the relevant PRC laws and regulations, each of the entities of the Group is required to participate in a retirement benefits scheme organised by the local municipal government whereby the Group is required to contribute a certain percentage of the salaries of its employees to the retirement benefits scheme. The only obligation of the Group with respect to the retirement benefits scheme is to pay the ongoing required contributions. Contributions made to the defined contribution retirement benefits scheme are charged to the consolidated income statements as incurred.

FOREIGN CURRENCIES

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4. Segment Information

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as all of the Group's revenue is derived from customers based in the PRC, and most of its assets are located in the PRC.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and rewards that are different from those of the other business segments. A summary of the business segments before 2007 (the "Old Segments") is as follows:

- Distribution: Distribution of textbooks and supplementary materials to schools and students
- Retailing: Retailing of books and audio-visual products
- Others: Provision of ancillary support and services to publishers and others

From 1 January 2007, the Company restructured its operating activities by managing separately the production and purchasing operations. These operations are considered as upstream operations and were previously embedded in and managed within the Distribution segment, the Retailing segment and the Others segment. Pursuant to the restructuring of the operating activities in this year, the directors of the Company considered that these upstream operations be separate segments and as such be separated disclosed in the segment information note. A summary of the business segments after the segment restructuring (the "New Segments") is as follows:

- Product: Provision of ancillary support and services to book publishers
- Zhongpan: Bulk purchase of publications from publishers and Product segement for onward sale to book wholesalers, Subscription segment and Retailing segment
- Subscription: Distribution of textbooks and supplementary materials to schools and students
- Retailing: Retailing of books and audio-visual products
- Others: Others

Intersegment sales and transfer are transacted with reference to the selling prices used for sales made to third parties at the prevailing market prices.

In the opinion of the directors of the Company, it is impracticable to restate the comparative information in 2006 under the New Segments. As a result, the Old Segments information for the year ended 31 December 2007 is presented for comparative purpose.

4. Segment Information *(continued)*

The following table presents revenue, profit and certain asset, liability and expenditure information for the New Segments of the Group for the year ended 31 December 2007.

Year ended 31 December 2007

	Product RMB'000	Zhongpan RMB'000	Subscription RMB'000	Retailing RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Revenue and other income							
Sales to external customers	16,443	38,728	1,864,927	387,246	2,137	—	2,309,481
Intersegment sales	368,843	1,677,671	—	4,434	195	(2,051,143)	—
Other income	8,391	1,279	53,576	16,049	412	—	79,707
	393,677	1,717,678	1,918,503	407,729	2,744	(2,051,143)	2,389,188
Results							
Segment results	10,647	115,576	326,121	4,578	(2,229)	(57,855)	396,838
Unallocated expenses							(66,431)
Finance income, net							45,787
Gains on held-to-maturity investments							7,830
Gains on investments designated at fair value through profit or loss							8,180
Share of losses of associates	—	—	—	—	(3,445)	—	(3,445)
Profit before tax							388,759
Tax							(1,765)
Profit for the year							386,994
Assets and liabilities							
Segment assets	273,820	2,042,752	1,620,494	650,972	136,215	(1,730,602)	2,993,651
Investment in associates	—	—	—	—	47,308	—	47,308
Unallocated assets							1,894,306
Total assets							4,935,265
Segment liabilities	157,140	1,644,401	917,838	115,727	38,534	(1,672,747)	1,200,893
Unallocated liabilities							10,376
Total liabilities							1,211,269
Other segment information:							
Capital expenditure:							
— Property, plant and equipment	5,337	32,778	2,205	86,867	251	—	127,438
— Intangible assets	625	243	8,253	1,222	—	—	10,343
Depreciation	1,420	16,089	8,620	9,131	142	—	35,402
Amortisation of intangible assets	324	217	1,986	294	12	—	2,833
Write-down of inventories to net realisable value	(352)	6,498	14,615	1,597	—	—	22,358
Impairment of trade and other receivables	6,399	(259)	(4,170)	4,034	(2)	—	6,002

4. Segment Information *(continued)*

The following tables present revenue, profit and certain asset, liability and expenditure information for the Old Segments of the Group's business segments for the years ended 31 December 2007 and 2006.

Year ended 31 December 2007

	Distribution RMB'000	Retailing RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Revenue and other income					
Sales to external customers	1,858,706	390,240	60,535	—	2,309,481
Intersegment sales	—	4,434	175,411	(179,845)	—
Other income	61,306	16,302	2,099	—	79,707
	1,920,012	410,976	238,045	(179,845)	2,389,188
Results					
Segment results	403,774	15,329	(17,789)	(4,476)	396,838
Unallocated expenses					(66,431)
Finance income, net					45,787
Share of losses of associates	—	—	(3,445)	—	(3,445)
Gains on held-to-maturity investments					7,830
Gains on investments designated at fair value through profit or loss					8,180
Profit before tax					388,759
Tax					(1,765)
Profit for the year					386,994
Assets and liabilities					
Segment assets	2,155,232	673,667	317,369	(152,617)	2,993,651
Investments in associates	—	—	47,308	—	47,308
Unallocated assets					1,894,306
Total assets					4,935,265
Segment liabilities	980,691	116,948	229,189	(125,935)	1,200,893
Unallocated liabilities					10,376
Total liabilities					1,211,269
Other segment information					
Capital expenditure:					
— Property, plant and equipment	35,735	89,144	2,559	—	127,438
— Intangible assets	8,763	1,236	344	—	10,343
Depreciation	22,772	10,508	2,122	—	35,402
Amortisation of intangible assets	2,266	469	98	—	2,833
Write-down of inventories to net realisable value	19,925	2,506	(73)	—	22,358
Impairment of trade and other receivables	(4,429)	4,032	6,399	—	6,002

4. Segment Information *(continued)*

Year ended 31 December 2006

	Distribution RMB'000	Retailing RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Revenue and other income					
Sales to external customers	1,820,091	345,437	52,097	—	2,217,625
Intersegment sales	1,127	4,240	49,325	(54,692)	—
Other income	27,050	11,316	2,247	—	40,613
	1,848,268	360,993	103,669	(54,692)	2,258,238
Results					
Segment results	347,698	1,377	(15,576)	—	333,499
Unallocated expenses					(33,561)
Finance income, net					6,515
Share of losses of associates	—	—	(593)	—	(593)
Profit before tax					305,860
Tax					(3,422)
Profit for the year					302,438
Assets and liabilities					
Segment assets	1,441,881	680,416	243,133	(91,068)	2,274,362
Investments in associates	—	—	50,753	—	50,753
Unallocated assets					81,545
Total assets					2,406,660
Segment liabilities	725,010	320,023	129,946	(91,068)	1,083,911
Unallocated liabilities					9,700
Total liabilities					1,093,611
Other segment information					
Capital expenditure:					
— Property, plant and equipment	23,946	41,619	4,186	—	69,751
— Intangible assets	6,167	—	71	—	6,238
Depreciation	16,906	16,472	377	—	33,755
Amortisation of intangible assets	662	1,238	274	—	2,174
Write-down of inventories to net realisable value	13,986	1,408	3,811	—	19,205
Impairment of trade and other receivables	18,505	8,117	2,461	—	29,083

5. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts, and after eliminations of all significant intergroup transactions.

An analysis of revenue, other income and gains is as follows:

	Notes	2007 RMB'000	2006 RMB'000
Revenue			
Sale of goods		2,309,481	2,217,625
Other income and gains			
Government grants	(i)	53,322	20,698
Gross rental income	(ii)	5,503	4,206
Commission income	(iii)	16,513	11,147
Gains on held-to-maturity investments		7,830	—
Gains on investments designated at fair value through profit or loss (note 28)		8,180	—
Excess over the cost of a business combination		—	296
Others		4,369	4,266
Total other income and gains		95,717	40,613

Notes:

(i) The government grants represented the value-added tax refund. The management considered that there were no unfulfilled conditions or contingencies attaching to these government grants recognised during the year.

(ii) Rental income is analysed as follows:

	2007 RMB'000	2006 RMB'000
Gross rental income in respect of:		
Investment properties	3,248	2,290
Sub-letting of properties	2,255	1,916
	5,503	4,206
Less: Direct operating expenses	(111)	(85)
Net rental income	5,392	4,121

(iii) The breakdown of commission income is as follows:

	2007 RMB'000	2006 RMB'000
Commission from concessionaire sales	10,039	8,306
Commission from agency services for printing	6,474	2,841
	16,513	11,147

6. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2007 RMB'000	2006 RMB'000
Cost of inventories sold		1,383,520	1,367,574
Depreciation:			
Property, plant and equipment	14	35,151	33,589
Investment properties	16	251	166
		35,402	33,755
Recognition of lease prepayments for land use rights	15	3,823	3,795
Amortisation of intangible assets*	17	2,833	2,174
Minimum lease payments under operating leases on properties		42,763	39,557
Loss/(gain) on disposal of items of property, plant and equipment, net		561	(141)
Impairment of trade and other receivables		6,002	29,083
Write-down of inventories to net realisable value		22,358	19,205
Auditors' remuneration		5,150	1,000
Staff costs:			
Directors' and supervisors' emoluments	9	2,508	1,364
Other staff costs			
Wages, salaries and other employee benefits		162,825	167,126
Post-employment pension scheme contributions		13,508	12,015
		176,333	179,141
		178,841	180,505
Expenses on conversion of shares		7,545	—
Excess over the cost of a business combination		—	(296)
Foreign exchange difference		13,242	—

* The amortisation of intangible assets for the year is included in administration expense on the face of the consolidated income statement.

7. Finance Income, Net

	Group 2007 RMB'000	Group 2006 RMB'000
Bank interest income	46,583	6,934
Interest expense on other borrowings, wholly repayable within five years	(796)	(419)
	45,787	6,515

8. Retirement Benefits

The Group's employees in the PRC are covered by various defined contribution pension schemes regulated by the relevant municipal and provincial governments in the PRC pursuant to which the municipal and provincial governments undertake to assume the post-employment pension obligations payable to all existing and retired employees.

The aggregate contributions of the Group to post-employment pension schemes for the year ended 31 December 2007 were approximately RMB13,545,000 (2006: RMB12,058,000).

9. Directors' and Supervisors' Emoluments

Details of the remuneration of directors and supervisors for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group			
	Directors		Supervisors	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Fees	721	—	200	—
Other emoluments:				
Salaries, allowances and benefits in kind	623	178	264	159
Discretionary bonuses*	347	653	316	331
Post-employment pension scheme contributions	14	14	23	29
	984	845	603	519
Total	1,705	845	803	519

* Certain executive directors and supervisors of the Company are entitled to bonus payments which are determined based on the Company's net profit for the year.

9. Directors' and Supervisors' Emoluments *(continued)*

(a) INDEPENDENT NON-EXECUTIVE DIRECTORS

The fees and bonus paid to independent non-executive directors during the year were as follows:

	2007 RMB'000	2006 RMB'000
Mr. Chan Yuk Tong	140	42
Mr. Han Xiaoming	80	65
Mr. Cheng Sanguo	70	43
Total	290	150

The amount in 2007 represented the fees paid and the amount in 2006 represented the bonus paid.

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

(b) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Retirement benefits contributions RMB'000	Total remunerations RMB'000
2007					
Executive directors:					
Mr. Gong Cimin*	—	310	—	—	310
Mr. Dai Chuanping*	300	—	—	—	300
Mr. Yang Miao	—	168	192	6	366
Mr. Zhang Yexin	—	145	155	8	308
	300	623	347	14	1,284
Non-executive directors:					
Ms. Wang Jianping	27	—	—	—	27
Mr. She Jingping	20	—	—	—	20
Mr. Li Jiawei	20	—	—	—	20
Mr. Wu Qiang	20	—	—	—	20
Mr. Mo Shixing	20	—	—	—	20
Mr. Cui Zhenyu	17	—	—	—	17
Mr. Zhao Junhuai	7	—	—	—	7
	131	—	—	—	131
Total	431	623	347	14	1,415

* The emoluments of these directors were paid by Xinhua and charged back to the Company.

9. Directors' and Supervisors' Emoluments *(continued)*

(b) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS *(continued)*

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Retirement benefits contributions RMB'000	Total remunerations RMB'000
2006					
Executive directors:					
Mr. Gong Cimin*	—	—	—	—	—
Mr. Dai Chuanping*	—	—	—	—	—
Mr. Yang Miao	—	90	210	6	306
Mr. Zhang Yexin	—	88	191	8	287
	—	178	401	14	593
Non-executive directors:					
Ms. Wang Jianping	—	—	17	—	17
Mr. She Jingping	—	—	17	—	17
Mr. Li Jiawei	—	—	17	—	17
Mr. Wu Qiang	—	—	17	—	17
Mr. Mo Shixing	—	—	17	—	17
Mr. Cui Zhenyu	—	—	17	—	17
	—	—	102	—	102
Total	—	178	503	14	695

* The emoluments of these directors were paid by Xinhua at no charge to the Company.

(c) SUPERVISORS

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Retirement benefits contributions RMB'000	Total remunerations RMB'000
2007					
Ms. Lan Hong	—	84	66	11	161
Ms. Liu Nan	—	84	96	5	185
Mr. Li Qiang	—	96	154	7	257
Mr. Luo Jun*	90	—	—	—	90
Mr. Li Guangwei	40	—	—	—	40
Mr. Fu Daiguo	40	—	—	—	40
Mr. Li Yunyi	10	—	—	—	10
Mr. Wang Feng	10	—	—	—	10
Mr. Peng Xianyi	10	—	—	—	10
Total	200	264	316	23	803

* The emoluments of this supervisor were paid by Xinhua and charged back to the Company.

9. Directors' and Supervisors' Emoluments *(continued)*

(c) SUPERVISORS *(continued)*

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Retirement benefits contributions RMB'000	Total remunerations RMB'000
2006					
Ms. Lan Hong	—	42	38	7	87
Ms. Liu Nan	—	54	106	5	165
Mr. Li Qiang	—	63	137	7	207
Mr. Luo Jun	—	—	—	10	10
Mr. Li Guangwei	—	—	25	—	25
Mr. Fu Daiguo	—	—	25	—	25
Total	—	159	331	29	519

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year.

The emoluments of each of the directors and supervisors for both years fell within the range of nil to HK$1,000,000 (equivalent to RMB936,400).

(d) FIVE HIGHEST PAID EMPLOYEES

The five individuals whose remuneration was the highest in the Group during the year are two (2006: two) directors, details of whose remuneration are set out above.

Details of the remuneration of the remaining three (2006: three) non-director and non-supervisor highest paid employees are as follows:

	Group	
	2007 RMB'000	2006 RMB'000
Salaries, allowances and benefits in kind	717	234
Discretionary bonuses	324	546
Post-employment pension scheme contributions	16	23
	1,057	803

The emoluments of each of the above highest paid individuals for both years fell within the range of nil to HK$1,000,000 (equivalent to RMB936,400).

10. Income Tax

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The Group is not liable for income tax in Hong Kong as it did not have assessable income currently arising in Hong Kong. Under the prevailing PRC income tax law, except for certain preferential treatment available to the Company and certain subsidiaries, the Group and its associates are subject to corporate income tax at a rate of 33% on their respective taxable income.

The determination of income tax in the consolidated income statement of the Group is as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Current PRC income tax charge for the year	1,765	3,422

A reconciliation of tax expense applicable to profit before tax at the statutory rate to tax expense at the Group's effective rate, and a reconciliation of the statutory rate to the effective tax rate, are as follows:

	Group			
	2007		2006	
	RMB'000	**%**	RMB'000	%
Profit before tax	388,759		305,860	
Income tax at PRC statutory income tax rate of 33%	128,290	33.0	100,934	33.0
Expenses not deductible for tax purpose	7,657	2.0	12,656	4.1
Tax losses not recognised	5,585	1.4	3,714	1.2
Income not subject to tax	—		(6,835)	(2.2)
Tax concessions*	(139,767)	(36.0)	(107,047)	(35.0)
Tax charge at the Group's effective rate	1,765	0.4	3,422	1.1

* Pursuant to the relevant PRC income tax regulations, newly established cultural enterprises are eligible to apply for income tax exemption for a period of three years. In accordance with the approval from the relevant PRC tax authorities, the Company and two subsidiaries of the Group were granted an income tax exemption from 2006 to 2008.

The share of tax attributable to associates amounting to RMB137,000 (2006: RMB207,000), is included in "Share of losses of associates" on the face of the consolidated income statement.

11. Profit Attributable to Equity Holders of the Parent

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2007 includes a profit of RMB408,039,000 (2006: RMB304,655,000) which has been dealt with in the financial statements of the Company (note 34(b)).

12. Dividends

	2007 RMB'000	2006 RMB'000
Proposed final — RMB0.3 (2006: RMB0.1) per ordinary share	340,539	70,943

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

For the period before the listing of the Company's shares, for dividend purposes, the amount which the Company can legally distribute by way of a dividend is determined by reference to its profit available for distribution as reflected in its PRC statutory financial statements which are prepared in accordance with PRC Accounting Standards ("PRC GAAP"). This profit differs from that reflected in this report which is prepared in accordance with IFRSs.

Upon the listing of the Company's shares, the net profit after tax of the Company for the purpose of profit distribution will be the lesser of (i) the net profit determined in accordance with PRC GAAP and (ii) the net profit determined in accordance with IFRSs.

13. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculations of basic earnings per share amounts are based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the year.

	2007 RMB'000	2006 RMB'000
Earnings:		
Profit attributable to ordinary equity holders of the parent	388,796	302,801

	Number of shares 2007	2006
Shares:		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	970,415,172	733,370,000

The Company's weighted average number of shares in issue used in the basic earnings per share calculation for the year ended 31 December 2007 is determined by adjusting 369,400,000 new H shares issued to the public and listed on the Stock Exchange on 30 May 2007 and a further 32,361,000 new H shares issued as a result of the partial exercise of the over-allotment option on 7 June 2007.

Diluted earnings per share for the years ended 31 December 2007 and 2006 have not been presented because no diluting events existed during these two years.

14. Property, Plant and Equipment

GROUP

	Buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Equipment and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2007						
As at 31 December 2006 and at 1 January 2007:						
Cost	307,855	26,574	61,200	120,590	5,300	521,519
Accumulated depreciation	(26,925)	(9,992)	(35,499)	(40,544)	—	(112,960)
Net carrying amount	280,930	16,582	25,701	80,046	5,300	408,559
As at 1 January 2007, net of accumulated depreciation	280,930	16,582	25,701	80,046	5,300	408,559
Additions	88,808	4,603	5,497	7,591	20,939	127,438
Transfers from construction in progress	6,744	—	—	1,589	(8,333)	—
Transfers to investment properties	(3,847)	—	—	—	—	(3,847)
Disposals	(1,042)	(274)	(648)	(916)	—	(2,880)
Depreciation charge for the year	(7,069)	(5,503)	(6,829)	(15,750)	—	(35,151)
As at 31 December 2007, net of accumulated depreciation	364,524	15,408	23,721	72,560	17,906	494,119
As at 31 December 2007:						
Cost	395,869	30,109	60,789	121,796	17,906	626,469
Accumulated depreciation	(31,345)	(14,701)	(37,068)	(49,236)	—	(132,350)
Net carrying amount	364,524	15,408	23,721	72,560	17,906	494,119

GROUP

	Buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Equipment and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2006						
As at 1 January 2006:						
Cost	269,098	15,517	56,202	116,094	1,646	458,557
Accumulated depreciation	(20,454)	(6,478)	(28,798)	(28,435)	—	(84,165)
Net carrying amount	248,644	9,039	27,404	87,659	1,646	374,392
As at 1 January 2006, net of accumulated depreciation	248,644	9,039	27,404	87,659	1,646	374,392
Additions	38,757	11,057	7,799	8,484	3,654	69,751
Business combinations	—	—	47	135	—	182
Disposals	—	—	(835)	(1,342)	—	(2,177)
Depreciation charge for the year	(6,471)	(3,514)	(8,714)	(14,890)	—	(33,589)
As at 31 December 2006, net of accumulated depreciation	280,930	16,582	25,701	80,046	5,300	408,559
As at 31 December 2006:						
Cost	307,855	26,574	61,200	120,590	5,300	521,519
Accumulated depreciation	(26,925)	(9,992)	(35,499)	(40,544)	—	(112,960)
Net carrying amount	280,930	16,582	25,701	80,046	5,300	408,559

14. Property, Plant and Equipment *(continued)*

COMPANY

	Buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Equipment and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2007						
As at 31 December 2006 and at 1 January 2007:						
Cost	307,855	26,775	59,504	118,042	5,300	517,476
Accumulated depreciation	(26,925)	(10,291)	(35,037)	(39,188)	—	(111,441)
Net carrying amount	280,930	16,484	24,467	78,854	5,300	406,035
As at 1 January 2007, net of accumulated depreciation	280,930	16,484	24,467	78,854	5,300	406,035
Additions	88,808	4,511	4,757	7,188	20,939	126,203
Transfers from construction in progress	6,744	—	—	1,589	(8,333)	—
Transfers to investment properties	(3,847)	—	—	—	—	(3,847)
Disposals	(1,042)	(274)	(648)	(916)	—	(2,880)
Depreciation charge for the year	(7,069)	(5,382)	(6,589)	(15,401)	—	(34,441)
As at 31 December 2007, net of accumulated depreciation	364,524	15,339	21,987	71,314	17,906	491,070
As at 31 December 2007:						
Cost	395,869	29,865	58,281	119,001	17,906	620,922
Accumulated depreciation	(31,345)	(14,526)	(36,294)	(47,687)	—	(129,852)
Net carrying amount	364,524	15,339	21,987	71,314	17,906	491,070

COMPANY

	Buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Equipment and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2006						
As at 1 January 2006:						
Cost	269,098	6,091	51,418	106,081	1,646	434,334
Accumulated depreciation	(20,454)	(1,713)	(26,648)	(23,978)	—	(72,793)
Net carrying amount	248,644	4,378	24,770	82,103	1,646	361,541
As at 1 January 2006, net of accumulated depreciation	248,644	4,378	24,770	82,103	1,646	361,541
Additions	38,757	10,905	7,528	6,629	3,654	67,473
Dissolution of a subsidiary*	—	4,661	1,591	5,154	—	11,406
Disposals	—	—	(835)	(1,342)	—	(2,177)
Depreciation charge for the year	(6,471)	(3,460)	(8,587)	(13,690)	—	(32,208)
As at 31 December 2006, net of accumulated depreciation	280,930	16,484	24,467	78,854	5,300	406,035
As at 31 December 2006:						
Cost	307,855	26,775	59,504	118,042	5,300	517,476
Accumulated depreciation	(26,925)	(10,291)	(35,037)	(39,188)	—	(111,441)
Net carrying amount	280,930	16,484	24,467	78,854	5,300	406,035

* It represents property, plant and equipment acquired from a subsidiary which was dissolved and converted to a branch of the Company in 2006.

14. Property, Plant and Equipment *(continued)*

All the Group's and the Company's buildings are located in the PRC.

Except for a property located in Beijing and two properties located in Sichuan with aggregate net book values of approximately RMB63 million (2006: RMB30 million) and the properties under construction, the Group has obtained the relevant building ownership certificates.

15. Lease Prepayments for Land Use Rights

	Group and Company	
	2007	2006
	RMB'000	RMB'000
Carrying amount at 1 January	76,851	80,646
Addition	2,875	—
Recognised during the year	(3,823)	(3,795)
Carrying amount at 31 December	75,903	76,851
Less: Current portion, included in prepayments, deposits and other receivables	(3,852)	(3,795)
Non-current portion	72,051	73,056

The leasehold land is held under long term leases and is situated in the PRC.

16. Investment Properties

	Group and Company	
	2007	2006
	RMB'000	RMB'000
Carrying amount at 1 January	2,470	2,636
Transfers from owner-occupied properties	3,847	—
Depreciation provided during the year	(251)	(166)
Carrying amount at 31 December	6,066	2,470
Fair value	39,269	21,003

The Group's and the Company's investment properties are situated in the PRC.

The investment properties with net carrying amount of RMB400,000 is leased to Xinhua and the remaining to third parties, all of which are under operating leases, further summary details are included in note 38(a) and 36(a), respectively.

The fair values of the investment properties as at the balance sheet date were determined based on the valuations performed by Sichuan Huaheng Property Valuation Co., Ltd., an independent firm of professional valuers. The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation.

17. Intangible Assets

GROUP

	Computer software RMB'000	Rights to use trademarks RMB'000	Total RMB'000
31 December 2007			
Cost at 1 January 2007, net of accumulated amortisation	17,885	1,506	19,391
Additions	10,343	—	10,343
Amortisation provided during the year	(2,645)	(188)	(2,833)
At 31 December 2007, net of accumulated amortisation	25,583	1,318	26,901
At 31 December 2007:			
Cost	31,937	1,764	33,701
Accumulated amortisation	(6,354)	(446)	(6,800)
Net carrying amount	25,583	1,318	26,901
31 December 2006			
Cost at 1 January 2006, net of accumulated amortisation	13,645	1,682	15,327
Additions	6,238	—	6,238
Amortisation provided during the year	(1,998)	(176)	(2,174)
At 31 December 2006, net of accumulated amortisation	17,885	1,506	19,391
At 31 December 2006:			
Cost	21,594	1,764	23,358
Accumulated amortisation	(3,709)	(258)	(3,967)
Net carrying amount	17,885	1,506	19,391

17. Intangible Assets *(continued)*

COMPANY

	Computer software	
	2007	2006
	RMB'000	RMB'000
Cost at 1 January, net of accumulated amortisation	17,820	13,408
Additions	10,337	6,167
Amortisation provided during the year	(2,643)	(1,755)
At 31 December, net of accumulated amortisation	25,514	17,820
At 31 December:		
Cost	30,387	20,050
Accumulated amortisation	(4,873)	(2,230)
Net carrying amount	25,514	17,820

18. Investments in Subsidiaries

	Company	
	2007	2006
	RMB'000	RMB'000
Unlisted investments, at cost	81,452	81,452

18. Investments in Subsidiaries *(continued)*

Particulars of the subsidiaries held by the Company are as follows:

Name	Place of registration and operations	Paid-up capital	Percentage of equity attributable to the Company indirect (%)	Percentage of equity attributable to the Company direct (%)	Principal activities
Beijing Shu Chuan Xinhua Bookstore Book Distribution Co., Ltd.	PRC	RMB2,000,000	—	82.5	Sale of publications
Sichuan Xinhua Online Network Co., Ltd.	PRC	RMB10,000,000	—	100	Internet publication and computer service
Chengdu Xin Hui Industrial Co., Ltd. ("Chengdu Xin Hui")	PRC	RMB100,000,000	—	62.5	Development of real properties
Beijing Hong Zhe Cultural Development Co., Ltd.	PRC	RMB4,980,000	—	90	Sale of publications
Beijing Xinhua Li Pin Book Co., Ltd.	PRC	RMB2,000,000	—	100	Sale of publications
Beijing Xinhua Wenxuan Advertising Co., Ltd. ("Xinhua Advertising")	PRC	RMB5,000,000	—	52	Provision of advertising services and sale of publications and newspapers
Sichuan Xinhua Wenxuan Media Co., Ltd.	PRC	RMB5,700,000	—	70	Sale of publications and provision of conference and exhibition services
Sichuan Shu Yuan Educational Books Distribution Co., Ltd.	PRC	RMB2,000,000	—	60	Sale of publications
Sichuan People's Education Times Xinhua Audio & Video Co., Ltd.	PRC	RMB2,000,000	—	80	Sale of audio and video products
Sichuan Xin Dun Cultural Co., Ltd.	PRC	RMB1,000,000	—	51	Sale of publications

None of the subsidiaries of the Company is audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

All subsidiaries are limited liability companies incorporated under the PRC law.

19. Investments in Associates

	Group 2007 RMB'000	Group 2006 RMB'000
Share of net assets	45,748	49,193
Goodwill	1,560	1,560
	47,308	50,753

	Company 2007 RMB'000	Company 2006 RMB'000
Unlisted equity investments, at cost	53,118	53,118

The Group's trade payable balances with the associates are disclosed in note 31 and 38(b) to the financial statements, respectively.

Particulars of the associates held by the Group are as follows:

Name	Place of registration and operations	Paid-up capital	Percentage of ownership interest attributable to the Group (%)	Principal activities
Sichuan Xinhua Colour Printing Co., Ltd.	PRC	RMB100,000,000	45	Provision of publication printing service
Ren Min Eastern (Beijing) Book Industry Co., Ltd.	PRC	RMB30,000,000	20	Sale of publications
Chengdu Yin Xing Bo Wen Book and Cultural Development Co., Ltd.	PRC	RMB5,000,000	41	Sale of publications and printing related products
Sichuan Xin Wen Newspapers and Periodicals Distribution Co., Ltd.	PRC	RMB10,000,000	39	Sale of publications

None of the Group's associates is audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

19. Investments in Associates *(continued)*

The Group's shareholdings in the associates all comprise equity shares held by the Company.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2007 RMB'000	2006 RMB'000
Current assets	85,019	70,852
Non-current assets	148,579	143,498
Current liabilities	(121,128)	(86,356)
Non-current liabilities	—	(2,120)
Revenues	123,941	135,157
Losses	(9,844)	(3,406)

20. Available-for-sale Equity Investments

	Group and Company	
	2007 RMB'000	2006 RMB'000
Unlisted equity investments, at cost	188,835	2,420

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and had no fixed maturing dates or coupon rates.

As at 31 December 2007 and 2006, the unlisted equity investments were stated at cost less impairment because the range of reasonably fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably. The Group does not intend to dispose of these investments in the near future.

21. Deferred Tax Assets

	Group and Company	
	2007	2006
	RMB'000	RMB'000
At beginning of year	62,158	62,158
Effect of change in tax rate	(15,068)	—
At end of year	47,090	62,158
Provision in respect of:		
Revaluation of property, plant and equipment and lease prepayment for land use rights for tax purpose	47,090	62,158

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law"), which is effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to domestic companies will decrease from 33% to 25% from 1 January 2008. As a result, the Group recalculated the deferred tax at the new tax rate of 25% for temporary differences expected to be utilised after 1 January 2008 with the resulting effect being dealt with in equity.

22. Property Under Develoment

	Group	
	2007	2006
	RMB'000	RMB'000
Development costs	126,025	123,102

23. Long-term Prepayment

	Group and Company	
	2007	2006
	RMB'000	RMB'000
Investment deposit	160,000	—

On 26 December 2007 and 2 January 2008, the Company entered into subscription agreement and supplementary agreement with Chengdu City Commercial Bank Co., Ltd. ("Chengdu CCB") respectively to purchase Chengdu CCB's newly issued shares containing 2.46% of the enlarged share capital at a consideration of RMB240 million. The balance represented the first installment deposit to Chengdu CCB.

24. Inventories

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Merchandise and products for resale	576,218	338,853	570,994	333,138

25. Trade Receivables

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Trade receivables	360,225	384,216	344,059	358,918
Impairment of trade receivables	(66,735)	(59,761)	(54,692)	(54,140)
Allowance for sales returns	(3,745)	(3,254)	(3,745)	(3,254)
	289,745	321,201	285,622	301,524

The Group normally allows a credit period of not more than 270 days to its customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group's trade receivables comprised a large numbers of diversified customers with individual balances ranging from RMB1,000 to RMB7,936,000. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables of the Group and the Company as at the balance sheet date, based on invoice date and net of impairment, is as follows:

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Within 3 months	82,749	108,328	83,363	94,658
3 to 6 months	147,966	152,159	147,736	151,392
6 months to 1 year	49,103	46,643	46,175	41,447
1 to 2 years	9,927	12,806	8,348	12,762
Over 2 years	—	1,265	—	1,265
	289,745	321,201	285,622	301,524

Included in the balance as at 31 December 2007 are trade receivables from Xinhua and the fellow subsidiaries (collectively the "Xinhua Group") of RMB19,693,000 which are repayable on similar credit terms to those offered to the major customers of the Group (2006: RMB30,064,000). These balances are unsecured and interest-free.

25. Trade Receivables *(continued)*

The movements in impairment for trade receivables of trade receivables are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	59,761	33,159	54,140	27,169
Charged for the year	10,475	27,094	2,913	26,971
Amount written off	(2,333)	(492)	(2,361)	—
Amount reversed	(1,168)	—	—	—
	66,735	59,761	54,692	54,140

The provision represented the individually impaired trade receivables related to customers that were long outstanding over 360 days. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of trade receivables that are not considered to be impaired is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	255,306	282,463	253,980	266,149
Less than three months past due	24,512	23,207	23,294	20,609
Over three months past due	9,927	15,531	8,348	14,766
	289,745	321,201	285,622	301,524

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there were no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary at this stage because there has not been a significant change in the credit quality of the individual debtors and the balances are considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

26. Prepayments, Deposits and Other Receivables

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits	15,184	11,859	15,006	11,682
Prepayments to suppliers	47,437	6,017	47,312	5,658
Prepayments for construction fees	11,866	46,560	11,752	46,560
Input value-added tax receivables	60,857	36,591	60,791	36,483
Due from the Xinhua Group	1,836	1,872	1,836	1,872
Due from subsidiaries	—	—	44,345	13,591
Prepaid expenses	8,168	20,080	6,952	19,792
Other receivables	10,945	7,288	8,890	7,081
	156,293	130,267	196,884	142,719

OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other receivables	12,119	11,795	10,000	11,499
Less: Provision for impairment	(1,174)	(4,507)	(1,110)	(4,418)
	10,945	7,288	8,890	7,081

The movements in the provision for impairment of other receivables are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	4,507	2,498	4,418	909
Charged for the year	73	4,054	73	4,032
Amount written off	(28)	—	(7)	—
Amount reversed	(3,378)	(2,045)	(3,374)	(523)
	1,174	4,507	1,110	4,418

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	10,945	7,288	8,890	7,081

26. Prepayments, Deposits and Other Receivables *(continued)*

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

The balance with Xinhua Group is unsecured, interest-free and has no fixed terms of repayment.

Included in the amounts due from subsidiaries as at 31 December 2007 were two entrusted loans lent by the Company (the "Lender") to Chengdu Xin Hui (the "Borrower") amounting to RMB16,000,000 and RMB5,875,000 respectively (2006: Nil) to finance the Borrower's working capital. The entrusted loans were arranged via banks. However, the banks have no liability to either the Lender or the Borrower in case of default. These entrusted loans were unsecured, bearing annual interest rates ranging from 5.67% to 6.72% (2006: Nil). These loans will mature in 2008 and 2009, respectively.

According to the agreement entered into between the Company and Xinhua on 29 April 2007 concerning the financing arrangement of Chengdu Xin Hui, the Company and Xinhua would provide entrusted loans to Chengdu Xin Hui in proportion to their respective equity interests in Chengdu Xin Hui. The above mentioned entrusted loans by the Company to Chengdu Xin Hui were arranged according to the agreement. The entrusted loans by Xinhua to Chengdu Xin Hui are disclosed in Note 30.

Except for the aforementioned entrusted loans, all the amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

27. Held-to-maturity Investments

As at 31 December 2007, the held-to-maturity investments were stated at amortised cost. The investments were principal-secured, with expected annual interest rates ranging from 3.93% to 4.80% and are maturity of less than one year. Subsequent to the balance sheet date, an investment with a principal amount of RMB30,000,000 was settled.

28. Investments at Fair Value Through Profit or Loss

	Group and Company	
	2007 RMB'000	2006 RMB'000
Unlisted guaranteed investment deposits, at fair value	507,460	—
Unlisted investment deposits, at fair value	360,720	—
Investments at fair value through profit or loss	868,180	—

As at 31 December 2007, the investment deposits were purchased from banks in the PRC and stated at fair value through profit or loss with maturity of less than one year.

Subsequent to the balance sheet date, one of the investment deposits with a fair value of RMB160,533,000 as at the maturity date was redeemed.

29. Cash and Short-term Deposits

		Group		Company	
		2007	2006	**2007**	2006
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Cash and bank balances		1,196,434	873,026	1,153,449	849,978
Pledged time deposits with original maturity of less than three months when acquired	31	10,000	—	10,000	—
Non-pledged time deposits with original maturity of:					
More than three months when acquired		200,000	—	200,000	—
Less than three months when acquired		140,000	—	140,000	—
		1,546,434	873,026	1,503,449	849,978
Less: Pledged time deposits with original maturity of less than three months when acquired		(10,000)	—	(10,000)	—
Cash and short-term deposits		1,536,434	873,026	1,493,449	849,978

At the balance sheet date, the Group's cash and bank balances, including pledged bank deposits, were denominated in RMB amounted to RMB1,519,707,000 (2006: RMB873,026,000), which are not freely convertible in the international market. The remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and short-term deposits and the pledged deposits approximate to their fair values.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 December 2007 and 2006:

	2007	2006
	RMB'000	RMB'000
Cash and short-term deposits	1,536,434	873,026
Less: Non-pledged time deposits with original maturity of more than three months when acquired	(200,000)	—
	1,336,434	873,026

30. Other Borrowings

	Group	
	2007	2006
	RMB'000	RMB'000
Other borrowings:		
Unsecured	13,125	15,395
Total other borrowings	13,125	15,395
Analysed into:		
Other borrowings repayable:		
Within one year or on demand	—	15,395
In the second year	9,600	—
In the third to fifth years, inclusive	3,525	—
	13,125	15,395
Total other borrowings	13,125	15,395
Less: Portion classified as current liabilities	—	15,395
Long term portion	13,125	—

The balance as at 31 December 2007 represented the entrusted loans granted by Xinhua to Chengdu Xin Hui, a subsidiary of the Company. On 28 April 2007 and 2 July 2007, two entrusted loan agreements were entered into among Chengdu Xin Hui, Xinhua and China Construction Bank Company Limited ("CCB") respectively, pursuant to which Xinhua agreed to entrust CCB to grant loans of RMB9,600,000 and RMB3,525,000, respectively, to Chengdu Xin Hui and these entrusted loan agreements bore interest rate of 5.91% and 7.29% per annum and were repayable on 27 April 2009 and 1 July 2010, respectively.

Such entrusted loans by Xinhua to Chengdu Xin Hui were arranged according to the agreement entered into between the Company and Xinhua on 29 April 2007 concerning the financing arrangement of Chengdu Xin Hui as mentioned in Note 26.

The balance as at 31 December 2006 represented the entrusted loan granted by Xinhua to Chengdu Xin Hui. The entrusted loan agreement bore interest rate of 5.02% per annum and was settled on 22 March 2007.

31. Trade and Bills Payables

An aged analysis of the trade and bills payables as at the balance sheet date, based on invoice date, is as follows:

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Within 3 months	376,011	303,545	340,894	301,775
3 to 6 months	306,531	293,791	317,083	303,167
6 months to 1 year	125,170	95,057	138,150	88,602
1 to 2 years	135,594	132,265	137,163	131,584
Over 2 years	77,701	44,641	74,676	40,394
	1,021,007	869,299	1,007,966	865,522

Included in the balance as at 31 December 2007 are trade payables to associates of RMB7,490,000 (2006: RMB7,083,000).

The trade and bills payables are interest-free and are normally settled on a one-year term.

As at 31 December 2007, the bills payable of the Group and the Company amounting to RMB10 million was secured by the Group's and the Company's pledged time deposits amounting to RMB10 million (2006: Nil) (note 29).

32. Deposits Received, Other Payables and Accruals

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Accrued salaries, wages and benefits	68,712	83,284	65,689	80,735
Deposits from suppliers and lessees	46,268	56,922	44,036	54,416
Accrued operating expenses	30,786	28,143	25,691	25,048
Due to Xinhua Group	259	17,411	259	8,297
Others	24,982	12,159	24,866	11,770
Total deposits received, other payables and accruals	171,007	197,919	160,541	180,266

The balance with Xinhua Group is unsecured, interest-free and has no fixed terms of repayment.

33. Issued Capital

	2007 RMB'000	2006 RMB'000
Issued and fully paid:		
693,194,000 (2006: 733,370,000) Domestic Shares of RMB1.00 each	693,194	733,370
441,937,000 (2006: Nil) H shares of RMB1.00 each	441,937	—
	1,135,131	733,370

A summary of the movements in the Company's share capital is as follows:

	Notes	Domestic Shares of RMB1.00 each RMB'000	H shares of RMB1.00 each RMB'000	Total RMB'000
At 1 January 2007		733,370	—	733,370
Issuance of new H shares upon listing	a	—	369,400	369,400
Transfer of Domestic Shares and conversion into H shares upon listing	a	(36,940)	36,940	—
Issuance of new H shares upon partial exercise of the over-allotment option	b	—	32,361	32,361
Transfer of Domestic Shares and conversion into H shares upon partial exercise of the over-allotment option	b	(3,236)	3,236	—
At 31 December 2007		693,194	441,937	1,135,131

Notes:

a. On 30 May 2007, the Company issued 369,400,000 new H shares and 36,940,000 H Shares converted from Domestic Shares, with a par value of RMB1.00 each, to the public by way of placement and offer at HK$5.80 (equivalent to approximately RMB5.7) each. The gross proceeds received from the issue of the 369,400,000 new H Shares amounted to RMB2,096,143,000. Part of the proceeds amounting to RMB369,400,000 was recorded as share capital, and the remaining balance of the proceeds of RMB1,726,743,000 was recorded to the share premium account.

b. On 7 June 2007, the over-allotment option was partially exercised. An additional 35,597,100 shares, consisting of 32,361,000 new H Shares and 3,236,100 H Shares converted from Domestic Shares, with a par value of RMB1.00 each, were issued to the public by way of placement at HK$5.80 (equivalent to approximately RMB5.7) each. The gross proceeds received from the issue of the 32,361,000 new H Shares amounted to RMB183,631,000. Part of the proceeds amounting to RMB32,361,000 was recorded as share capital, and the remaining balance of the proceeds of RMB151,270,000 was recorded to the share premium account.

34. Reserves

(a) GROUP

The amounts of the Group's reserves and the movement therein for the current and prior years are presented in the consolidated statement of changes in equity on page 63 of the annual report.

(b) COMPANY

	Share premium account RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000 (note i)	Other reserve RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000
As at 1 January 2006	—	33,514	25,241	63,461	116,441	60,210	298,867
Profit for the year	—	—	—	—	304,655	—	304,655
Appropriation to reserve	—	—	26,308	—	(26,308)	—	—
Final dividend for 2005	—	—	—	—	—	(60,210)	(60,210)
Proposed final 2006 dividend	—	—	—	—	(70,943)	70,943	—
As at 31 December 2006 and 1 January 2007	—	33,514*	51,549*	63,461*	323,845*	70,943	543,312
Final dividend for 2006	—	—	—	—	—	(70,943)	(70,943)
Issue of H shares upon listing (note 33(a))	1,726,743	—	—	—	—	—	1,726,743
Issue of H shares upon partial exercise of the over-allotment option (note 33(b))	151,270	—	—	—	—	—	151,270
Share issue expense	(169,810)	—	—	—	—	—	(169,810)
Profit for the year	—	—	—	—	408,039	—	408,039
Appropriation to reserve	—	—	40,010	—	(40,010)	—	—
Effect of change in tax rate (note 21)	—	—	—	(15,068)	—	—	(15,068)
Proposed final 2007 dividend	—	—	—	—	(340,539)	340,539	—
As at 31 December 2007	1,708,203*	33,514*	91,559*	48,393*	351,335*	340,539	2,573,543

* These reserve accounts comprise the reserves of RMB2,233,004,000 (2006: RMB472,369,000) in the Company's balance sheet.

Notes:

(i) *Statutory surplus reserve*

In accordance with the PRC Company Law and the respective companies' articles of association, the Company and its subsidiaries are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with PRC GAAP, to the statutory surplus reserve. When the balance of the reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of registered capital after such uses.

(ii) *Distributable reserve*

As at 31 December 2007, the Company had retained profits of approximately RMB246,495,000 (2006: RMB273,909,000) after the appropriation of the proposed final dividend, as determined in accordance with the lower of either the amount determined under PRC GAAP or the amount determined under IFRSs, available for distribution by way of cash or in kind.

35. Contingent Liabilities

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

36. Operating Lease Arrangements

(a) AS LESSOR

The Group and the Company lease their properties under operating lease arrangements, with leases negotiated for terms ranging from one to six years. The terms of the leases generally also require the tenants to pay security deposits.

As at 31 December 2007, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group and Company	
	2007	2006
	RMB'000	RMB'000
Within one year	4,055	2,828
In the second to fifth years, inclusive	4,429	4,710
	8,484	7,538

(b) AS LESSEE

The Group and the Company lease certain of their properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to twelve years.

As at 31 December 2007, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	33,524	26,514	33,407	26,089
In the second to fifth years, inclusive	47,654	25,884	47,654	25,872
After five years	33,172	—	33,172	—
	114,350	52,398	114,233	51,961

37. Commitments

CAPITAL COMMITMENTS

The Group and the Company had the following capital commitments, principally for the construction and acquisition of property, plant and equipment, at the balance sheet date:

	Group and Company	
	2007 RMB'000	2006 RMB'000
Property, plant and equipment:		
Contracted, but not provided for	9,644	9,498
	9,644	9,498
Investment:		
Contracted, but not provided for	80,000	—
	80,000	—
Total capital commitments	89,644	9,498

38. Related Party Transactions

(a) In addition to the transactions detailed in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	Group 2007 RMB'000	2006 RMB'000
Xinhua Group:			
Sale of merchandise	(i)	21,425	76,980
Rental income	(iii)	1,344	1,344
Rental expense	(iv)	22,824	22,796
Interest expense		1,166	201
Purchase of services	(ii)	20,785	11,208
Purchase of property, plant and equipment		219	366
Entrusted loans	(v)	13,125	15,395
Payment of emoluments to key management personnel	(vi)	389	—
Associates:			
Sale of merchandise*	(i)	—	611
Purchase of merchandise*	(ii)	11,612	50,103
Purchase of printing services	(ii)	687	591

38. Related Party Transactions *(continued)*

(a) *(continued)*

Notes:

(i) The sales to related parties were made according to the prices and conditions offered to the major customers of the Group.

(ii) The purchase price of merchandise and services was based on mutually agreed terms.

(iii) Pursuant to a property lease agreement signed between the Company and Xinhua dated 29 April 2007, with the commencement and expiry dates on 1 January 2007 and 31 December 2009, respectively, the annual rental is at a fixed amount of RMB1,344,000.

(iv) The rental expenses for bookstores and offices were charged based on mutually agreed terms at a fixed annual amount of RMB22,824,000 during the year.

(v) Please refer to note 30 for details.

(vi) Please refer to note 9 for details.

* Except for the sale and purchase of merchandise from associates, all of the related party transactions above are also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) Balances with related parties:

	Group	
	2007	2006
	RMB'000	RMB'000
Trade and other receivables		
Trade receivables due from Xinhua Group	19,693	30,064
Other receivables due from Xinhua Group	1,836	1,872
Trade and other payables		
Trade payables due to associates of the Group	7,490	7,083
Other payables due to Xinhua Group	259	17,411
Other borrowings due to Xinhua	13,125	15,395

Except for other borrowings, the above balances are unsecured, interest-free and have no fixed term of repayment. For the terms of other borrowings, refer to note 30 for details.

38. Related Party Transactions *(continued)*

(c) Compensation of key management personnel of the Group:

	2007 RMB'000	2006 RMB'000
Short term employee benefits	1,691	831
Post-employment benefits	14	14
Total compensation paid to key management personnel	1,705	845

Further details of the directors' and supervisors' emoluments are included in note 9 to the financial statements.

39. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and short-term deposits, pledged deposits, trade and other receivables, held-to-maturity investments, investments at fair value through profits or loss, available-for-sale investments, other borrowings, trade and bills payables and other payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as prepayments, deposits and other receivables, trade receivables, deposits received, other payables and accruals and trade and bills payables which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to financial assets and financial liabilities are set out in note 3 to the financial statements.

INTEREST RATE RISK

The Group's income statement is affected by changes in interest rates due to the impact of changes in interest income from bank loan and interest expenses from other interest-bearing borrowings. The Group's policy is to obtain the most favourable interest rates available. As at 31 December 2007, the Group did not have long term debt obligations with floating interest rates. Accordingly, the Group has no significant interest rate risk.

FOREIGN CURRENCY RISK

The Group's businesses are principally located in the PRC and the Group's sales and purchases were mainly conducted in RMB. As at the balance sheet date, all the Group's assets and liabilities were denominated in RMB, except for the cash and bank balances of RMB26,727,000 (2006: Nil) denominated in Hong Kong dollars and United States dollars. The directors of the Company consider that a reasonably possible change of 5% to 10% in the exchange rate between Hong Kong dollars/ United States dollars and RMB per annum would have no material impact on the Group's profit or loss and there would be no impact on the Group's equity.

39. Financial Risk Management Objectives and Policies *(continued)*

CREDIT RISK

Credit risk arises mainly from the risk that counterparties default on the terms of their agreements. The carrying amounts of cash and short-term deposits, pledged deposits, trade receivables, held-to-maturity investments, other receivables, financial assets at fair value through profit or loss and available-for-sale investments represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group monitors the exposure to credit risk on an ongoing basis and credit evaluations are performed on customers requiring credit over a certain amount. In addition, receivable balances are monitored on an ongoing basis, therefore, the Group's exposure to bad debts is not significant. The credit risk on balances of cash and short-term deposits and pledged deposits is low as these balances are placed with reputable financial institutions.

As at the balance sheet date, there was no significant concentration of credit risk. Further quantitative data in respect of the Group's exposure to credit risk arising from long-term prepayment, trade and other receivables are disclosed in notes 23, 25 and 26 to the financial statements.

LIQUIDITY RISK

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of its financial instruments, financial assets and liabilities and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of the issuance of other interest-bearing borrowings. The Group's financing activities are managed centrally by maintaining an adequate level of cash and short-term deposits to finance the Group's operations. The Group also ensures the availability of bank credit facilities to address any short term funding requirements.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

	2007					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 2 years RMB'000	Over 2 years RMB'000	Total RMB'000
Other borrowings	—	—	—	9,600	3,525	13,125
Trade and bills payables	223,295	125,170	672,542	—	—	1,021,007
Other payables	8,713	61,460	23,780	—	—	93,953
	232,008	186,630	696,322	9,600	3,525	1,128,085

39. Financial Risk Management Objectives and Policies *(continued)*

LIQUIDITY RISK *(continued)*

Group (continued)

	2006					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 2 years RMB'000	Over 2 years RMB'000	Total RMB'000
Other borrowings	—	15,395	—	—	—	15,395
Trade and bills payables	176,906	95,057	597,336	—	—	869,299
Other payables	10,229	86,629	15,996	—	—	112,854
	187,135	197,081	613,332	—	—	997,548

Company

	2007					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 2 years RMB'000	Over 2 years RMB'000	Total RMB'000
Trade and bills payables	221,839	138,150	647,977	—	—	1,007,966
Other payables	8,911	58,689	23,214	—	—	90,814
	230,750	196,839	671,191	—	—	1,098,780

	2006					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 2 years RMB'000	Over 2 years RMB'000	Total RMB'000
Trade and bills payables	171,978	88,602	604,942	—	—	865,522
Other payables	3,951	84,295	12,556	—	—	100,802
	175,929	172,897	617,498	—	—	966,324

39. Financial Risk Management Objectives and Policies *(continued)*

CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes other borrowings, trade and bills payables, deposits received and other payables and accruals, less cash and short-term deposits. Capital includes equity attributable to equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

Group

	2007 RMB'000	2006 RMB'000
Other borrowings	13,125	15,395
Trade and bills payables	1,021,007	869,299
Deposits received, other payables and accruals	171,007	197,919
Less: Cash and short-term deposits	(1,536,434)	(873,026)
Net (asset)/debt	(331,295)	209,587
Equity attributable to equity holders	3,678,638	1,265,889
Adjusted capital	3,678,638	1,265,889
Capital and net (asset)/debt	3,347,343	1,475,476
Gearing ratio	(9.9%)	14.2%

40. Post Balance Sheet Events

On 10 January 2008, the Company and Xinhua Advertising entered into an agreement in which the Company will inject RMB8 million of additional capital contribution into Xinhua Advertising at a consideration of RMB8 million. The injection was completed on 10 January 2008 and the equity interest owned by the Company increased from 52% to 81.54%.

As disclosed in notes 27 and 28, two investments with principal of RMB30,000,000 and RMB160,000,000 were settled on 28 January 2008 and 13 March 2008, respectively.

On 8 April 2008, the Company and Guizhou Xinhua Bookstore entered into an agreement to set up a new entity, Guizhou Xinhua Winshare Publishing Co., Ltd. ("Guizhou Xinhua"). Pursuant to the agreement, the registered capital of Guizhou Xinhua will be RMB60 million, Guizhou Xinhua Bookstore and the Company will be interested in 55% and 45% of the equity interest in the new entity, respectively.

The meeting of the board of directors was held on 18 April 2008, and a final dividend of approximately RMB340,539,000, equivalent to RMB0.3 per share, was proposed in respect of the year.

Except for the events disclosure above, the Group did not have any significant post balance sheet events.

41. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 18 April 2008.

Financial Summary

Results

	For the years ended 31 December			
	2004 RMB'000	2005 RMB'000	2006 RMB'000	**2007 RMB'000**
Income	2,084,750	2,262,599	2,217,625	2,309,481
Profit before tax	295,797	345,108	305,860	388,759
Income tax	(95,036)	(71,142)	(3,422)	(1,765)
Profit for the year	203,392	273,966	302,438	386,994
Minority interests	(1,066)	(217)	363	1,802
Profit attributable to equity holders of the parent	202,326	273,749	302,801	388,796

Assets and liabilities

	As at 31 December			
	2004 RMB'000	2005 RMB'000	2006 RMB'000	**2007 RMB'000**
Total assets	1,450,484	2,144,992	2,406,660	4,935,265
Total liabilities	(839,768)	(1,114,638)	(1,093,611)	(1,211,269)
	610,716	1,030,354	1,313,049	3,723,996
Equity attributable to equity holders of the parent	601,527	1,023,298	1,265,889	3,678,638
Minority interests	9,189	7,056	47,160	45,358
	610,716	1,030,354	1,313,049	3,723,996

承新華煇煌
譜文軒新篇

四川新華文軒連鎖股份有限公司
SICHUAN XINHUA WINSHARE CHAINSTORE CO.,LTD.*

No. 6, Wenxuan Road, Shang Mao Dadao,
Cheng Bei, Chengdu, Sichuan
Postal Code: 610081

四川省成都市城北商貿大道文軒路6號
郵政編碼：610081

Website 網址：www.winshare.com.cn